



Graduate School of Development Studies

**Business Development Services for cooperatives  
and individual entrepreneurs:  
Experiences from Addis Ababa**

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## **DEDICATION**

*I dedicate this Research Paper to my mother  
Mrs. Messeret Hagos*

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## List of Acronyms

APEC	Asia-Pacific Economic Cooperation
BBS	Basic Business Skills
BDS	Business Development Services
CCF	Christian Children Fund
CEFE	Competency based Economies Formation of Enterprises
CSA	Central Statistics Authority
DAHSI	Development Agency for Handicrafts and Small Industry
EBDSN	Ethiopian Business Development Services Network
EC	European Commission
GTZ	German Technical Cooperation
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprises Development agency
GNP	Gross National Product
HLCLEP	High Level Commission on the Legal Empowerment Poor
HRD	Human Resources Development
ILO	International Labour Organization
MD	Market Development Approach
M + E	Monitoring and Evaluation
MFI	Micro Finance Institutions
MSEs	Micro and Small Enterprises
MSE Pro	Micro and Small Enterprise Program
NGOs	Non Governmental Organizations
POs	Partner Organization (s)
ReMSEDA	Regional Micro and Small Enterprises Development Agency
SEEP	Small Enterprises Education and Promotion
SEs	Small Enterprises
SMEs	Small and Medium Enterprises
TD	Traditional Development Approach
UNIDO	United Nations Industrial Development Organization



## **Abstract**

Business development services as one mechanism of enterprises development have been thought of as a wide array of non-financial services designed to help micro, small, and medium enterprises to overcome barriers and increase profitability by improving their productivity. This study analyzed the extent to which BDS promote and improve small enterprises by examining the BDS impact on MSE enterprises in different sectors and under different ownership. Specifically, the study focussed on cooperatives in the food processing, and metal and woodwork sub-sectors; and on individual operators in food processing in the city of Addis Ababa.

Regarding the impact of BDS on the targeted enterprises, the study shows that there is a remarkable improvement in terms of income generation, buying more equipment, more product diversification, more sales, and more employment opportunities. But ownership of the enterprises seems to differentiate this picture. The study shows that this is the result of the characteristics of cooperatives i.e. the sharing of decision making and income which makes them less sustainable as a result of collusion among members. Similarly, the impact of BDS had a different impact in different sub-sectors as cooperative food processing enterprises produce more perishable products and fetch a lower profit which makes investment more difficult, while cooperative metal and woodworks operators make a bigger profit and thus have a better potential to reinvest in their own business. Based on the above findings the study concluded that despite the fact that there are differences found across sub-sectors and nature of ownership, BDS on the whole had a positive impact, in particular for unemployed women and many informal operators.

## **Relevance to Development Studies**

Business Development services (BDS) have been provided to promote and improve small business by addressing the constraints they face. Similarly, many informal operators have organized and licensed as a result of BDS support. Besides this in the case of Ethiopia BDS created job opportunities for many cooperative food processing operators, and legalized many informal operators of cooperative metal and wood work. Considering this the paper has examined the impact of BDS on specific sub-sectors and different ownership enterprises. This could emphasize why and how impacts differed among sub-sectors and between different ownerships.

## **Keywords**

BDS, MSEs, Ethiopia, sustainability, Cooperatives, metal and woodworks, food processing

# Chapter 1

## Introduction

### 1.1 Background of the study

Recently, the development of micro and small enterprises is getting more and more attention in filling gaps in the development process. For example, the report of Central Statistics Authority of Ethiopia (CSA) states that, economic recession, adjustment policies and continued high rates of urbanization and population growth have led to an unexpected and unprecedented expansion of the informal sector in many developing countries, as modern sector enterprises, and especially the public sector, have been obliged to dismiss workers or reduce wages drastically (CSA 2004). As a result, the majority of the labour force in developing countries works in small enterprises. For this reason the development of MSEs could provide a significant role in addressing the unemployment problem, vulnerability and insecurity of a vast number of workers.

Many studies have stated that, small business enterprises can be supported by both financial and non-financial services the latter currently known as business development services (BDS). Business development services are a wide array of non-financial services designed to help micro, small, and medium enterprises and cooperatives to overcome barriers and to increase profitability by improving their productivity and access to high value markets. Additionally it is explained that, the field of BDS is undergoing a paradigmatic shift from a focus on the supply of subsidized services to a limited population, to a focus on the development of a vibrant BDS market for large numbers of MSEs (Mcvay 2000: 3). These services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services (Miehlbradt and Mcvay 2003).

Business development services can be delivered by a wide range of actors including *interalia*: individuals, private business, NGOs, national or sub-national government agencies and business and cooperative associations. Accordingly, the government of Ethiopia designed a MSE Development Strategy in 1997, and set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA). In the same way, the regional states also developed MSE promotion strategies based on their context, and in line with the federal MSE development strategy. The Federal Democratic Republic of Ethiopia (FDRE) Ministry of Trade and Industry has also launched the implementation of MSEs development by promoting all-round support (FDRE Ministry of Trade and Industry 1997).

## 1.2 Statement of the research problem

Since the late 1960s, it has been thought that the target to promote small enterprises has been changed with donors emphasizing on the role of SMEs in encouraging industrialization (Sievers and Vandenberg 2007). This can be shown by the credit provision of the World Bank to SMEs in 1973; by donor fund projects for credit directed by development banks; and BDS provided by development banks and/or government agencies (*ibid.*). Many policy makers, international organizations, and government agencies consider that access to both financial and business development services (BDS) can assist the growth of micro and small enterprises.

However, depending on local context, kinds of ownership, and type of sub-sectors the impact of enterprise development programme may differ. In some contexts enterprise development is seen as the main engine of substantial boosting of job creation and reducing unemployment. Micro and small enterprises became better sectors to absorb a large number of unskilled and semi-skilled workers. In other contexts, enterprise development was seen as a way of promoting new and exiting small businesses. Moreover, enterprises development could be understood as a way of formalizing, organizing, and licensing the informal sector to have an impact on contribution to economic growth. BDS as one way of small enterprises development have been provided to different customers based on the availability of BDS providers and subsidies.

The general tendency among many countries, international organizations, policy makers, and NGOs is to design strategies and policies that promote, and upgrade the MSEs. These issues are gaining new momentum at all levels and in various circles (ILO 2007). Similarly, the Federal Democratic Republic of Ethiopia (FDRE) developed a Micro and Small Enterprises Development Strategy, by considering that they are vital vehicles and have potential to tackle the challenges of battling unemployment, and securing economic growth with equity in the country (FDRE Ministry of Trade and Industry 1997). But the strategy does not consider the existence of differences among the targeted sub-sectors and kinds of ownership. The strategy for example, uses as its main yardsticks for prioritizing micro and small enterprises whether or not they (a) are based on local raw materials and/or labour-intensive, (b) have greater intra- and inter-sectoral linkages, (c) are engaged in import substitution and have a potential for export, (d) operate in selected value chains and contribute to upgrading and development of the value chains, and (e) are engaged in activities that facilitate and promote tourism (*ibid.*). Moreover, the areas and/or target groups and beneficiaries include (a) small manufacturers in food, textile and leather clothing, metal and woodwork and housing construction (b) self-employed, (c) start-ups and expanding firms particular owned by women and disabled, (d) small enterprises in nomadic and disaster areas, (e) agro-business, small scale farming and fishing and, (f) small-contractors and exporters. These strategies give priority the MSEs in general, but within this overall category no priorities are set according to which constraint is most pressing.

In order to alleviate the problem of unemployment and poverty, people having different skills have been organizing into individual business and

cooperatives by creating job opportunity and providing different supportive services. The main intention of organizing into cooperatives is to involve the members to work towards their common goal by coordinating their knowledge, wealth and labour, and their equipments. But cooperatives insist that every member in the co-operative participates equally in making decisions and control the business. Moreover, the composition of cooperatives members is diverse in terms of experience, skill, behaviour, and qualifications. This may limit the speed of growth of cooperatives compare to individual business in which only the owner can decide. So the impact of BDS seems to have differences related to type of ownership (collective or individual).

Secondly, the strategy is designed to provide support by priority targeting sectors including: textile and garments, metal and woodworks, food processing, construction and municipal activities by assuming they have a potential in the creation of new jobs, using local raw materials, and technology to carryout their business. However, the strategy seems not to notice the possible differences of needs among the targeted sectors and the appropriate way of responding to their need. For example, the operators in the food processing sector produce more of perishable products which include enjera, selling soft drinks, preparing dry product like different types of spices, different fast foods, hot drinks such as tea, milk, coffee, and other beverages. As the researcher has understood from the operators the main customers for their products include mainly government employees 85% of which earn low salary which is below the average income. Other customers include nearby residents who earn a low income, different daily labourers with low income, residents who for special occasions prefer to buy enjera. In the same way, the operators of metal and woodwork produce non-perishable goods which include different house and office furniture, different windows and doors of wood and metal. The main customers for these products are building projects which currently are run by the government and individuals for their house furniture, and different organizations for office furniture. Having these differences it seems the response to BDS may depend on the possible differences among the targeted sub-sectors.

Thirdly, it has been thought that, BDS is sustainable if it is provided commercially which covering full cost of provision. But recent studies indicate that BDS are being provided on a sustainable manner to very small enterprises on a for-profit basis. In addition, there is an argument that commercial BDS providers have a preference to focus on SME due to their financial capacity of the enterprises. This has size implication of the enterprises in which many of the MSE seems to have no financial capacity to pay. Therefore, the issue of sustainability by providing BDS commercially can not be seen without considering the size and capacity of enterprises.

The feasibility of BDS as an approach of promoting MSEs and its impact on the business may not be clearly understood entirely if BDS is not evaluated against the possible differences of sub-sector and ownership of enterprises. But it could be also understood based on the coherence of the impact between commercial and non-commercial BDS. The possible success of BDS needs to be understood both from the perspectives of sub-sector differences and the nature of ownership of the small enterprises as well as the seriousness of

constraints they face. Therefore, this study assumes that the impact of BDS could be gauged by looking at:

1. Possible differences in business operation of different sub-sectors and their degree of upgrading,
2. The possible differences of response to BDS by kind of ownership (collective or individual), and
3. The coherence of BDS sustainable between commercial and non-commercial BDS.

The study also assumed that it could help to design policy measures that are sensitive to the differences in the sub-sectors and kind of ownership. By taking such contextual aspects as the vitality of sub-sectors and nature of ownership into account BDS as an approach to promote small enterprises may become more successful.

Finally, the study seeks to address the clarity of the definition of BDS as non-financial services. Formerly; the concept of BDS was concerned with providing training, advice, and other services to address the internal constraints of small enterprises. Later, the concept has grown to include marketing services and information resources that help firms gain access to services usually enjoyed only by larger firms. When small enterprises began articulating what they wanted and practitioners listened, the range of services started to expand. The BDS field now comprises many sub-fields and, because of this diversity it is challenging to draw conclusions about the field. In the same way, the BDS services in the case of Ethiopia include the provision of working premises, and provision equipments. The types of BDS seem to expand overtime, and vary in the local context and overlap the financial and non-financial services and needs more clarity in the definition of the theme.

### **1.3 Relevance and Justification**

Recently, many working paper and academic research have focussed on assessing the impact of BDS on how it could address and promote the MSEs, by looking at how organizations can intervene, what the appropriate time is at which to exit and leave the SME to develop on its own and when the successful BDS in one market will have appropriate and sustainable outcomes for another (Miehlbradt 2002). Currently giving attention to promotion and development of MSEs in Ethiopia, contributed to formulate a National MSE Development and Promotion Strategy. However, the strategy seems not to take into account the differences, and experiences of constraints specific to the type of ownership of enterprises. Many studies provide related problems to different form of ownerships and blurred understanding of the seriousness of the constraints specific to enterprises.

Conducting research on this topic may add to the understanding of why BDS has different impacts on firms with different ownership and range of enterprises priorities. The study provides insight how the difference in ownerships and the seriousness of the constraints affected the impact of BDS. In addition, this study assesses the outreach of BDS and sustainability of BDS

providers. Its purpose is to provide an idea how the services could be supported, and how the BDS services could be made sustainable.

Moreover, in trying to understand the issue of intervention from providers and demand of support from enterprises side the views of non-users of the particular sectors are included.

## **1.4 Objectives and research questions**

### *Objectives*

The general objective of the study is to assess the impact of business development services in food processing and metal and woodwork sectors, to see if the impact differs among sub-sectors and among different kinds of ownership of enterprises: and to see the clarity of BDS definition and the way it could be sustainable.

### *Research question*

The guiding research question of the study is “To what extent have Business Development Services (BDS) improved the MSE in their business operation and to what extent has BDS a different impact among sub-sectors and among different owners in the food processing and metal and woodwork sectors?”

### *Sub questions*

- What are the types of BDS provided and, the results that have been achieved?
- Does BDS make a difference between different kinds of ownership of enterprises and among sub-sectors? And how BDS is viewed from non-users perspectives?
- What problems are being faced in providing and implementing BDS services?
- How could BDS be made sustainable to the different categories of enterprise?
- Is the definition of BDS as non-financial services really clear and separable from financial services?
- How do the different actors (government, NGOs, donor agencies and private sector) approach their role in the design, facilitation, service provision, subsidizing the services?

## **1.5 Research Methods**

For this research the main sources of information were include both primary and secondary data.

The main sources of primary data include semi-structured interviews with the BDS users and non-users, BDS providers and facilitators, and discussion with government agencies and other key informants. Regarding the method I have used qualitative semi-structured interviews with BDS users. I used snowball sampling to track non-users which in the metal and wood works sub-

sector succeeded in food processing sub-sector failed (more detail see in the next section).

The main sources of secondary data for the study include reports of organizations, books, material found on the internet, and different BDS related publications. In addition, other sources that provide an overview of the Ethiopian situation on MSE support interventions in general and Addis Ababa in particular have included.

## **1.6 Scope and Limitations**

BDS provision in Addis Ababa is focused on six sub-sectors. However the study limits itself by taking the food processing sector and metal and woodwork sectors and has compared cooperatives and individuals enterprises. The case study focused on analyzing the activities, impact, sustainability, and role of different actors in providing BDS.

The researcher faced many problems and suffered confusion during data collection. From the beginning the researcher intended to collect data from individual enterprises (both BDS users and non-users) and there was an understanding that BDS is provided to selected sub-sectors only. Based on this information the researcher was trying to conduct the fieldwork. But actually at the beginning of the fieldwork the researcher was informed from some of BDS facilitators that BDS is provided to cooperative enterprises and not to individual enterprises. Additionally, some government officials from FeMSEDA and ReMSEDA informed the researcher that BDS was provided to individual enterprises at the earliest stage of BDS (2003) in Ethiopia and later the focus shifted to cooperatives enterprises in the specified sub-sectors. The main confusion for the inconsistency of information was that many reports related to BDS and MSEs were referred only to number of enterprises and did not differentiate in terms of ownership that is to either cooperative enterprises or individual enterprises.

In addition, the news broadcasted in the mass media was more about cooperatives enterprises and seems to overlook the individual BDS users. Similarly, there was no consistent information from BDS facilitators as many of them were assigned during the restructuring period. This limits the study to have full information related to the magnitude of cooperatives and individual enterprises. Towards the end of the field work the researcher was clear that BDS is still provided to individual enterprises. In the same way, the BDS provided to individual enterprises was irrespective to types of sub-sectors (diverse sub-sectors). But the general observation was though BDS is approaching individual enterprises their number was small compare to cooperative enterprises. This may imply that Government and NGOs are more geared to support cooperatives compare to individual enterprises as cooperatives have the potential to absorb and create job for many unemployed workers.

Moreover, adequate data on micro and small enterprises in general and BDS in particular was difficult to get in Addis Ababa city. Besides, due to the recent restructuring in Ethiopia there were inconveniences to obtain the exact record of operators who have been supported and received BDS from the



government as many of the new recruit and the newcomers BDS facilitators were not informed well. The only option was to contact the former BDS facilitators wherever they are assigned and only when the name of the operators was available.

Furthermore, some respondents were not interested to spend time and give details about sales/income and capital. In the same way, the research was intended to use snowball sampling for non-users. This method has successful in metal and woodworks but failed for the food processing enterprises. This is because the business activities of metal and woodworks could be easily observed from their product, while the operators in food processing usually seem to hide some activities related to sale of alcoholic drink and were concealed fearing that this information could be used for other purposes (e.g. to taxes, charges and fees). Therefore, the business enterprises are likely to have underestimated their sales and capital. This may undermine the objective of the paper to examine and compare the impact of the BDS on the performance of the enterprises.

## **1.7 Organization of the paper**

The research paper is divided into five main chapters. The next chapter will discuss the theoretical framework of enterprise development by looking BDS as one mechanism. The third chapter will contain the context MSE and BDS in Ethiopia (with special reference to the city of Addis Ababa) and role of different actors in providing BDS. The fourth chapter will provide the case study and analysis part. The final chapter will provide a conclusion.

## Chapter 2

### Theoretical Framework

This chapter presents the context of MSE and theory of enterprises development specific to BDS as one mechanism. The issues of BDS definition, scope, sustainability, and approach are also included in this part.

#### 2.1 Importance and historical development of MSEs

For many decades there has been a growing magnitude of MSEs in both developed and developing countries. For example, approximately 97% of firms in Mexico and Thailand are MSEs (Nichter and Goldmark 2009). Similarly, in the United States, over 96% of business are MSE (US Small Business Administration 2006). In the same way, in the case of Ethiopia micro and small enterprises constituted for about 97% of the firm and 19% of the gross value of production in the manufacturing sector; while the share of small scale manufacturing sector was 2.9% and 8% respectively (FDRE Ministry of Trade and Industry 2007: 4).

Despite the growing magnitude of the sector, there was limited interest in the potential of MSEs. The reason is that in the decades of this century development economists were advocate for large-scale, capital intensive investment. As a result the sector was discouraged either directly or indirectly in developing countries.

Since 1970s, the above trend has changed as scholars, policy makers and members of assistance community have begun to look the positive possibilities of the sector as means of income and employment generation (Mcpherson 1996). For example, Tsuboyama and Tan (2009), have pointed out the contribution of MSEs as (1) means to poverty reduction; (2) means of empowering women; (3) employment generation; and (4) enterprise development as an end itself. Moreover, small business development contributes to widening the pool of entrepreneurs and expands the base of the private sector. Equally, Dire Dawa MSEs Development Agency in (2007) has explained the contribution of MSE sector in similar terms.

Furthermore, Mead and Liedholm (1998) mentioned that MSEs have been recognized as a major source of employment for many countries. For example, in the United States, some have argued that eight out of every ten new jobs in recent years have come from small businesses. In the case of Ethiopia (FDRE Ministry of Trade and Industry 2007), small businesses have been recognized to create job opportunities for a substantial segment of the population. MSEs sectors employ large numbers next to the agricultural sector. The contribution of MSEs to employment expands as a result of new enterprises starting up in business and expansion of existing enterprises. However, these positive contributions are offset by the contraction or closure of other enterprises.

## **2.2 Categorizing micro and small enterprises and policy intervention**

In the literature micro and small enterprises have diverse definitions as there are different approaches. The reason is that many policy-makers, organizations, researchers and advisors use a range of terms interchangeably in their effort to describe MSEs. The definitions given to MSEs vary from country to country. For example, the European Commission recently adopted a definition of small and medium-sized enterprises that emphasizes numbers of employees as follows: (a) micro-enterprises (or very small firms); employing less than 10 people; (b) small enterprises; those with 10-99 employees; and (c) medium enterprises; those with 100-499 employees. The definition of the EC, does not use any other criteria other than employment and it does not vary its definition according to the sector of the enterprise (Beaver 2002, Beaver and Jennings 2000: 403).

Generally, small enterprises are diverse in terms of size, sub-sector, industry, gender, technological level, or entrepreneurial content. Hence, it is has been argued that different promoting approaches are needed. Farbman and Lessik (1989), categorized SMEs based on their business needs, particular resource, and policy environment. In the same way, the direct interventions and policy support to these enterprises are incorporated. Thus, SMEs are categorized as; survivalist activities of the poor, micro enterprises; and small-scale enterprises.

Survival activities of the poorest are a basic means of survival. As the poorest of the poor face low income to invest most of them participate in a very few productive activities. Mostly, they constitute underemployed workers, street vendors and hawkers. Their main barriers to enter economically profitable enterprise include lack of skills, experience, lack of finance, social norms and access to market. Community Development Approach is particular for intervention in this category. The main goal is poverty alleviation and community growth. It comprises integrated programmes of social, infrastructural development, credit, low-level technical assistance, educational inputs, and income generation. The programmes have high costs for the participant.

Micro-enterprises are mostly characterized by employing less than ten full time workers. As they depend on traditional technology mostly respond to local market. The main reason for failures in this business is the problem of illness, death, and bad economic times which may push micro enterprise down to survival activities. Marginalist or incrementalist approach is particular for intervention in this category. The overall objective is to increase income and maintain jobs in micro enterprises. This approach ranges from training, technical assistance, supporting institutional and capacity building, to credit alone.

Small-scale enterprises: mostly employ 10-50 full time workers. In addition it depends on hired workers, uses modern technology has a complex market, and are economically efficient. Moreover, they are viewed as formal, pay tax and are registered, and urban based. As these enterprises have diversity in different terms they need different approaches to promote. The main objective

of intervention for these firms is supporting to have them graduate from one class to another. Business Development Approach: the main and overall goal of this approach is to increase employment generation and income growth. The enterprises are given technical assistance, training and credit resources to beneficiaries. In this case credit is the more important component. This approach focuses on one or two objectives and attempt to use market forces rather than fight them off (Farbman and Lessik 1989).

### **2.3 Understanding theory of enterprise development approach**

This research is based on an enterprise development approach. Enterprise development refers to actions (which include; establishment, growth, improved efficiency and competitiveness of enterprises) taken by different actors to promote the contribution of enterprises. This approach helps to understand why and how enterprises (new as well as existing ones) may be supported. This has been the major international development focus as it assumed to provide critical support for advancement of market based livelihoods, rural and household economies (Lee 2002, World Conservation Union. 2008).

In the past, enterprise development was focused on activities specific to capacity building of individual business service. But currently this view has shifted and there is now a broad focus of looking at the barriers of enterprise market functioning systems. This includes the actors involved at all levels from producer lower node to upper consumer supply chain. The main focus of enterprises may include micro, small and medium enterprises. Similarly, the goal of this approach is to embed the poor people and community livelihoods into markets and recognizes the contributions of small business enterprises in any nation's economic growth (World Conservation Union. 2008).

According to Lee (2002) the general objective for supporting small enterprises in developing countries is based on the following:

- Enterprise development is assumed to be the main engine of economic development and through this in turn it may be important in achieving other non-economic development goals.
- Enterprise development has been repressed from proper implementation due to market and regulatory failures. Thus, it is claimed that, it have particularly disadvantageous for small indigenous enterprises and those employed in them.

It is now recognized that the small business sectors are a fundamental ingredient in the establishments of a modern progressive and vibrant economy. According to Beaver, (2002) the reason for having considerable interest in small enterprises is that they are assumed to help diversify countries economic base, provide market conditions, and assist in having a role in employment generation. Moreover, the existence of small business enterprise in an economy may help for expression of healthy and necessary competition against monopoly of big business. These firms are the path for self development and individual achievement and, being an expression of entrepreneurship.

Furthermore, three main types of enterprises development interventions are recommended which include; improving the legal and regulatory enabling environment for enterprise (at all levels) ; developing financial markets, institutions and instruments to support enterprise growth (particularly for micro, small and medium scale enterprise) and; addressing constraints in management, technologies and market knowledge (Lee 2002: 5).

Finally, specific arguments for supporting small business enterprises are related to the goals on which the development strategy is based. For example, whenever poverty reduction is a main objective, the case for supporting enterprises will depend on extent of contribution to poverty reduction, but also taking other costs and benefits of any enterprise support into consideration (Lee 2002).

## **2.4 Business development services as mechanism of enterprise development**

It has been argued that, beyond credit schemes, there are other small enterprises developments programmes that can help to build social capital. So as Goldmark (2001) has explained it is important to distinguishing the conjunction of credit and non-financial services. The Committee of Donor Agencies (2001) defined BDS as;

services that improve the performance of enterprises, its access to markets, and its ability to compete. The definition of business development services include; training, consultancy, marketing, information, technology development and transfer, and business linkage promotion. These services include both strategic (medium and long term issues) and operational (day-to-day issues). BDS are designed to serve individual businesses, as opposed to the larger business community.

Many studies have pointed out that the problem for many entrepreneurs is lack of ongoing capital as the main reason for stagnation for the businesses. However, Henry (2006: 3) has argued that; *“while this (lack of capital) can be an important factor, a lack of continual operational skills support also plays a strong role in Micro Small Enterprise (MSE) failure, or in MSEs not reaching their growth potential”*. This implies that a combination of both financial and operational support is crucial to promote small business enterprises. In addition, Business Development Services can be explained as non-financial services provided by public and private providers; services provided on the spot of enterprises demand; organized production and exchange of goods; and services (Addis ReMSEDA 2002).

## **2.5 Sustainability of business development services program**

The main objective of sustainability refers to the performance of institutions (BDS providers) that supply the services. Accordingly; the issue sustainability can be explained in different terms as: the ability of an institution to offer services over the long term; the financial profitability of a BDS supplier; and/or the financial viability of a particular BDS. The terms cost-recovery,

sustainability and profitability measure the same thing, but express different results (Mcvay 2001).

In addition sustainability deals with the availability of BDS services in the long-run. Financial sustainability could be the best indicator to measure the institutions availability in the long-run. This indicator could guide for assessing the level of subsidy and its potential for crowding other private-sectors suppliers, as they are concerned with financial sustainability (Mcvay 2001). Moreover, it is explained, the issue in terms of the extent to which the service provided is financed through the users fees (Mcvay 2001). This shows the sustainability of BDS providers depends on the extent to which BDS users are willing and able to pay, and the extent to which the BDS services are profitable. Furthermore, the sustainability of BDS has been stated by Miehlabradt and Mcvay (2003: 90) as;

BDS is sustainable if it is continuously available to SEs through unsubsidized, commercial channels beyond the life of a project. Sustainability in BDS is considered at the level of impact on enterprises, specific types of services, BDS providers and BDS markets. Financial sustainability is a critical part of overall sustainability and a BDS provider, facilitator, or individual service is sustainable if commercially motivated revenues are at least as great as the full cost of service provision (direct and indirect costs, fixed and variable costs.) Revenues received from the public sector (donors or governments) are not included. Similarly, revenues received as a result of philanthropic or political motivations are not included.

Tanburn (1999: 54) has argued that; *“owners of small enterprises are viewed less as pliant beneficiaries’ and more as ‘discerning clients’. Donors are seeking to invest, rather than to subsidize”*. This argument is aligned with the issue that services provided have been unsustainable and became a key barrier to scaling up BDS provision. This tends to question the way how to provide sustainable services and target individual needs of enterprises. Correspondingly, it is recognized that, while Governments and donors, can provide financial and other direct assistance in short-term such services should not continue over the long term.

## **2.6 Scope of business development services**

Many literatures have been explained BDS as non-financial service provided to small enterprises on either formal or informal basis. The SEEP On-Line Guide to BDS further provides a list of seven categories of BDS that address specific constraints to SEs growth and development as; Training and Technical Assistance, Access to Markets, Input Supply, Technology and Product Development, Infrastructure and working premises, Policy and Credit facilitation (Lusby 2004).

**Table 2.6.1****Types of BDS**

Market Access	Marketing business	Marketing trips and meetings
	Market linkages	Market research
	Trade fairs and product exhibitions	Market space development
	Development of samples for buyers	Showrooms
	Market information	Packaging
	Sub-contracting and outsourcing	Advertising
Infrastructure	Storage and warehousing	Money transfer
	Transport and delivery	Information through print, radio, TV
	Business incubators	Internet access
	Telecommunications	Computer services
	Courier	Secretarial services
Policy/ Advocacy	Training in policy advocacy	Direct advocacy on behalf of SEs
	Analysis and communication of policy	Sponsorship of conferences
	Constraints and opportunities	Policy studies
Input Supply	Linking SEs to input suppliers	Facilitating the establishment of bulk buying groups
	Improving suppliers' capacity to provide regular supply of quality inputs	Information on input supply sources
Training and technical Assistance	Mentoring	Technical training
	Feasibility studies and business plans	Counselling/advisory services
	Exchange visits and business tours	Legal services
	Franchising	Financial and taxation advice
	Management training	Accountancy and bookkeeping
Technology and Product Development	Technology transfer/commercialization	Quality assurance programs
	Linking SEs and technology suppliers	Equipment leasing and rental
	Facilitating technology procurement	Design services
Alternative Financing Mechanisms	Factoring companies that provide working capital for confirmed orders	
	Equity financing	
	Facilitating supplier credit	

Source: (Miehlbradt and Mcvay 2003: 3)

## 2.7 Approaches for BDS intervention

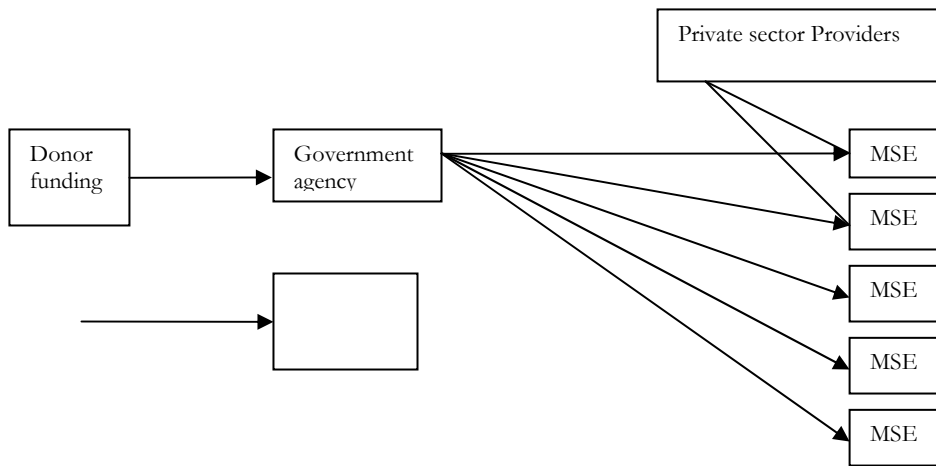
There are two ways of BDS provision which include traditional and market development approaches.

Traditionally development programs that were provided to SMEs focused on individual firm, provided subsidies, grants, short term-programs (unsustainable), small scale, and expensive as a result caused limited impact (Miehlbradt and Mcvay 2003). In addition, this approach involved direct provision of BDS to SMEs by government agencies. Moreover, this approach has the defining feature that the public subsidies has great role for SMEs to obtain BDS either free of charge or at low cost (Pinto 2004).

Moreover, many studies evaluating the impact of TD approach have been fairly consistent in their conclusions. Pinto (2004: 9) has specified the impact of this approach as; provision of BDS by one institution, can lead to local monopoly power; provision of subsidized services may crowd out existing and potential new BDS providers; though a wide range services developed, many providers tend to be supply-driven, outreach is relatively low due to subsidies; and the persistent lack of financial resources often results in changes to the services delivered, target groups, and termination of activities.

**Figure 2.7.1**

**Traditional development approach**



Source: (Rogerson 2006: 59)

The second approach is market development, defined as “a sub-field of enterprise and private sector development, in which development programs seek to help small enterprises participate in, and benefit more from, the existing and potential market in which they do business” (Nourse et al. 2007). This approach is new and has been formulated as a response to the problems of poor quality services, limited outreach and lack of sustainability of BDS provided by traditional development approach (Committee of Donor Agencies for Small Enterprises Development. 2000). The market development approach intends to ease a sustainable demand and supply of services where subsidies are replaced by commercial fees for services (Pinto 2004).

The Market Development approach is based on an understanding of market trends and the constraints that small enterprises faced that they can take advantage of opportunities to expand the service market for enterprises. Moreover, many enterprises could buy the BDS service based on their ability and willingness from a wide selection of products offered from unsubsidized, private sector suppliers in a competitive market (Miehlbradt and Mcvay 2003, Phillips and Steel 2003).

Furthermore, Pinto (2004: 9) clarified that;

The MD approach promotes as many suppliers as possible and may stimulate demand through discounted or subsidized services on a temporary basis for such activities as provision of information, market research, product development, training of suppliers, monitoring and evaluations. All these services fall into the category of “facilitating” the market by stimulating demand and supply.



## Chapter 3

### MSE and BDS in the context of Ethiopia (with special reference to the city of Addis Ababa)

This chapter presents the current situation of Micro and Small enterprises and the support provided by looking at two sub-sectors. It highlights the key problems of the sub-sectors, the initiative to support the sub-sectors and the kinds of support provided. In addition, the chapter also examines the scope of BDS, the outreach and the various approaches of providing BDS as well as its sustainability. The chapter ends by presenting a brief discussion on the role of actors in BDS.

#### 3.1 Definition and size of micro and small enterprises in Addis Ababa

In contrast to many MSE related studies, the working definition of MSE in Ethiopia is based on capital. According to the Micro and Small Enterprises Development Strategy;

- (1) Micro Enterprises: are those business enterprises with a paid-up capital of not exceeding Birr 20,000<sup>1</sup> and excluding high tech consultancy firms and other high-tech establishments;
- (2) Small Enterprises: are those business enterprises with a paid-up capital above Birr 20,000 and not exceeding Birr 500,000 and excluding high-tech consultancy firms and other high-tech establishments (FDRE Ministry of Trade and Industry 2007: 5).

Hence, in this case the definition is based on capital and the level of technical and technological capacities adopted.

The current updated information of MSE in Addis Ababa indicated that from all the total licensed enterprises, 75.4% are micro enterprises, 20.9% are small enterprises and the remaining 3.7% are medium and large enterprises (Addis ReMSEDA 2009a)<sup>2</sup>. Similarly, the surveys conducted for this research also indicated that out of the total 61 enterprises 49 (80.32%) were initially established at the level of micro enterprises and the rest 12 (19.68%) are small enterprises. This shows most of the enterprises are located in the micro segment, rather than in the small segment.

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<sup>1</sup> Approximately in Euro 1136.36 during data collection (1 euro was 17.60 Birr).

<sup>2</sup> The absolute figures are: total licensed: 91,059; micro-enterprises: and small enterprises: 19,079. The remainder totals 3,337.

### 3.2 The general condition to support MSE

In many urban areas of Ethiopia, the residents involve in the activities of the informal sector earn survival incomes. The informal sector remains the major means of income and survival for a large number of urban and peri-urban unemployed, destitutes and marginal wage earners. During the socialist regime (1974-1991) due to extensive nationalization of private sector, many of the former private sector firms ceased to exist. As a result many urban residents were involved in the activities of informal sector which was marginalized and discouraged. But after 1991, the current government adopted several policies and regulations aimed at supporting the informal sector (Kodama 2007).

In addition, many policy makers were interested in promoting the informal sector as a key source of income and employment growth. As a result many important overall policy and institutional reforms have been undertaken including: safety net, decentralization, market economy, agricultural development led industrialization (ADLI), and human resource development and utilization (Commission on Legal Empowerment of the Poor (Hlclep). 2006). Moreover, a number of sector specific policy reforms and restructuring of regulatory institutions may have contributed to the process of creation of micro and small enterprises. One of the frameworks was related to issuance of the National Micro and Small Enterprises Development Strategy in 1997 and the issuance of Proclamation No. 33/98 to provide for the establishment of the Federal Micro and Small Enterprises Development Agency.

In the same way to promote MSE, the Addis Ababa Trade and Industry Development Bureau has two branches, one is for MSE which focuses on the development of enterprises and the other one is for trade and industry. Micro and Small Enterprises are one of the focal points on the development agenda of the municipal government of Addis Ababa. The MSE branch has three main departments namely; MSE Development, Marketing Research, and Promotion Department, and the Cooperatives Promotion and Controlling Department. Similarly, the structure of the MSE is extended to the ten sub-cities in Addis Ababa. There are MSE teams and teams for the promotion of cooperatives in each sub-city while at the *kebele*<sup>3</sup> level it is handled by the MSE office under the *kebele* chief executive (Addis ReMSEDA 2009b: online data).

The MSE branch has been organizing people with different skills into individual business and cooperatives by creating job opportunities and providing various supportive services in coordination with NGO's to create a favourable environment for the growth of the sector (Addis ReMSEDA2009b: Online data). Organizing and licensing was done by the cooperative office and a working premise was provided by the sub-city administration, and other concerned housing and land agencies. Space was provided depending on the size of the available land by assigning four square meters per person for a

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<sup>3</sup> Kebele is the lowest administrative stratum of Government in Ethiopia.

monthly fee of Birr 1.00/m<sup>2</sup> for the food processing sector and monthly fee Birr 2.00/m<sup>2</sup> for the metal and woodworks sector<sup>4</sup> (Addis ReMSEDA 2009a).

### **3.3 The general tendency to organize operators into cooperatives**

Cooperative societies are formed by individuals who have similar needs for creating savings on a voluntary basis and mutual assistance among themselves by pooling their resources, knowledge and property (FDRE 1998). The core objective of a cooperative is involving the members to work towards a common goal which may include; solve problems collectively; achieve better results by coordinating their knowledge, resources and labour; building self reliance; improve living standard by reducing cost of production and services. Cooperatives are further grounded in democratic principles that insist that every member in the co-operative participates equally in making decisions that control the business. In Ethiopia cooperatives are tax-exempted and are assisted in organizing and legalizing their entity as cooperatives by Cooperative Promotion (*ibid.*). According to Ibrahim, (2008: 289) “Each committee has three members (chairman, vice chairman and secretary) and all committee members are elected by the general assembly”. The general assembly consists of all members of the cooperative and should be not less than ten.

#### ***Overview of food processing sub-sectors and the intention of organizing and licensing***

According to the study by MSE development agencies in 2004 there were 3,914 business operators in the Addis Ababa involved in food processing. Out of the total enterprises only 872 are registered with the Addis Ababa Trade and Industry Development Bureau. The rest are unregistered and carry out their business irregularly (Addis Ababa MSEs Development Administration 2004: 48). Moreover, it was pointed out by CSA of Ethiopia that; at country level the average family spending for food is 52.5% of their income. Similarly, the average family spending for food of those living in cities is 35.9%, while the figure specific to the city of Addis Ababa is 33.4%. As the level of expenditure for food is high it might imply that the need for food products is high. Based on this the sub-cities in Addis Ababa have been organizing and licensing many operators into cooperatives and individual businesses.

Many beneficiaries of this sub-sector are poor and unemployed women. Based on the cooperatives proclamation, women were organized with a minimum of ten members. The number of members included in the case study ranges from 10 to 25 at the time of establishment and their number remained low with a range of 6 to 24 during field work. The reduction in membership was mainly due to disagreement among members while others found better job

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<sup>4</sup> The difference in fee could indicate that the Government seemingly gave more support to food product operators.

option elsewhere. Other beneficiaries include informal food processing operators who were involved in activities like: selling food items in the open market; operating residence based eating or drinking places where indigenous food and / or beverages are sold in fresh form, such as “enjera”, “tella”, “tej”, “katikala”; and operating home based workshops. Based on this it was noticed that organizing the informal operators into cooperatives could help to share and combine their knowledge, capital, equipment, and their labour. At the sub-city level organizing the informal operators was on a voluntary basis. Licensing was done upon the availability of an appropriate working premise. Currently, the main activities of the organized operators (cooperative and individual enterprises) include; baking enjera, selling soft drinks, preparing dry products (different types of spices), various fast foods, hot drinks like tea, milk, coffee, and other beverages. Their main customers include; daily labourers who earn little and residents who prefer to buy traditional food like enjera for special occasions.

### ***Overview of metal and woodworks sub-sector and the intention of organizing and licensing***

Similarly, the study by Addis Ababa MSE Development Administration (2004) affirmed that there were 875 metal; 812 wood and 182 both metal and woodwork operators in Addis Ababa. As this sub-sector faces many constraints that affect the business operation, there was the intention to organize and license the enterprises.

Many of the beneficiaries are informal operators who were working under high risk on walkways, in the open air or their residence. As many of them were individual operators and not organized they were exposed to many problems which may be caused due to the operators misunderstanding for the importance of organizing or inconvenient environment for organizing. To solve their problems it was important to encourage operators to organize into cooperatives and/or groups so as to solve their common problems. Like in the cooperative food processing sub-sector the number of members ranges from 10 to 20 during establishment while during fieldwork the number were in the range of 10 to 13. As with the cooperatives in the food sector, the reduction in membership was mainly due to disagreement among members while others found better job options elsewhere. Their products include: doors, windows, different types of furniture for houses and offices, spare parts. Their main customers include the Government because many condominium houses are being under construction and consequently there is high demand for windows, doors, and the general metal and woodwork products. Among the customers are also, however, individuals for their houses, and office furniture.

### **3.4 Scope of business development services**

In the context of Ethiopia the scope of BDS (Ebdsn 2005a, 2005b) include:

Provision of working premises and infrastructure: Many start-ups suffer from lack of working premise, lack of access to electric power and water supplies, and lack of transportation at affordable price. To address these

problems the federal and regional government are taking positive measures to available for entrepreneurs linked with municipalities and have made concerned efforts to develop road networks, power, telecommunication, water supply.

**Access to Market:** the major market related problems of MSE in Ethiopia are due to poor quality products, poor packaging, and lack of marketing skills. To alleviate these problems steps can take to motivate the big business to expand their links with MSE. But actually the market linkage provided to MSE from government is temporary and not permanent linkages.

**Input supply services:** This is related with availability and reliability of supply of adequate sources of raw material/equipment at reasonable prices. Equipment is related with supply of machines, tools, needed for the business operation in which either to buy, lease or provided by providers. These services are at its lowest stage, but there is a case where equipment has been made available to food processing operators for start-ups by NGOs and associations.

**Technology and production development services:** As technological backwardness is one of the impediments for growth of MSE, efforts have been done to adopt and use appropriate modern technologies by improving the capacity of technical institutions, promote technical training institutions and create improved access to technology. To some extent the technical and training center of FeMSEDA has a role to address the technology needs.

**Managerial and technical training:** As this was one of the limiting factors it has been provided through encouraging the participation of private and NGOs BDS providers particularly at regional level, vocational and skill training centers (government private and NGOs).

**Access to finance:** As the lack of working capital is one of the major problems for new start-ups, the government of Ethiopia, through the National Bank of Ethiopia, created a conducive policy environment for the establishment of Micro Finance Institutions (MFIs). Currently there are 23 MFIs operating in most parts of the country (EBDSN 2005b: 62).

The BDS field seems to comprise many sub-fields as the scope is expanding overtime, and it became challenging to draw clear meaning as it varied in the local context. The concept of BDS ranges from formerly concerned in providing training, consulting, and addressing other internal constraints of small enterprises to include marketing services, information resources, infrastructural development, and policy reform which address external constraints. This may show that BDS seems to coincide with financial support provided to micro and small enterprises. For example, as the major problems of MSEs are said to be working premise many of the enterprises have been seen to use their loan to rent or buy of small plot of land. In a similar vein, the provision of a working premise has been one of BDS services provided to MSEs in kind which may implied the overlapping of financial and non-financial services. In the same way, the BDS services in the case of Ethiopia include the provision of working premises and equipments. The overlapping between financial and BDS services could also emerge from the provision of equipment which is one of the main capitals goods for the MSE

business operations. This may assist that provision either of these services may directly or indirectly have impact on addressing the other services.

### **3.5 BDS approach and sustainability of the Services**

In most cases BDS in Ethiopia has been provided on a supply driven basis due to low demand and less awareness for the importance services; and enterprises do not value these services. As many of the BDS are donors or supply driven in nature they are free of charge. The provision of services is not based on proven needs of the targeted operators and the coverage of the services is small. This is aggravated by the limited capacity of the service providers in the Government and NGO sector. In contrast to the free provision of BDS by these two actors there are also commercial BDS providers in the private sector. However, these are not demand driven as the services they provide are bought by NGOs and government who then send to MSE operators free of charge. This implies that even though BDS is commercially provided it depends on the assessment of Government and NGOs. This assessment not necessarily addresses the needs of every individual enterprise.

Generally, market-oriented BDS is immature in developing countries, as a result of an insufficient expression of demand from micro and small enterprises side as well as limitations on supply side. In addition, many of the small enterprises are unable and unwilling to pay the cost for the available services. In the same way, BDS providers have been offering supply-driven services which would have been unaffordable otherwise for the micro and small enterprises. This may imply that still there is a need of non-profit BDS providers intervention to stimulate BDS market development.

Furthermore, EBDSN (2005a: 14) stated that in demand-driven BDS the subsidised element of the intervention needs to be of a temporary nature and only support BDS transactions until the market for BDS operates alone with the help of market forces. The main aim of running subsidised BDS programmes is not to encourage MSE support institutions to engage in direct service provision, rather to develop a market for BDS by facilitating business-to-business linkages between the demand side represented by the businesses and the supply side represented by BDS providers.

Although, it has been thought that BDS should be market oriented in terms of cost sharing and cost recovery of its services, there may be services that could never achieve total cost recovery but only cost-sharing as many micro enterprises may not afford commercial BDS. So it seems that the BDS development depends on the local context and not only by commercial business providers but also by other private non-profit organizations. To distinguish between services free of charge and those with charge is not always easy. The EBDSN of Ethiopia felt that there is no theoretical criterion that can be applied to all situations. Moreover, the decision must be pragmatic and must fit the situation and the objective of further market development. Some examples of paid BDS in the context of Ethiopia may include (EBDSN 2005a: 15) operators should pay for services received according to their possibilities; operators should pay their own contribution for technical and business training courses; operators pay to write a business plan (but business plan forms and

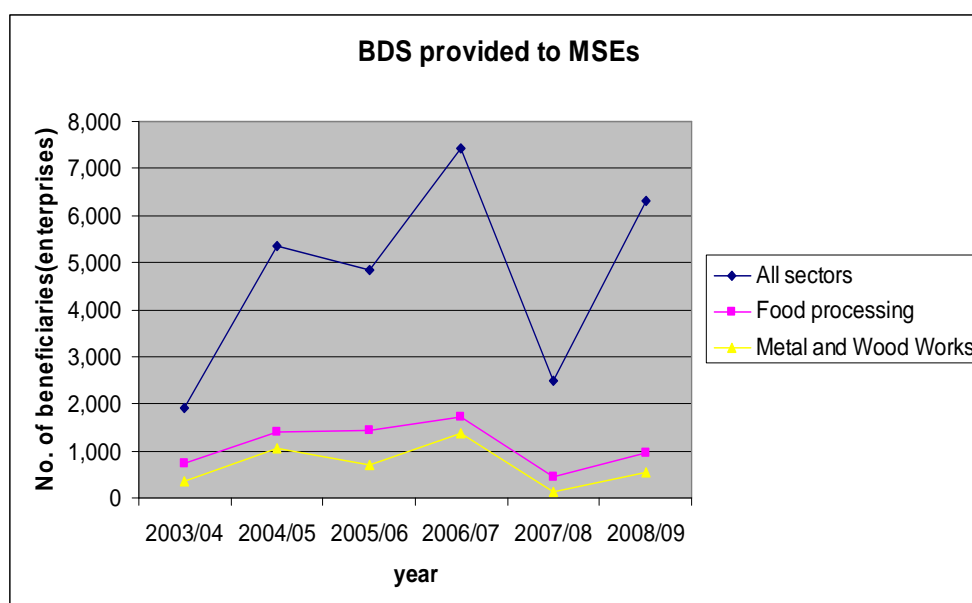
some general info are free); they pay for tender training course (but general info to open tenders and tender procedures are free); operators pay for tender forms and for writing their individual tender dossier, and pay for participation in expositions and fairs.

### 3.6 Business development services outreach for MSE in Addis Ababa

Since 2003, BDS has been provided in the city of Addis Ababa for different sectors are displayed for the two sectors under review here, as well as for all sectors together for the period 2003-2009. From the total 28,337 BDS intervention the support to specific sub-sectors is 6,702 in food processing and 4,118 in metal and woodworks.

Figure 3.6.1

BDS outreach for MSE in Addis Ababa



Source: own compilation from Addis Ababa Trade & Industry Bureau

### 3.7 The key actors and their roles in BDS intervention

#### *Role of government*

The role of the government in BDS intervention is early stated in the MSE development strategy issued in 1997. There are quite a number of public organizations involved in the direct delivery of various types of BDS. Some of them are also engaged in facilitating the provision of services in collaboration with NGOs, such as GTZ, UNIDO, and other private sectors (Stevenson and St-Onge 2005, Zewde & Associates. 2002).

### ***Federal Micro and Small Enterprises Development Agency (FeMSEDA)***

The Federal Micro and Small Enterprises Development Agency (FeMSEDA) was formed based on the proclamation of 33/98 in 1998 by the Government to facilitate the institutional support for small enterprises.

FeMSEDA is not an implementing agency rather it gives leadership in providing; training of trainers (ToT) programmes to equip regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services to MSEs; studying the problem and identifying viable markets for MSEs and addressing product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies. In addition, FeMSEDA in collaboration with GTZ compiled MSEs related support information. Moreover, FeMSEDA is involved in organizing and facilitating the training in skills and technology in the areas including woodworking, metalworking, garment making, and handicrafts. Furthermore, it is involved in serving the marketing outlets for the MSE product exhibitions.

### ***Regional Micro and Small Enterprises Development Agencies (ReMSEDAs)***

The Regional Micro and Small Enterprises Development Agencies (ReMSEDAs) were established in 2000, by Regional Governments to provide the needed support to MSE at regional, zonal and wereda level. These ReMSEDAs were established to co-ordinate support services for the implementation of the Regional MSE Development Strategies. According to the National MSEs Development Strategy (FDRE Ministry of Trade and Industry 2007: 57-58) the major roles of ReMSEDAs are: (1) to provide extension services to MSEs at regional, wereda and kebele level, (2) these services have to include *interalia*: HRD, information and consultation, and technical and marketing services, (3) to work in collaboration with the technical arm of regional trade and industry bureaus and to be financed by respected government and revenues they generate, as well as donors and development partners, and (4) being constituted as autonomous legal entity and be managed by a management board consisting of trade and industry bureaus, private organizations, other organized institutions and prominent personalities involved in MSE activities.

### ***Role of NGOs and other donors***

Most of the existing micro enterprises do not have the financial capacity to pay for BDS services, and in many cases they have to be served by non-commercial providers. Additionally, many studies revealed that supports provided by government in developing countries are limited due to financial constraints they faced. To fill these gaps the roles of other actors like NGOs have been recognized and encouraged to provide their supports.



## ***Ethio-German Micro & Small Enterprises Development Program (GTZ)***

The Ethio-German MSE Development Program is one of program interventions by the German government which contributed to the growth of the Ethiopian economy implemented by GTZ. GTZ has been the principal BDS provider in Ethiopia and main donor in support of MSE development (Stevenson and St-Onge 2005: 34). This program started in 1996 and implemented three phase programs till the year of 2005. While the short-term objective was to improve the performance of existing and new businesses, the long-term objective is to increase employment. Therefore, it has been focusing at meso level intervention (Melles 2003).

The GTZ-MSE Development Programme had made a number of efforts that contributed to the general acceptance of the CEFE methodology which includes, organising workshops, TOT programme and translation of some CEFE exercises from English to Amharic language and distribution to partner organisations. The project's interventions with regard to CEFE training have aimed for the attainment of entrepreneurial competencies by the participants, to stimulate their personal development and development of their businesses (Ethio-German Micro and Small Enterprises Development Programme. 2004: 1).

The 1<sup>st</sup> phase (orientation phase) of the program which was carried out from April, 1996 to September 1998 included; provision of advisory support to the Ministry of Trade and Industry, enhancement of capacities of MSE support institutions, and rehabilitation the Development Agency for Handicrafts and Small Industry (DAHSI) (Melles 2003: 1). One of the major achievements of this phase was the contribution made to formulation of the National MSE Development Strategy.

Phase II of the program has been implemented from October 1998 to September 2001. In this phase, the project focused on; boosting capacity of Federal and Regional MSE Promotion Agencies, strengthening private sector organisations, applying and adapting the CEFE entrepreneurship training model in MSE sector, developing and implementing demand-oriented information system and networking, and putting a monitoring and evaluation system in place (Melles 2003: 2-3).

The phase III of the program has been implemented in the period of October 2001-March 2005. The overall goal was to increase the contribution of the MSE sector to GNP. The project purpose focused on benefiting MSEs from an improved macro-economic and regulatory framework and from the offer of different BDS by public, private and commercial service providers (Melles 2003: 4). Specific areas of intervention include; improving the management of public and private partner organisations (POs); enhancing FeMSEDA capacity to provide relevant services; strengthening the capacity of public, private, and commercial service providers; and developing and implementing effective impact monitoring system.

### ***Christian Children Fund (CCF)***

Christian Children Fund (CCF) is USA international NGOs involved in providing BDS. The main concern of CCF is to provide support for cooperatives which have received a licensed and working premise from the government. Fulfilling these requirements different kinds of BDS are provided based on the needs of the sub-sectors. But there are cases where supports can be provided to individual operators, for example for handicapped business operators. BDS is provided free of charge and the main source of funds is from international organizations. CCF has been providing support to sub-sectors of food processing related to equipments and starting capital and metal and woodworks with hand tools (Source: interview with manager Mrs. Britu).

**Table 3.7.1**

**Food processing operators supported by CCF**

Year	2006	2007	2008	2009	Total	Remarks
No. enterprises	18	10	6	18	52	beneficiaries are female members

Source: Interview with the manager

The BDS supports provided by CCF includes: (1) short term training in entrepreneurship, leadership, financial management, (2) provision of equipments in food processing sector which include; coffee machine, fridge, chairs and tables, (3) information and consultancy which is done through meetings and discussions based on the problems of operators, (4) credit facilitation done through making operators members of saving and credit associations, and (5) provision of starting capital which is conditionally for those have good interest in work but faced limited capital to start business.

### ***Role of private sector***

In Ethiopian context, the range of BDS provided to MSEs is very limited and the services are inadequate due to lack of tailoring need assessment at individual level. Comparatively, Government and donors are mainly support business development services, but on a limited scale, as do private sectors. Almost all business development services are fully subsidised and offer free of charge services to MSEs (Zewde & Associates. 2002).

Currently, BDS provision by private sector is weak as it is in the initial stages. This is because there is difference between demand and supply. As a result the market for BDS is limited. Most of the BDS provided for MSEs is more of training in BBS (basic business skill) and entrepreneurship management. The major users for BDS provided by private sector are NGOs and Government which implied MSEs are not direct customers for private BDS rather BDS is sponsored by NGOs (Teklu Kidane: Private BDS provider). Moreover, the main activities of private BDS providers mainly deal with consultancy and training and evaluation assessment. To mention some;

- (a) Preparing manuals and guiding booklets for institutions involved in MSEs promotion;
- (b) Develop impact monitoring and evaluation system for GTZ-MSE and Partner Organizations (POs);
- (c) Initiating and co-coordinating MSE promotion by supporting MSE Development Agencies, chambers, associations, NGOs, and private BDS providers.
- (d) Sector-based market demand and supply study on textile, food, metal and woodwork products.
- (e) Impact assessment and project feasibility studies for individual micro and small entrepreneurs, self-help associations and cooperatives;
- (f) Financial and administrative feasibility studies as well as sustainability issues of donor funded rural community projects;
- (g) Providing CEFE training for micro-operators sponsored by NGOs.

Private BDS providers include; chambers of commerce, private sector associations, and individual enterprises. For example, there are 12 city chambers in the country and all strive to provide some form of BDS to their members. However, with the exception of the Addis Ababa Chamber of Commerce, the rest are poor in providing effective services to their members (Zewde & Associates. 2002). Moreover, according to Teklu Kidane, the main challenges of BDS in private sector are; business operators are not willing to pay for BDS services, lack of full know how for the values of BDS, and the market is distorted due to the availability of subsidized and free BDS provided by Government and NGOs.

### **3.8 Conclusion**

This chapter focused on MSE, BDS in context of Ethiopia, and role of key actors in BDS intervention. BDS expands and varies according to the local context and indeed a diverse range of services were included under the umbrella of BDS in Ethiopia. Moreover, it is recognized that the role of key actors in BDS intervention is basic and crucial because the services need substantial financial input. The commitment of these actors and degree of cooperation among them determine the effectiveness the successful implementation.

## Chapter 4

### Findings and Analysis

This chapter presents a situated condition over the impact of BDS in MSE based on the primary data collected in the city of Addis Ababa and the available data reviewed about the sectors. Its aim is to show how and why BDS has different impacts between cooperative and individual enterprises on the one hand as well as on different sub-sectors focusing on the two sub-sectors.

#### 4.1 Methodology

The researcher collected data based on the sub-sector and nature of ownership of enterprises from both food processing and metal and woodworks sub-sectors. The researcher was conducted among both BDS users and non-users to compare the impact of BDS. The number of enterprises was 61 from which 41 BDS users and 20 non-users. The 41 BDS users include 17 cooperative food processing enterprises; 9 individual food processing operators, and 15 metal and woodworks cooperative enterprises. Similarly, the non-users include; 10 metal and woodworks individual operators and 10 food processing individual operators. In addition, the researcher interviewed 6 BDS facilitators and providers. Moreover, key informants were contacted regarding their role in the issue of BDS. Accordingly the proportion of data collected was 41:20 for cooperative and individual enterprises respectively.

#### 4.2 Background of the respondents

The background of respondents include 96.8% of cooperative food processing operators are females, and 89.3% of cooperative metal and woodworks operators are male. The sample of individual food processing BDS users include 6 female, 3 male, and non-users 7 female and 3 male. Similarly, the sample of metal and woodwork non-users is 8 male and 2 female. In addition, regarding their age 34.75% of the total interviewees are in a range of 26-35, 29.25% lies in the age of 36-45; 17.75% of them lies in the age of 18-25; and the rest 14% lies in the age of 46-55. Moreover, their educational backgrounds have assessed and 67% of them are under 12<sup>th</sup> grade/secondary school graduate; 19.8% of them are secondary school graduate and the rest 11.67% are certificate and diploma graduate. The majority of the operator's age lies between the age group 26-35. In addition, the second majority group of operator's lies in the age of 36-45 years. This may imply that most micro and small enterprises operators are mainly young and adults.

**Table 4.2.1**

**Age of respondents**

Age of respondents	Number of respondents					Total
	Food processing			Metal & wood work		
	Co-ops users	Individual BDS users	Individual non-users	Co-ops users	Individual non-users	
18-25	9	0	3	59	0	71(17.75%)
26-35	57	4	3	69	6	139(34.75%)
36-45	89	4	2	18	4	117(29.25%)
46-55	52	1	1	2	0	56(14%)
55 & above	15	-	1	1	0	17
Total	220* <sup>5</sup>	9	10	159*	10	400*

Source: Own operators interview, 2009.

### 4.3 Period of operation and license of enterprises

Most of the enterprises have been operating for different period of time ranging from 2 to 7 years in which, 27 of the respondents have been in operation for 4 years, 20 of them having operated for five years, 5 enterprises operated for three years, 3 enterprises operated for two years, 4 of them operated for six years, and the rest 2 enterprises for seven years. The relatively short period of operation may imply that organizing and licensing support have been providing in recent years. In addition, most of the enterprises are legally registered with the ministry of trade and industry bureau. Five enterprises were registered from the beginning of their operation, and the rest were registered later. This may imply that license and registration of business may be used as a criterion by the providers to provide BDS services.

### 4.4 The motives for operating the kind of business and sources of starting capital

The main reasons behind their involvement in the businesses differ and depend on the background they have or any other pushing factor. Among the food processing operators a number of them give their background as reason while others pointed to the priority given by the government to organize and legalize the sub-sector. One of them recognised that “I was preparing food in my house as it was considered as my job. So I prefer this business as I have know how of preparing food and no any other alternative/skill to operate other types of job.” This point was shared by majority of the operators<sup>6</sup>. Similarly few others also added that they were employed workers. One female member of a cooperative told me that “Before I was working in cafeterias preparing fast food and later I prefer to continue with the same activities.”

Similarly, the majority operators of metal and woodworks gave a reason their previous work experience<sup>7</sup>. One of the operators indicated that “I was

<sup>5</sup> \* The big number is that the data was compiled to all the members of cooperatives.

<sup>6</sup> 25 respondents

<sup>7</sup> 10 respondents

working as employed worker involved in the activities of metal and woodwork for five years and later I started my own business in my house.” Others started the business because of their educational background and being unemployed. One of them indicated that “I am diploma graduate in metal and woodworks from technical school. But after graduation I was not employed for one year and I joined the cooperative.”

Besides this it appears that operators were encouraged to organize into cooperatives by the Addis Ababa sub-city administration based on their previous experience. The majority of the cooperatives operators are organized by the Government<sup>8</sup>. One of the operators in cooperative metal and woodwork has affirmed that “There was big mainstreaming from *kebele* administration for those who need to organize into cooperatives based on voluntary basis and related experience and I was involved in metal and woodworks activities working in my house before. But as I did not have guaranteed job I prefer to organize in cooperatives.”

This might imply that majority of the operators from both sub-sectors started their business being involved in the activities of the work before and not being trained in the profession. This may have negative impact on running of standard business.

The operators started their business using initial capital from different sources. These include from their own savings/money (member contribution for co-operatives), loan from microfinance institution and/or relatives, friend, and funds from NGOs (Field interview with operators). The starting capital for majority of business operators was from their own (member contribution for co-operatives) and secondly a loan from microfinance institutions for the BDS users, and loan from relatives/friends for the BDS non-users. More specifically at sub-sectors level the starting capital of cooperatives food processing enterprises mainly was members’ contribution and NGOs fund. This might imply that NGOs have been targeting their support to cooperatives and females which in the sample dominated in food processing sub-sector. Moreover, cooperatives might have been targeted as they have capacity to absorb large number of workers.

#### **4.5 Constraints before BDS intervention**

Generally, as to be successful, business operators require a good know how of the basic business skills. To do so BDS providers have to critically assess and develop an accurate and clear understanding of the operators’ situation and intentions so that, they can focus appropriately on how to tackle their constraints. Therefore, support of BDS providers for small enterprises development is based on the belief that their performance could be improved by changing and alleviating the various constraints affecting small enterprises. The support provided (specifically organizing and licensing), seemed to have alleviated the problems of unemployment for many beneficiaries of

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<sup>8</sup> 25 respondents

cooperative food processing enterprises. In the same way, the support provided seemed to have done away with the illegal business operation in the cooperative metal and woodwork and private food processing operators<sup>9</sup>. For example, one old aged woman operator in cooperative food processing mentioned the problems before BDS intervention as “I had no job before and I did not have the encouragement to work. Even if I wanted to work I did not have capital to start a business. But now thanks to government due to mainstreaming and initiative from *kebele* administration which targeted females to organize into cooperatives to give them a place to work, I have job now.”

In the same way, the main problems for majority operators of cooperatives of metal and woodworks was related to the lack of legal business as many of them were operating in resident house and others were employed as workers<sup>10</sup>. One of the operators of metal and woodworks has expressed his problem before BDS intervention as “I was operating my business in my house and it was too small to expand business and to have regular job as it was illegal. I was faced with police harassment to stop working in illegal place. But when I got information from *kebele* administration to organize into cooperative on a voluntary basis I merged and organized with the groups, and got licensed and secured a place for work.”

The problems expressed by the operators were serious bottlenecks to operate business activities. In addition, based on a survey conducted in 2003 among 11,000 enterprises in Addis Ababa the main constraints faced by small enterprises were: lack of working space for production and selling; shortage of finance; regulatory problems (licensing, organizing, illegal business etc); poor production techniques; input access constraints; lack of information; inadequate management and business skill; absence of using appropriate strategy (Addis ReMSEDA 2009a: 2).

The foremost problem of MSEs was lack of working premise. From the total 41 interviewed enterprises, 26 of them (10 from cooperative food processing, 5 from private BDS food processing sector, and 11 from metal and woodwork cooperatives) users pointed out that this was the major constraint for them. This constraint enforces the operators to work from home, from street corners, or from other unsuitable locations, where they face interruption from police as it was illegal, and where they are exposed to produce contaminated or unhealthy products. This has had a negative impact on the operators’ business operations, continuity, and development of businesses. BDS support has helped them in securing their business as BDS gave access to working premise to all cooperatives of both sub-sectors, and 5 private food processing operators. To get these services the users were facilitated by the sub-city BDS facilitators.

The next principal shortcoming identified prior to BDS support was financial constraints which was the major obstacle to start a business and expansion of the existed businesses. Twenty enterprises reported this. They

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<sup>9</sup> 15 respondents

<sup>10</sup> 10 respondents

responded that the facilitators had assisted them to make contact with micro finance institutions from which they subsequently obtained a loan. This helped to start a business and/or expand their existing business and enabled them to further develop their business.

The third notable problem, which the operators faced, was being unable to find wage employment and having to work from home, which they felt was solved as a result of the BDS intervention. This problem was due to lack of organizing, licensing, stable and legal working premise and resort to unsuitable and insecure job. In addition, many members of cooperative food processing enterprises were house-wives who lacked skills as they have never started a business before and even did not have a job before. But it can be recognized that the BDS intervention has benefited many unemployed by organizing them into cooperatives and by giving them working premises and licenses. This has been done by different institutions at the sub-city level after being contacted by facilitators.

Moreover, the operators were asked what action do they took to overcome the problems. The action taken were so scanty which include lending small amount of money from relative which was insufficient for their business operation; and lack of suitable premise forcing them to operate on the street, working in resident house, or resort to inappropriate work, under unhealthy conditions and sometimes harassment by police for operating illegal businesses.

Based on this the expectation of operators from BDS were varied. Their expectations include business expansion and improvement, sales increase and profit making, market linkages and income increase. For example, one operator in metal and woodwork indicated his expectation as “I was expecting to work and be independent by having better income. Additionally I was expecting to access for permanent market linkage from government. But it turned out differently.” This point is shared by majority of the BDS users of both sub-sectors<sup>11</sup>. Other five operators from metal and woodwork were expected to expand their business and have more branch business. But other few of them were worried for using BDS as they lack full awareness of its importance.

## 4.6 Types of BDS used

As it is explained in many literature BDS is a non- financial support provided to small enterprises. The contacted operators were asked to list the type of BDS they have used. Accordingly, short term training and technical assistance was used by most respondents, infrastructure and working premises came second, consultancy and information third, and credit facilitation fourth. By looking at the BDS support to sub-sectors and different kinds of ownership the provision BDS services differs. As table 4.6.1 shows all the cooperatives have been provided with for infrastructure and working premise. Similarly, cooperative enterprises have received market linkages compared to none in

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<sup>11</sup> 33 respondents



individual users. This may imply that BDS provider (probably government) give priority to help cooperatives as these services absorb a large number of workers. In addition, though there is small outreach in supporting equipment these services were provided by NGOs like CCF, and targeted to cooperative food processing sub-sector. This may imply that NGOs prioritized in targeting the service to women and cooperative enterprises.

**Table 4.6.1**

**BDS Services Provided**

Type of BDS used	Number of respondents by enterprises				Total
	Food processing sub-sector			Metal & woodwork	
	Co-ops	Individual	Total	Co-ops	
Training & tech. assistance	16	8	24	13	37
Market linkage	12	0	12	13	25
Provision of equipment	7	1	8	1	9
Tech. & product development	3	0	3	2	5
Information and consultancy	13	9	22	12	34
Infra. & working premises	17	5	22	15	35
Credit facilitation	10	7	17	10	27
Total	17	9	36	15	41

Source: own operators interview: 2009

The equipment provided to enterprises includes coffee machines, fridge, chairs, tables, and mirt stove (used for baking Enjera). According to the manager of CCF Mrs. Britu these services have helped the operators to improve by replacing the traditional and lower standard equipment. Before the operators were using tea pot, traditional stove which was too smoky, and they do not have equipments to keep the prepared food. As a result they were faced with spoiling products and health problems. The kinds of equipment provided could be considered as one way of product development as they replaced the traditional equipments they have been used.

Unlike the above point provision BDS with specific to technology and product development is at its lowest level for both kinds of ownership and sub-sectors. This may show this type of support for MSE is at its initial stage or not given priority compare with other types of BDS or provision of this type of BDS is expensive and takes time.

Moreover, the operators have ranked the best type of BDS which has better impact for their business. Based on this 49% of them replied for working premise, 23% of them replied for credit facilitation, and about 13% of them for market linkages. The rest stated for consultancy services, equipment provision, and short term training.

## **4.7 Business improvement and impact of BDS**

A sample survey had been carried out to see the progress of BDS in their business operation comparing with former operation. In addition the survey furthered to see if the progress/impact of business operation has different perspective by looking cooperative BDS users and individual business users. Many of the enterprises have been progressed their businesses diversely based on sub-sectors and nature of ownership.

Accordingly, as it is displayed in table 4.7.1 there is more income for 39% of the BDS users; and based on ownership of enterprises only 34% cooperatives and 56% of private business have improve more income. This may imply for two observations that is there is less progress in the cooperatives compare to private business within the same sub-sector as there is no improvement of income for cooperative food processing sector and 56% in private food sector; and the second observation is there is less progress in the cooperative food processing as there is more income in the 73% of cooperative metal and woodworks enterprises. This may imply that BDS has both ownership and sub-sector difference.

The second most progress that can be explained is buying more equipment for their business operation in 34% BDS users. Additionally the figure shows that, there was proportional impact of buying more equipment at both ownership levels of the enterprises. But if we look within the same sub-sector the figure shows that, there was ownership difference; as there was more buying of equipments in 33% of private business and none in the cooperatives. More over, it can be observed that there was sub-sector difference in the impact of BDS; as there was more buying of equipments in 73% of cooperatives metal and wood works and none in cooperative food processing enterprises. This may be the case as shown in table 4.6.1 cooperative food processing enterprises were provided equipments from NGOs. Moreover, it can be observed that there may be profit and sales difference across sub-sectors as displayed in table 4.7.1 tendency of business expansion appear only in cooperative metal and woodworks BDS users and need to buy more equipments.

**Table 4.7.1**

**Impacts of BDS on business operations**

Types of changes/ improvement	Number of respondents by number of enterprises						
	BDS users					Non-users (individual)	
	Food Co-op	Metal & wood Co-op	Total Co-op	Individual Food	Total	Food proc- essing	Metal & wood works
More employment	0	1	1	7	8	7	1
More income	0	11	11	5	16	4	1
More sales	0	6	6	3	9	1	2
More equipment	0	11	11	3	14	3	0
Repayment of debt	0	1	1	5	6	0	1
Diversification	6	2	8	3	11	6	2
Quality	4	0	4	2	6	1	2
Entrepreneurship	4	2	6	0	6	1	1
Savings	6	1	7	0	7	0	1
Branch business	0	2	2	0	2	1	0
Social work	5	0	5	0	5	0	0
Bookkeeping	8	0	8	0	8	0	0
No change	0	0	0	0	0	2	2
Total Enterprises	17	15	32	9	41	10	10

Source: Own operators interview: 2009.

The third most progress that can be explained is there was more product diversification in 27% of the BDS users. More over there was less difference of the impact of product diversification in the ownership of enterprises. But it can be observed that, the impact has sub-sector difference; as there was product diversification in 35% of cooperative food processing enterprises and 13% in cooperative metal and woodworks.

Another improvement is that, there was change in the businesses in their sales. As table 4.7.1 shown there were more sales in 21% of users and beyond this the figure shows more sales in private business which is 33% and 19% in cooperative enterprises. But this may not imply that there is ownership difference in improving their sales; rather there is a big difference in the sub-sectors as there are more sales in 40% of cooperative metal and woodworks and none in the cooperative food processing sub-sector. This tendency shows there was difference in cooperative sub-sectors. In the same token it is displayed in table 4.6.1 though, about 61% of the BDS users got market linkages from government it was temporary and requires competing among the existed similar business to get the opening. This may not help the users to more progress in product sales.

Similarly, there is more employment in 19% of the targeted BDS users. This may not imply that, less progress in the BDS users; as there are both cooperatives and private business which indicate more employment in the 77.8% private users. This might imply that while BDS has effective impact on private business, there is less impact on cooperatives. In the same way, as there were over number of the member of cooperatives it may not need to have more workers for their business operations.

Having the above information, BDS users were asked whether the change in their business was the result of BDS or not. Many of the operators have pointed out that, the change is the result of both BDS and operators' effort that is though BDS has positive impact [emphasizing working premise and access to loan], but additionally operators' effort and commitment has impact on the improvement of their business. This seems that users did not fully acknowledge the impact and importance of BDS on their business improvement. But it may depend on the way they have perceived (degree of improvement) and their former expectation (as explained above). For example, the cooperative operators view this point by comparing the continuity of their business with those other businesses (BDS users) closed due to miscommunication and disagreement among members in cooperatives enterprises. The continuity of their business for the operators is the result their effort and not from BDS. In another way, from the private operators' point of view in one hand, the support provided were limited [specific to market linkage] which is basic for their business and in another case though some of the private enterprises were provided working premise, unlike cooperatives they are not tax-exempted and are charged to rent on a lease basis. Beyond this it is obvious that there was more development in private enterprises compare to cooperative enterprises. From the private enterprises perspective this business improvement is in addition to BDS the result of their effort.

Provision of BDS is not an end by itself rather it depends on the way the services are providing, implementing, and receiving. In this case I have

contacted with manager of CCF one of the NGO BDS providers to see whether they faced problems in providing their supports. Accordingly Mrs. Britu said;

Many times members of cooperatives seen to collide due to different interest, behaviour and became the main barrier in achieving the goal of the BDS. In addition, as many of the members have different professions this has negative impact in achieving the goal of BDS services specifically and goal of the organization in general. Finally, though our organization has a capacity to extend the support for Small business many of them does not have working premises and licenses. This stacked our organization from further extends to additional users.

In the same way, BDS providers and facilitators of government organization have contacted. The problems are related with their capacity and inadequate support from the respected government body<sup>12</sup>. One young lady being facilitating for two years have pointed the problems she faced as “The work is so hard; it needs to have regular contact with the operators to initiate for using BDS services. But I do not have tour allowance and I pay for transport. So it does not motivate to work and I did not get adequate training to facilitate the operators.” Others have recommended the problems related with the operators. One woman has been working as facilitator for six years pointed the problems as “Individual [existed business] operators did not give the real information of their business specific to their account as they related it with taxes.”

Correspondingly, the users were asked if they faced problem in implementing the services they received. Many of the operators have stated that they implementing BDS into practice. But others affirmed that there was problem in receiving and implementing theory and services into practiced. The problems were more serious in cooperatives<sup>13</sup>. One of the operators in cooperative food processing has pointed the problems as;

The trainings are provided to limited (2 or 3) members and is inadequate and as many members are not educated it is problem to grasp, share to group and implement. There is no market; some times we got market from government whenever there is forum of meetings around, but it is temporary. Currently there is remarkable price increase of raw materials pushed the price of product to increase.

Few others<sup>14</sup> have argued that “lack of enough loan to expand business, electric power discontinuity, inconvenience of the location for selling product, collision among members of cooperatives.”

This might imply that acknowledging the significance of BDS still illustrated the lack of consideration to background of the operators in providing training and other supports in cooperative enterprises. This not

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<sup>12</sup> 3 facilitators

<sup>13</sup> 15 respondents

<sup>14</sup> 5 respondents

including for individual users as shown only 33% faced problems in implementing the services. In addition, it can be recognized that the inconvenience of microfinance institution policy for the requested amount of money and this has impeded the expansion of the businesses. Furthermore, despite the fact that business enterprises were provided working premise; the inconvenience of location and other crucial issues are not yet addressed.

More over, business operators were asked if the income from this business is the main source of income. Many of the interviewees have responded that their main source of income is from the businesses they operate. Unlike this the income of cooperative food processing operators is extra earning<sup>15</sup>. One woman who stayed for five years in the business has responded on the earnings as “as the money is too small, so the main income for family living is from my husband. But the earning from this business is helpful for additional support of living and now is better from before.”

This point seems to have both ownership and sub-sector implication; that is except the cooperative food processing operators, all the rest operators main income was from their business. The progress in the cooperative food processing seemed as among the secondary or alternative source of household income and tends to be used for family survival purposes. As the activities are part-time<sup>16</sup> and in some instances temporarily undertaken these enterprises earn small surplus, usually they do not have potential to reinvest for business expansion. Moreover, the potential to grow of the enterprises seemed to be limited by a variety of factors relating to, over number of members in the cooperative food processing enterprises sharing the low surplus, lack of initiation to work due to unskilled labour and as a result low impact of BDS, nature of the business, low quality of product at low price, dependency to decide on the member of cooperative, imbalance composition (age, educational background, behaviour) among members of cooperatives.

Finally, both cooperatives enterprise are member of association. Being member of cooperatives has both helpful like job creation for food processing<sup>17</sup> and legal business for metal and woodwork operators<sup>18</sup>. One lady from food processing said this “to get Government and NGOs support like work premise, market linkage.” Another man from metal and woodwork replied as “I learn more from the members of cooperatives.” But in addition to this being working in association may be inconvenient<sup>19</sup>. One woman from food processing responded this as “there is collision among members as the group is so diverse and unbalanced skill, effort, behaviour, effort to work.”

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<sup>15</sup> 17 respondents

<sup>16</sup> Many of the cooperative food processing operators have been working on a shift basis and every operator works twice a week. Unlike this the operators of cooperative metal and woodworks and private operators have been working on a daily basis.

<sup>17</sup> 10 respondents

<sup>18</sup> 8 respondents

<sup>19</sup> 7 respondents

## 4.8 Importance of BDS from Non-users perspective

In Ethiopia BDS is in its initial stage as it was started in 2001. But analyzing the impact of BDS can help to assist the changes in business at large and specifically to see the impact difference between different ownership and among sub-sectors. Therefore, the impact of BDS was indicated and analyzed by BDS users and non-users from the sample selected business operators. Although, it may not show the perfect comparison as non-users are private business operators and mostly targeted users were cooperatives and few number of individual non-existed business/informal operators; it may help to understand the progress and view of BDS from non-users angle.

One of the possible factors for comparison was to see what improvements or changes have been made in the time the businesses existed. Table 4.7.1 provided the progress that have been made and includes; more employment in 40% of enterprises, product diversification in 40% of the enterprises, more income in 25% of the enterprises, and no change in 20% of the enterprises. But this may not imply that, there is improvement in both sub-sectors. By looking the change in the sub-sectors there was more employment in 70% food processing operators and only 10% in metal and woodworks operators. In addition the figure shows more product diversification in 60% food sub-sector and only 20% in metal and woodworks. Moreover, there was more income in 40% food processing and only 10% in metal and woodworks. Further more; there was more product and services, quality product, business expansion and opening of branch and more sales in food processing sub-sectors; and more change in quality product, credit payment, entrepreneurship, and savings in metal and woodworks.

But unlike the above progresses there was no change in 20% of the operators. The main causes include inconsistent electric power, remarkable increase in raw materials price, lack of market, and lack of capital to expand their business, lack of showing room and market, lack of working premise and location inconvenience, lack of skilled manpower, market forecast problem. These constraints directly or indirectly shared by the rest of the business operators as the number of enterprises made improvement is limited. To overcome these problems the actions taken by operators include: advertising their market, looking market from relatives; selling their product for more price.

Furthermore, respondent were asked whether they are aware the existence of BDS and reason for not using the services. Most of them are aware of the existence of BDS from users, customers, friends, relatives, and mass media at large. The operators acknowledged the support of BDS more specified for market linkage and working premise<sup>20</sup>. But the reason for not using the BDS services as one of the operators said, “BDS is provided only for cooperatives and I do not want to organize. Because I am afraid colliding with people. So I prefer to run my businesses alone.”

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<sup>20</sup> 18 respondents

Finally, operators were asked whether they know small business operators used BDS and whether they became successful after having support. Almost all respond that, they have seen that there are cooperative BDS users and but their degree of success is lower<sup>21</sup>. One of the operators has pointed that;

I can say it is good from job creation perspective as many of the operators were unemployed before. Regarding the business promotion only few are successful in the cooperative where there are committed members, but many others are seen collide and split due to lack of commitment among members and they expect more support from government specific to market linkages.

Respondents adding up that those cooperative business operators have been observed get market from government and they don't think it is their responsibility. Moreover it can be considered that as the number of member in cooperatives increase the initiation to work may reduced due to imbalance of composition, difference in behaviour, experience, effort, initiation, age, and educational background.

The operators' of both sub-sectors main income is from the businesses they operate and is the main source of living. So due to improvement in their business there was improvement in living condition like renting from small to big room, saving, covering school fees, being independent from parent and helping parents. Accordingly, the change in living condition, 60% of them relied that there was a change including: improvement in income like 20%, cover additional expense, buy furnished goods, leading family, being independent from parent.

## 4.9 Conclusion

With respect to the impact of BDS, there was a remarkable improvement in terms of income generation, acquisition of equipment, diversification of products, an increase in sales, and employment opportunities. But there are differences found across sub-sectors and nature of ownership. Accordingly, individual operators in the food sector have benefited most from BDS, followed by the cooperatives in metal and woodwork. The difference between the individual operators and the cooperatives in the food processing is related to problems with decision making lead to poor business.

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<sup>21</sup> 12 respondents

## Chapter 5

### Conclusions

The main theme of this study is to emphasize the role of small business and the mechanisms to promote these sectors by taking BDS as one method of enterprise development. The objective of this research paper is to investigate the extent to which BDS promote and improve small enterprises; and to see whether the impact has sub-sector and ownership difference. This was analysed by looking at the cooperative food processing and metal and woodwork sub-sectors; and individual food processing operators in the city of Addis Ababa. In addition, the significance of BDS has been looked at the non-users perspective by taking individual business operators of both sub-sectors. Moreover, the study analyzed whether there is a clear distinction between BDS services and financial services based on the definition of BDS as non-financial services. The issue of BDS sustainability is also analyzed by examining whether the services could be provided commercially and/or whether it has local context. Finally, the roles of different actors in facilitation and provision of BDS services have been discussed.

The study analyzed the impacts of entrepreneurship and differences between sub-sectors on the business promotion. Based on this the distinction between cooperatives and individual business operators and freedom of decision on the business development were discussed. Subsequently, the main characteristics and activities of the two sub sectors were identified. Overall it is obvious that cooperatives are owned by all members who share decision-making and income equally. Cooperatives seem to be less sustainable as a result of collision among members, which cannot take place when there is only one owner who is the decision-maker. The characteristics of the sub-sectors are also analyzed in relation to the importance and role of business earnings in operators' income. This study found that the earnings from cooperative food processing are only to secure an additional source of income (the main source being the husbands' salary), and due to the excess number of members' part-time and temporary activities undertaken; there was no business expansion due to the lack of possibility to reinvest the income.

In contrast, the earnings of cooperative metal and woodworks enterprises are the main source of income, the surplus is reinvested in the business and as a result there was expansion of business. This is despite the fact that cooperatives also in this sector suffer from the delays resulting from joint-decision-making which is basic to co-operatives. The difference, therefore, can be attributed to the nature of the sub-sector.

By analyzing the points, this study has examined the impact of BDS on the selected small enterprises and the findings are presented below.

In this paper, it is observed that the majority of the enterprises (78%) supported by BDS are cooperatives with at least 10 members and in which many of them are organized and licensed by the government. While many of



the beneficiaries in the cooperative food processing enterprises are unemployed women; the cooperative metal and woodworks were informal operators working under high risk metal and woodwork operators, on walkways, in the open air and in houses. As regards of the impact of BDS on the targeted enterprises, it was recognized that there is a remarkable improvement in terms of income generation, acquisition of equipment, diversification of products, an increase in sales, and employment opportunities.

In terms of income generation, there was a notable increase for 39% BDS users. Regarding the nature of ownership we see that 34% of the co-operatives scored a higher income, compared to 56% of the businesses with individual owners. This implies that co-operatives showed less success in this area. In addition, there was less progress in income generation in cooperative food processing compared to 73% improvement in cooperative metal and woodworks. In this case it is reasonable to argue that BDS has improved the income generation of enterprises though it is to a lesser extent for cooperatives in food processing. It is also observed that both cooperative metal and woodworks and individual food processing businesses have made relatively better income generation. This may imply that BDS impact has both ownership and sub-sector difference.

Besides income generation, 34% of BDS users (both co-operatives and individual) invest on additional equipment. 73% of the metal and woodworks cooperatives have bought on equipment which implies they reinvest their surplus in growth of business; but none in cooperative food processing enterprises. In addition, it could be argued that there may no need to buy equipment in cooperative food processing as this was provided by NGOs on the one hand and on the other hand, these co-ops had limited surplus to reinvest for business expansion.

Moreover, BDS made an impact related to product diversification for 27% of users. There was smaller difference in impact across ownership of enterprises, but it can be observed that there was product diversification in 35% of cooperative food processing enterprises and 13% in cooperative metal and woodworks.

Furthermore, the operators improved their businesses sales. Despite the fact that it is to a lesser extent there were more sales for 21% of users. Besides this, extra sales were made in 33% of the individually owned enterprises, and in 19% of the cooperative ones. However, this may not imply that there is no difference across sub sectors as there are more sales in 40% of cooperative metal and woodworks and none in the cooperative food processing enterprises. By the same token though BDS users got extra business through orders from the government (market linkage) this improvement was only temporary and may not help to progress in product sales.

As far as the creation of employment is concerned, the first observation is that of all firms in sample 19% showed a positive result. However, if we single out individual businesses we see that they did far better than co-operatives. Almost 80% of the former managed to create jobs, compared to only 6% of the co-operatives.

In conclusion, I would like to argue that despite the fact that there are differences found across sub-sectors and nature of ownership, BDS on the whole had a positive impact, in particular for unemployed women. The study found that individual operators in the food sector have benefited most from BDS, followed by the cooperatives in metal and woodwork. The difference between the individual operators and the cooperatives in the food processing sector is related to the characteristics of the cooperative: problems with decision making lead to poor business results and this is aggravated by the fact that income for the cooperative members is secondary. The food products are more perishable and fetch a lower profit which makes investment more difficult. Metal and woodwork operators make a bigger profit and thus have a better potential to reinvest in their own business.

The importance of BDS from the view of non-users is also addressed in this paper. It is most likely to argue that providing BDS could be seen as one way of promoting many business enterprises. In fact individually owned business receive less support, but it is reasonable that licensing and organizing of cooperatives is one of the priority targets of government in providing working premise and other supports; as many of the beneficiaries include unemployed and informal operators.

A clear definition for BDS and its demarcation from financial services is necessary for the analysis of the support discussed in this paper. BDS has been understood as non-financial services provided to promote enterprises on the one hand but BDS has also been associated with any services that may improve the performance of enterprises. It is clear that the concept of BDS has undergone an expansion over the years. Initially it only referred to addressing internal constraints through training, and consulting. This evolved to include marketing services and information resources. More recently BDS also address external constraints which include services infrastructure and policy reform. Thus it seems we now have a situation where BDS come to mean all kinds of services that support any type of enterprise. Indeed, as this study showed BDS in Ethiopia include; support to find market access; provision of working premises; provision of equipments, and sub-contract; input supply service; technology and production development service; managerial and technical training; improvement of infrastructure related to information service; and access to finance.

In this case it could be argued that as the scope of BDS expands and varies according to the local context this could embrace the possibility of including the financial in addition to non-financial services. Indeed a diverse range of services (e.g. the provision of a working premise and equipment) were included under the umbrella of BDS in Ethiopia.

Furthermore, the paper has analysed the extent to which BDS could be made sustainable by providing it commercially covering the full cost of services by clients. The sustainability of BDS depends on the extent to which BDS users are willing and able to pay the cost of services. But recent studies indicated that BDS is only being provided on a sustainable manner to a very small number enterprise on a for-profit basis. However, there are services for which a total cost recovery could never be attempted but only cost-sharing; and many of the micro enterprises in developing countries do not have the

potential to pay for BDS services. It could be argued that BDS can not be developed by only providing the services commercially, and there remains a need of intervention from non-profit providers (cost sharing and donor funded services) in stimulating BDS. Indeed, the paper considered the role of non-profit providers in stimulating sustainable BDS market as very positive.

Finally, the conclusion of this paper is that the role of key actors in intervention of BDS services is basic and crucial because the services need substantial financial input. In addition, as central government funds are insufficient to provide BDS other stakeholders are of importance like federal and regional governments, NGOs, *parastatals*, and the private sector at large. The commitment of these institutions and the degree of cooperation among them largely determine the effectiveness of the support system and the successful implementation of the strategy.

Overall, the paper has examined and analyzed the impact of BDS in promoting and improving MSEs. It is recognized that although there is a different impact across ownership and among sub-sectors BDS on the whole had a positive impact. Beyond this it is argued that as the scope of BDS is expanding it became inseparable from with the provision of financial services. As this study has shown, a global 'one-size-fits-all' panacea for the support to MSE does not exist. To support micro and small enterprises a comprehensive and al-inclusive package of services needs to be developed that addresses the need of local users.

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# Appendices

## Annex 1

The objective of this questionnaire seeks data on the impact of BDS in micro and small enterprises specific sectors of food processing and metal and wood work sub-sectors in city of Addis Ababa. The data is used to write a thesis for a Master of Arts in Development Studies. You are kindly requested to respond for the following questions honestly and sincerely. Your response will be used only for academic purpose. Kindly I want to thank for you full support and patience in advance.

### Part one

#### Micro and Small Enterprises BDS users

##### 1. Gender:

Male	Female

##### 2. How old are you?

No.	Age of respondents	
1	18-25	
2	26-35	
3	36-45	
4	46-55	
5	55 and above	

##### 3. What is your academic qualification?

No.	Academic qualification	
1	Under 12 grade/secondary graduate	
2	12 grade complete	
3	Certificate and diploma	
4	BA and above	

##### 4. What is the number of members in your enterprises?

During establishment	Current number

##### 5. What was the main reason to reduce the number of members in your enterprises?

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6. What was the main initiation to start this kind of business?

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7. What was the main source of capital to start your business?

-----

8. For how long did this business exist?

-----

9. When was your business registered?

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10. How long do you use the BDS services?

-----

11. Are you aware of the existence of BDS? If so, how were you informed?

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-----

12. What obstacles did you face in your business operations before?

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-----

13. What have you done to overcome these obstacles?

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-----

14. What was your expectation from using BDS?

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15. What are the BDS services you already accessed/used?

No.	Type of BDS	Used	Not used
1	Training and technical assistance		
2	Market opportunity/linkage		
3	Provision of materials/equipments		
4	Technology and product development		
5	Information and consultancy		
6	Infrastructure and working premises		
7	Credit facilitation		



16. What were the contents/you learn from the BDS services?

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 -----

17. From the services explained above, which one is working best for your business and why?

-----  
 -----

18. To what extent do you use these business development services (BDS) help and made improvements in your in the business? How relevant are they to your business (i.e. are they appropriate?)

-----  
 -----

19. If there are improvements in your business listed above do you think these changes are a result of the BDS services?

-----  
 -----

20. How affect the workers in your business after using BDS on working condition and salary? Specify if any?

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 -----

21. How is the services provided by BDS providers?

Type of BDS	Free of charge	subsidized	Fully paid
Training and technical assistance			
market opportunity/linkage			
provision of materials/equipments			
Technology and product development			
Information and consultancy			
Infrastructure and working premises			
Credit facilitation			

22. Are you facing any challenge in receiving and implementing the BDS services provided?

Yes	No

23. If the answer for the question number (22) is yes, could you list the challenges in order of priority of how they affect your business?

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24. Do you belong to any business associations?

a) yes----- b) No-----

25. If the answer for question No. (24) Is yes do the/se associations help you in your business processes and to what extent?

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26. Do you think the income from this business is the main source of income for your family? (Has the quality of living improved after getting the BDS services and to what extent?).

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Part Two

Micro and Small Enterprises BDS non-users

Kind of business: \_\_\_\_\_

1. Gender:

a) Male----- b) Female-----

2. How old are you?

No.	Age of respondents	
1	18-25	
2	26-35	
3	36-45	
4	46-55	
5	55 and above	

3. What is your academic qualification?

No.	Academic qualification	
1	Under 12 grade/secondary graduate	
2	12 grade complete	
3	Certificate and diploma	
4	BA and above	

4. Do you have employees? How many?

-----

5. What was the main initiation to start this business?

-----

6. What was the main source of capital to start your business?

-----

7. For how long did this business exist?

-----

8. When was your business registered?

-----

9. Are you facing any challenge in managing and implementing the operation of your business?

a) Yes\_\_\_\_\_

b) No\_\_\_\_\_

10. If the answer for the question number (9) is yes, could you list the challenges in order of priority of how they affect your business?

-----

11. What have you done to overcome these obstacles?

-----

12. Are you aware of the existence of BDS? If so, how were you informed?

-----

-----

13. If so, why have you not opted to make use of these services? What were the constraints for not using? Money? Time? Others?

-----

-----

14. Do you know SMEs that have made use of BDS?

Have you ever heard any stories about the usefulness of BDS from users?

-----

15. To what extent does your business have made change/improvement in the time you stay? What are the changes have been made?

-----

-----

16. Do you think the income from this business is the main source of income for your family? If/if not specify?

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-----

17. Do you belong to any business associations?

a) yes----- b) No-----

18. If the answer for question No. (17) is yes do the/se associations help you in your business processes and to what extent?

-----

-----

19. What impact does your enterprise/Income from it have on your family? (Has the quality of life improved for the time you stay in business and to what extent?)

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Part Three

For BDS providers/facilitators

Kind of organization \_\_\_\_\_

1. Gender:

a) Male----- b) Female-----

2. Type of organization/private/government/NGOs...?  
-----

3. What is your academic qualification?

No.	Academic qualification	
1	Under 12 grade/secondary graduate	
2	12 grade complete	
3	Certificate and diploma	
4	BA and above	

4. Have you work as BDS provider or any related to business enterprises?  
How long?  
-----

5. What are the requirements for the customers to get BDS services in  
your institution?  
-----

6. What is the degree of outreach for food processing sector in using/ed  
the BDS services?  
-----

7. What BDS services are provided by your organization/institution?

No.	Type of BDS	
1	Short term training and technical assistance	
2	Access to market	
3	Input supply facilitation	
4	Technology and product development	
5	Information and consultancy	
6	Infrastructure and working premises	
7	Credit facilitation	

8. How do you provide the BDS services?

Type of BDS	Free of charge	subsidized	Fully paid
Short training & technical assistance			
Access to market			
Input supply facilitation			
Technology & product development			
Information and consultancy			
Infrastructure and working premises			
Credit facilitation			

9. What are the sources of finance to provide the BDS services?

Specify in priority

Sources of finance	Rank
Government	
Donors	
Enterprises (users)	
NGOs	
Others (specify)-----	

10. What portion of revenue comes from MSEs?

-----

11. Are the BDS services provided to MSEs profitable?

-----

12. Comparing the BDS services which one is more profitable?

If so specify in priority order and why?

-----

13. Do you evaluate the BDS services provided?

a) yes/how often \_\_\_\_\_

b) No/why? \_\_\_\_\_

14. What problems do you face in providing the BDS services?

-----

-----

15. What could you recommend in providing BDS services for MSEs?

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16. Are there any plan for the future in related to BDS services providing?  
Making BDS commercially available? Extend BDS to other sectors?

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## Annex 2

**Table. 1**

**Initial capital of enterprises**

Initial capital per enterprise	No. of enterprises by sector & business category					
	food processing sectors			metal & woodwork		
	Co-ops BDS users	Individual BDS users	Individual BDS non- users	Co-ops BDS users	Individual Non-BDS users	Total
1-500	0	2	0	0	1	3
501-1,000	2	3	1	0	2	8
1,001-5,000	5	4	9	3	5	26
5,001-10,000	4	0	0	5	2	11
10,001-20,000	1	0	0	0	0	1
20,001-50,000	5	0	0	7	0	12
Total	17	9	10	15	10	61

Source: Own operators interview, 2009.

**Table. 2**

**Reason to start the business**

Reason to start business	No. of enterprises by sector & business category					
	food processing enterprises			metal & woodwork		
	Co-ops BDS users	Individual BDS users	Individual BDS non- users	Co-ops BDS users	Individual Non-BDS users	Total
Location convenience	2	4	1	-	-	7(11.5%)
No other alternative	5		3	-	-	8(13%)
Trained in the activity	-	2	2	2	2	8(13%)
Self Experienced	10	2	3	13	6	34(55.7%)
Preference of activity	-	1	-	-	1	2
Parent initiation	-	-		-	1	1
needs small capital	-	-	1	-	-	1
Total	17	9	10	15	10	61

Source: Own operators interview, 2009.

**Table. 3**  
**Source of initial capital**

Source of capital	No. of enterprises by sector & business category					
	food processing sector			metal & woodwork		Total
	Co-ops BDS users	Individual BDS users	Individual BDS non- users	Co-ops BDS users	Individual Non-BDS users	
Credit	5	6	3	4	3	21(34.4%)
Fund	6(35.3%)	1	0	0	0	7
Own	6(35.3%)	2	7	11	7	33(54%)
Total	17	9	10	15	10	61

Source: Own operators interview, 2009.