

The Roles and Challenges of Micro and Small Enterprises in Urban Employment Creation in Ethiopia: Lesson from Debrebirhan Town, Amhara Regional State

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ABSTRACT

This study had the objective of assessing the roles and challenges of micro and small enterprises (MSEs) in urban employment creation in Debre Berhan Town, Amhara Regional State of Ethiopia. Mixed research approach was adopted and both primary and secondary data was collected. The study had a total of 352 respondents who were selected using systematic sampling technique. Tools of data collection were questionnaire, interviews, and focus group discussions (FGDs). The findings of the study revealed that MSEs have indeed contributed significantly in creating urban employment, and in generating income of employees. However, the capacity of creating employment and generating income varies among MSE. While the construction and manufacturing sectors had better employment creation and income generation capacity, trade sector was the least in creating such opportunities. The challenges of MSEs in employment creation include lack of adequate finances, inputs, poor organizational structure and management, poor government support and regulations, and technological challenges.

KEYWORDS

Challenges, Income Generation, Micro and Small Enterprises, Urban Employment

1. INTRODUCTION

Governments across the world are framing different policies and strategies including establishing micro and small enterprises (MSE) to create job opportunities and pull out their respective countries out of the trap of unemployment and absolute poverty (Ermias, 2011; Alemtsehay, 2016). The emergence and establishments of MSE sector has been seen as a very essential and more efficient in the nation's economy as they create jobs and accommodate maximum number of unemployed citizens, increase the income of households, absorb large labor force, easily adopted and flexible for low income groups (Demis, 2011; Belay et al., 2015; Hassan and Kashifboth formal and informal enterprises, accou, 2016). Besides, the significance of MSEs is attributable to its high capacity of employment creation, easy to enter and relatively to get finance from family and micro finance institutions, low starting capital and technology requirement, use of traditional (inherited) skill and use of local resources (Zemenu & Mohammed, 2014, pp. 149-150; MUDC, 2013a, p. 12; Lahiri, 2016).

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The governments of many least developing countries (LDCs) are allocating ample resources for promoting the MSE sector by understanding the fact that those sectors are an engine of employment, tools of alleviating poverty and thereby improving the livelihood condition of the society (Sarpong, 2012, p. 15). Apart from the government focus and efforts, various national and international non-governmental organizations (NGOs) have also spent considerable attention and resources, directly or indirectly, on improving the MSE ability to grow tremendously at the peak of the economic crisis of the 1980s even exhibited unique strength in the face of recession (UMFPED, 2008 cited in Mulugeta, 2011, p. 12).

As of the ILO report (2015), there are around 420 to 510 million MSEs worldwide and of which 80 to 95 percent is in low- and middle-income countries. Global estimates of the contribution made by MSEs to gross domestic product (GDP) show that this sector, including both formal and informal enterprises, account for 60–70 percent of GDP. This sector also accounts for 60 to 70 percent of jobs in most organization for economic co-operation and development (OECD) countries, with a particularly large share in Italy and Japan, and a relatively smaller share in the United States. The report developed by Beck and Demirguc-Kunt (2006) cited in Siyum (2015), indicated that MSEs are contributing to more than 50 percent to GDP and 60 percent to employment in developed countries and 17 percent to GDP and less than 30 percent to employment in developing countries.

Like many other governments, the government of Ethiopia devised its MSE strategy that aims at reducing the problem of unemployment in the country especially, in the urban centers of the country where the rate of unemployment is very much pronounced than the rural areas (MUDC, 2013a, p. 12). The government has adopted National Micro and Small Enterprise Development Strategy in 1997 (MUDC, 2013b, p. 26). Then, a year later, the Federal Micro and Small Enterprise Development Agency (FeMSEDA) was established in 1998 by Council of Ministers (Regulation No. 33/1998).

The primary objective of the FeMSEDA was to encourage, coordinate and assist institutions which provide support for the development and expansions of MSEs in the country at large so that MSEs could facilitate economic growth, create long-term jobs, strengthen cooperation between MSEs, provide the basis for medium and large scale enterprises and promote export (MUDC, 2013b, pp. 23-27).

In 2000, the Regional Governments also provided for the establishment of Regional Micro and Small Enterprise Development Agencies (ReMSEDA) to provide extension services to MSEs at the regional, zonal and *wereda* level (Stevenson and St-Onge, 2005, p. 15). It has been indicated that, a little more than half a million jobs were created by different sectors of MSEs to the population of Amhara regional state of Ethiopia (MUDC, 2013a, p. 42). Likewise, currently, there are around 1513 established MSEs in Debre Berhan town (DBT) which created employment opportunity for many unemployed people (DBTATVEDO, 2016).

Besides to their employment contribution, MSEs are hampering by many constraints. In spite of the encouraging outcomes achieved in supporting the MSE sector in Ethiopia over the last two years, the higher degree of challenges facing MSEs is yet unresolved challenges (MoFED, 2010) cited in Belete (2016, pp. 33-35). On the basis of this fact, the undertaking study attempted to assess the role of MSEs in creating employment opportunity and to explore the challenges facing this sector while they create employment in DebreBirhan town (DBT).

Hence, this study had the objectives of:

- Assessing the roles of MSEs in employment creation and their sustainability
- Exploring the performance of MSEs in terms of employment creation
- Assessing the role of MSEs in generating income to the owners and employees in the study area
- Assessing the challenges of MSEs in employment creation

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