

Viewpoints on Government Supports to Micro and Small Enterprises (MSEs)

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Abstract

Micro and Small Enterprises (MSEs) have dual roles in a nation's economy i.e., poverty alleviation and growth. For this reason, developing countries have implemented a variety of support packages that will enable them to manage growth stagnation and harness its potential as an engine for economic growth. The purpose of this study is to identify the criteria designed to deliver the support, examine whether there exist well-established system to managed incentives, especially for working premises and product display Centre, evaluate how effective is the support system in solving marketing and related problems of the enterprises and finally based on findings, point out the implications for the problems. Data source for the study area statistical abstract which was compiled at the ministry of urban development, housing and construction, central statistics agency as well as sectorial reports Ababa city administration. Moreover, policy and strategy document had been reviewed to grasp relevant practical information on the issues. The research type which applied in this study is evaluation research which focuses to answer how effective a particular program, policy in attaining its intended objectives. The findings confirm that resource allocation for the sector overall supports indicates significant improvements. Nevertheless, there exhibited significant problems in resource administration which required an effective monitoring and evaluation system.

Keywords: Incentives; Working Premises; MSEs; Government Support, Market Linkage

1. Introduction

1.2 Background

The role of micro and small enterprises (MSEs) in creating employment opportunities and generating income for urban population is getting a substantial attention to a large extent by policymakers and development practitioners across the globe. MSEs play a significant role in Asian economies in terms of their contributions to GDP and employment, and as an engine to promote productivity and economic growth. It became a policy priority area so as to enable the poor to participate in the labor market and to engage in higher value-added business activities (Asian Productivity Organization, 2015).

MSEs are the broader employment creation sector that seeks government attention. In low-income countries, the informal sector is the dominant income source of urban population. Empirical studies on the performance of MSEs indicated that it has contributed to over 60% of GDP and 70% of total employment in low-income countries, and they contribute over 95% of total employment and about 70% of GDP in middle-income countries (Asian Productivity Organization, 2015), (LIEDHOLM, 1998). Participation in the economy by micro, small and medium enterprises revealed that 51% of employment was created within the sector (Khrystyna Kushnir, 2010).

Different policies are formulated both in developing and developed countries to promote the development of micro and small enterprises (Gemechu Abdissa, 2016). In Ethiopia, MSEs had won government's insight and a full-fledged government support program was designed and implemented to promoted as means to ensure rapid and equitable development within urban areas.

The government has revised its MSEs Development policy and strategy with the intention of a holistic supportive framework for t6he sector. Through MSEs Development strategy and program, the government intended to create job opportunities for the unemployed and increase their income, to identify the problems of the existing and newly created micro and small enterprise and provide packages of development supports. The support includes leasing working premise and product display center with the list price, financing capital goods, initial capital financing, business development service and the likes (MUDHCo, 2011).

¹ Within the growth and transformation plan (GTP-I) Ethiopia set the goals to achieve towards industrialization. In the journey to industrialization and transformation to middle-income countries, MSEs hold the significant role. It serves as a reserved ground for job creation, entrepreneurship and industrial development. Thus, in the planning period MSEs had created 6,671,012 jobs, generate a sale volume of 25.62 billion through Domestic Market linkage, and 65,375,026 USD through Foreign Market (MUDHCo, 2015). However, the result doesn't imply the program has been achieved its intended objectives. MSEs were not transformed to medium and large-scale enterprises due to rent-seeking, low level of entrepreneurial competency, low technology and skill capability, as well as finance and market-related problems.

¹GTP-I Stands For Growth And Transformation Plan -I Which Covers From (2010/11-2014/15)

In the GTP-II also MSEs are at the forefront in winning government supports. Development of micro and small industries have been focus areas of government efforts to create job opportunities for 6 million residents, and at least 2% of MSEs seek to graduate the next enterprises level. To achieve these objectives various instruments had been applied. Amongst others exemption of MSEs from income tax, access working capital in the form of revolving fund as well as from microfinance institution and access working premises within the city administration.

1.3 Statement of the Problem

The urban employment-unemployment survey in 2016 indicated that out of the total economically active labor forces, 17% were unemployed in the country. The rate of unemployment is significant in the capitals i.e. Addis Ababa where it is about 21%. In the rate of unemployment there observed a significant difference between female and male as the rate of unemployment for the female is 30% and that of the male is 12.4%. Besides a 25% of urban dwellers are engaged in the informal sector in which the proportion of MSEs are paramount and it doesn't require significant capital and technical skills for the operators (CSA, 2016).

However, the sector is constrained by miscellaneous problems which required policy, regulatory and technical interventions. A survey on MSEs in selected major Ethiopian urban centers by CSA in 2013 identified various challenges encountered by the MSEs, although their extent varied across cities. Shortage of finance contributed for 42%, lack of working premises 28.3%, lack of access to market contributed to 18% amongst the regional cities. On the contrary, lack of access to land was the most crucial bottleneck (26.4%) followed by problems of finance (25.6%) and access to the market (25.1%) for constraining performances of MSEs in Addis Ababa(CSA,2013).

The variation in the average size of enterprises across urban centers and the observed differences in the average size of enterprises at city level suggest the need to provide tailor-made support to the enterprises. To make MSEs as a tool for poverty reduction and source for wealth creation, and curb their challenges, it is important to have a comprehensive support framework that encourages its development. In the subsequent section, we would have seen support framework, objectives of the development support given to micro and small enterprises, criteria to secured development support, and follow-up mechanism to regulated development support to MSEs Operators.

Extended supports have been provided for the sector, yet, a significant number of MSEs are either not grow or quitted their established business in which they are organized. The reasons for enterprises not transformed to next stage quite differ from one enterprise to others. This includes management problem among the enterprise's owners, rigid requirement to fulfill saving to loan ratio, week coordination among government agencies to coordinate relevant support for the enterprises. Incentives cherished to MSEs lacks a well-established system to coordinate and allocate resources for targeted beneficiaries.

1.4 Objectives

The paper was intended to identify the criteria designed to deliver the support, examine whether there exist well-established system to managed incentives, especially for working premises and product display centre, evaluate how effective is the support system in solving marketing and related problems of the enterprises and finally based on findings, point out the implications for the problems.

1.5 Data Source and Research Method

The data source for the study is statistical abstract which was compiled at the ministry of urban development, housing and construction, central statistics agency as well as sectorial reports Ababa city administration. Moreover, policy and strategy document had been reviewed to grasp relevant practical information on the issues. The research type which applied in this study is Evaluation Research which focuses to answer how effective a particular program, policy in attaining its intended objectives. It helps to provide useful information that will determine the sustainability and continuity of the program, assessing the relevance of the supporting program. Spatially, the scope the study is confined to Addis Ababa city administration.

2. Review of Literature

2.1 Definition of MSEs

There is no universally accepted definition of micro and small enterprises. The definition for MSEs varies among developed and developing countries as well as across sectors and industries. The one which labeled as small enterprises in developing countries might be micro enterprises in developed countries as result of the amount of capital invested and the number of people employed and technologies applied. MSEs are defined in several countries for their different purposes and intention. Commonly, numbers of employees, amount asset employed,

¹ GTP-II Stands For Growth And Transformation Plan Which Covers From (2015/16-2019/20)

sale turnover or the combination of these variables are considered as a determinant to the classified enterprise to micro, small and medium enterprises (Reeg, 2015), (Tadesse, 2010).

The definition used for this study is a definition spelled out by the FDRE MSEs development strategy document. Accordingly, in Ethiopia, both numbers of employees and capital are applied to define micro and small enterprises. Microenterprises are defined as having a total capital, excluding building, not exceeding ETB 50,000.00 in the case of service sector or not exceeding ETB100,000.00 in the case of industrial sector and engage 5 workers including the owner, his family members, and other employees; and small enterprises as having a total capital, excluding building, from ETB 50,001.00 to ETB500,000.00 in case of service or ETB 100,001.00 to 1,500,000.00 in the case of industrial sector and engage 6-30 workers including the owner, his family members, and other employees (MUDHCo, 2011).

Table 1 Definition of MSEs

Level of Enterprise	Sector	Man Power	Total Asset
Micro Enterprise	Industry	<=5	< Birr100,000.00 (\$6000 or E4,500.00)
	Service	<=5	< Birr 50,000.00(\$3000 or E2,200.00)
Small Enterprise	Industry	6-30	< Birr 1.5 million (\$90,000.00 or E70,000.00)
	Service	6-30	< Birr 500,000.00(\$30,000 .00 or E 23,000.00)

Source: MSEs Development Strategy (2011).

2.2 The Rationale to Support MSEs

Developing countries need comprehensive policy interventions to end MSEs growth stagnation and harness the private sector's potential as an engine for economic growth. MSEs have dual roles in a nation's economy i.e., poverty alleviation and growth. Those MSEs that are new and do not expand in terms of employment are appropriate to poverty alleviation and hence support programs aimed in this group might focus to raise the likelihood that these enterprises can survive and can earn somewhat higher and more reliable levels of income. For this group, support could concentrate on working capital to sustain the enterprise and to enable it to improve its performance. On the contrary, enterprises that are seeking to expand and to add to their labor force can often make a major contribution in the area of growth. The constraints enterprise faced are quite related to the financial and non-financial problem (marketing and related problems); and as a way out, new and innovative approaches should be devised (LIEDHOLM, 1998).

The rationale to MSEs falls into employment, equality, decentralization and latent resource argument. For them, MSEs have the unmet potential for large-scale employment opportunities. In India employment-generating a capacity of MSEs Sector is eight times higher than that of the large-scale sector. The second argument put forward to support the MSEs is that it ensures a more equitable distribution of national income and wealth as result of broad-based and widespread nature of ownership and their labor-intensive nature. The third argument put forward in favor of MSEs are related to decentralization. Large industries are concentrated everywhere in urban areas. But, MSEs can be located in rural and semi-urban areas to use local resources and to cater to the local demands. The last argument proposed to support MSEs are latent resources argument which implies that MSEs are capable of swabbing up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability (SAM, 2014).

Small firm expansion boosts employment more than large firm growth, because small firms are labor intensive, coinciding with the factor market structure of most developing countries. Many analysts argue that within industries, for a given scale of production, small firms are more labor-intensive than large firms. However there are some pieces of evidence suggests that enterprise scale is an unreliable guide to labor intensity because many small firms are more capital intensive than large firms in the same industry (Tadesse, 2010).

Ethiopia's government had been recognized the private sector as an engine for development and committed to supporting it. To achieve these objectives various instruments had been applied. Amongst others exemption of MSEs from income tax, access working capital in the form of revolving fund as well as from microfinance institution and access working premises within the city administration.

3. Results and Discussion

3.1 Policy, Institutional and Regulatory Environment

Agriculture development led industrial (ADLI) strategy is a road map to overall economic development of the country. for the last 25 years different poverty reduction programs have been implemented such as Sustainable Development and Poverty Reduction Program (SDPRP), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the first and second phase of Growth and Transformation Plan (GTP) have been implemented and poverty has been successfully declined to a meaningful level. Over the last 25 years GDP growing by 6.432% and for the last 10 years GDP grows more than 10% on average annually. This helped to reduce extreme poverty i.e. individuals living on less than US\$1.25 a day (International extreme poverty headcount) from 55.6% in 2000 to 30.7% in 2011. Urban poverty has fallen from 36.9% to 25.7% in the

specified periods. Due to various pro-poor development programs and projects such as MSEs development programs substantial numbers of the residents of Addis Ababa have to go employment opportunity and hence unemployment rate of the city were reduced from 31.4% 2008 to 24.2 % in 2013 (World Bank Group, 2015).

MSEs Support agencies have been in existence in many developing countries, though, their impact has been the inadequate depending on the stage of growth. They have been criticized for their bureaucratic nature, lack of coherence and coordination, insufficient geographical coverage, and their overemphasis on business start-ups with too little focus on the other stages of an enterprise's trajectory of growth (UNCTAD, 2002).

In Ethiopia, the National Urban Development Policy has been formulated with a great emphasis on the expansion and development of MSEs as one of the key interventions to maintain rapid and equitable development within urban areas. In 2011, the government has approved a revised MSEs development policy and strategy aimed at creating a competitive micro and small-scale enterprise sector that support the sustainable and broader basis to the industrial development of the country. The policy and strategy give priority and emphasis to those MSEs engaged in the manufacturing sector. It also elaborates a comprehensive support framework that enables the development of MSEs.

Addis Ababa Micro and Small-Scale Enterprise Development Agency is the primary institution which accountable to manage overall development and support programs in the city administration. Previously the agency was under Trade and Industry Bureau. Since 2007 the agency was restructured itself into Addis Ababa city administration small and medium scale enterprises development bureau. Bureau had developed and allocated working premises and product display for micro and small enterprises. These support frameworks differ in terms of the characteristics of the sector and the different types of enterprises. More focus is linked to enterprises that have a significant impact on transforming the sector such as metal and woodwork, textile and garment, food processing and construction.

In 2016, MSEs Development Bureau restructured itself in to Urban Job Creation and Food Security Agency aimed at improving the livelihood of citizens who are unable to work or able to work but unemployed due to different conditions and live under poverty line; support and coordinate institutions in the that engaged in assisting the micro MSEs to make them competitive, sustainable and strong foundation for industrial development; promote and develop MSEs engaged in urban agriculture, construction, trade and services sectors with a view to make these sectors competitive, sustainable and thereby create employment opportunities in urban centers, improve their income and create fair resource distribution; and ensuring balanced nutritional security of citizens (Regulation No.374/2016, 2016)

Guidelines have been designed to regulate and direct the management and administration of MSEs Development supports. Yet, implementation is not as per regulations stated in the regulatory documents. There revealed problems from selecting target beneficiaries to delivering the working premises and monitoring overall activities.

3.2 Priority Sectors

Since resources are limited supports towards the MSEs should be focused depending on its importance to the overall economy. Accordingly, MSEs are categorized into growth-oriented and other sectors. Those that are considered as growth-oriented are in the manufacturing sector (metal and engineering, textile and garment, leather production, woodwork, agro-processing and handicraft works); In the construction sector(contractors, building material production, cobblestone production, traditional ways mineral extraction); in urban agriculture sector(cattle fattening, honey production, forestry, poultry farms, animal feed processing); in the trade sector(domestic products wholesale and retail and in the service sector(solid waste collection and recycling and maintenance).

Growth-oriented enterprises have the privileged to get maximum support from government i.e. access working premises and product display center with the least price, technical and business management training, counseling service, loan provision, market linkage particularly with government development program, exhibitions, trade fair organizations and access to technology. On the other hand, sectors which are not considered as growth-oriented are served minimum supports. Non-growth oriented sectors can get minimum supports such as loan provision, exhibitions and promotion in the trade fair, technical and business management training and counseling service.

Supports proposed to promote the development of MSEs vary depending on the growth stage of the enterprises (start-up stage, growth stage and maturity stage). Generally, supports proposed for MSEs are classified into five major categories. These include human development and technological support, Marketing development and marketing, Finance and credit service, Working premise and product display and one stops shopping service.

Accordingly, at the start-up stage, support focused to ensure that enterprises have able to access sufficient finance to start their business by voluntary saving and cooperatives, ensure their legal status, capacitated them on business management, entrepreneurial and basic accounting skills. In the growth, stage support is concentrated

on financial support to support business expansion, Competence Assurance, technological capacity building, human resource development, leadership, Marketing, Tax and non-tax benefit (outsourcing, venture capital) and other technical support. At the maturity stage, support is focused on product design capacity, business expansion, and skill in foreign trade.

3.3 Program Beneficiaries in the MSEs Development

Target beneficiaries in the MSEs Support programs are unemployed youth and women, TVET graduates, school dropouts, existing MSEs such as weavers, street vendors, handicrafts workers and people who lived in the street.

3.4 Ethiopia's Direct Policy Support to MSE Development

The external and internal working environment has an impact on promoting/detering growth and development of MSEs. The purpose of this study, however, is to deal with issues outside the enterprise that determine the circumstance of the sector. These variables have a strategic impact on the enterprises' development. Primarily the focus is on access to markets linkage, working premises, credit service, and access to training and technological support.

3.4.1 Access to finance

Lack of sufficient initial capital is a major problem faced at the start of operation for the small-scale industries. A report on small-scale manufacturing industries survey revealed that lack of sufficient initial capital (42.7%) is the major problems which faced small scaled industries followed by obstacles from government rules and regulations (6.7%) and 6.4% are constrained by the lack of smooth supply of raw material (CSA, 2015). On the other hand, major reasons for not working at full capacity are related with 39.40% absence of market demand for goods and service supply to the market, 16.5% related with the shortage of supply of raw materials, and 10.10% are related with lack of working premises.

To relieve the problem for finance, the city administration has spent financial support for the sectors. Amount of loan allocated for the promotion of MSEs is rose-up from 157(000000) in 2008 to 2105.3(000000) in the budget year 2015 as we can depict from below (Table 2).

3.4.2 Access to Working Premise and product display

To ease the problems of shortage of working premises and marketing center/product display center, the city administration has been committed a significant amount of resource to the sector. The city administration follows a cluster approached to address the problem of the shortage of space for business operations. Guidelines were designed to facilitate for MSEs engaged in production and service activities to production and marketing clusters (buildings and sheds) that are appropriately located, adequately furnished with the requisite infrastructure, and be rented at a reasonable price as well as to ensure that the clusters are managed in a rationalized, transparent and accountable manner.

MSEs that are organized under the priority sectors have the opportunity to acquire sufficient working premises with reasonable rents. Accordingly, the city administration has been allocated 418.26 hectares of land and 154 G+4 buildings for production and product displays centers for MSEs in the last 9 years. In the stated time 2988 shades have been built and transferred to MSEs Operators with affordable rents.

Yet, production and display centers are not fully operationalized. A significant amount of production centers and product display are vacant, transferred to third parties or underutilized due to lack of the basic utilities to operationalize fully. These shopping complexes are not integrated with the market areas development activities of the Modern Trade Systematization Core Process, which shows a disjoint implementation between the different bodies even within the same sector office. Besides some of the shops are serving the non-priority activities i.e. used for play station, internet service, pool houses and the likes. These are the result of the lack of coordination among stakeholders and systematic follow up and monitoring mechanisms.

3.4.3 Market Linkage

One of the prominent challenges which impede the expansion and growth of enterprises is the lack of the lack of an established market for their products and services brought to the market. A little or no significant number of micro and small enterprises is transformed to medium and large-scale enterprises. Their growth remains at subsistent level (MUDHCo, 2014). For this, a range of factors is contributed a lot. One is the lack of sustainable demand for their products and service. To promote the growth of MSEs the city administration has been channeled market linkage for their products and service through government procurement. Value of market linkage created to MSEs by the City administration has been expanded from birr 155 million in 2009 to birr 4206.62 million in 2016 through exhibition and bazaar as we can depict below (Table 2).

Due to this much of MSEs developed many dependencies on government offers for the products and service they delivered to the market. They failed to reach the wider consumer with a competitive price and quality products. The problem is not last within the existing enterprises; it has a transitive effect for the newcomers to the business. Unless the existing enterprises are graduated and left the production and working premises for the new comers, city administration might lack the necessary resources intended to support new enterprises.

3.4.4 Entrepreneurship

In order to enhance the quality and productivity of MSEs and enabled them to produce quality products, it is imperative to provide technical, management and marketing skills training. The training should be demand driven and enhance the productivity of services and goods supplied to the market, enabled them to produce new products and services which have a promising market, and provide continuous and relevant technical and operational skill training which have an implication for their success as we can depict from Table 2 , 464005 micro and small enterprises operators have been trained on various technical and vocational institutions on the job as well off the job training.

3.4.5 Follow up mechanism

Once development programs and projects commissioned, it required strong and systemic follow-up mechanism. Addis Ababa city administration MSEs Bureau, Addis Ababa city administration industry bureau, city administration planning commission as well as the city council has the responsibility to follow and monitor the performance in accordance with overall targeted objectives. City and sub-city administration have the responsibility to coordination of the policy implementation, collect, compile and analyses information on the implementation of the various support programs. This information will then be processed so as to make informed decisions towards the sector in general and to support program in particular.

4. Conclusion and Recommendation

The transformation of the sector which currently is in the subsistence level needs government multitude supports. The government in its urban development policy, MSEs Development supports strategy laid down the role of the sector in nation's economic performance especially in job creation, poverty reduction and an incubation center for the entrepreneur in the private sector. The sector is believed by government at different layers of the structure i.e. federal regional to city levels to be foundation to economic transformation which entails the reallocation of workers from the relatively low productive agriculture and informal sectors to more productive and formal economic activities in manufacturing, industry, and related services is essential for growth and jobs creation.

Resource allocation for the sector overall supports indicates significant improvements. Nevertheless, there exhibited significant problems in resource administration which expressed by vacant in the production and product display center, transfer of the working premises to third parties illegally, changing service for working premises to the non-priority and non-productive sectors are amongst the identified problems to list some. This situation demonstrates might hamper the development of the sector and the resource allocated to the sector are exposed to malpractice which needs an immediate intervention. City administration should be established a central database system which helps to administrate resource efficiently, established efficient and effective monitoring mechanism and developed participation mechanism and capacity building for the local administration which works on enterprises support.

Table 2 Supports provided for MSEs

Budget year	Number of operators trained	The volume of credit supplied (000,000) in ETB.	Number of shades prepared	The volume of market linkage(ETB)	Land supplied in a hectare	Number of buildings constructed
2008	13373	157.00	346	.	10.01	.
2009	33547	229.90	376	155.00	10.45	108.00
2010	2350	271.00	386	172.00	11.35	
2011	47844	396.83	337	470.00	9.80	
2012	65820	429.20	319	839.03	9.07	
2013	130901	808.26	748	3170.05	43.00	
2014	80540	1567.40	127	3660.78	64.58	
2015	89630	2105.30	59	4214.40	210.00	
2016		1367.19	290	4206.62	50.00	46.00
Total	464005	7332.08	2988	16887.88	418.26	154

Source: Compiled from various statistical abstracts, 2018

Table 3 Numbers of Establishments by Industrial Group and Major Reason for Not Working at Full Capacity

Industrial Group	Major Reason For not working at full capacity								Total number of establishments
	Shortage of supply of raw materials	Shortage of supply of spare parts	Absence of market demand	Absence of credit facilities	Shortage of foreign exchange	Lack of adequate skill	Lack of working premises	Others	
Manufacture of food products except grain mill services									
Manufacture of grain mill services	5,981.0	211	7728	461	10	134	1555	2966	19049
Manufacture of textiles	2,573.0	2957	11046	307	13	486	666	13363	31,411.0
Manufacture of wearing apparel; dressing and dyeing of furniture	527.0	38	1120	132		38	339	471	2,665.0
Manufacture of luggage handbags and footwear	2,117.0	263	7180	800	28	471	2447	2531	15,837.0
Manufacture of wood and of products of wood and cork except furniture; manufacture of articles of strew and plaiting materials	282.0	16	282	24		16	157	141	918.0
Publishing, printing and reproduction of recorded media	167.0		147	59		20	137	118	648.0
Manufacture of chemicals and chemical products	10.0		29				19	10	68.0
Manufacture of other non-metallic mineral products			38						38.0
Manufacture of fabricated metal products except machinery and equipment	221.0	29	672	106		10	240	259	1,537.0
Manufacture of machinery and equipment			19			10	10	19	58.0
Manufacture of parts and accessories for motor vehicles and their engines		10	10			10		8	38.0
Manufacture of furniture; manufacturing	2947	192	5549	845	58	173	2515	2794	15,073.0
Total	16,306	3,886	38,874	3,416	137	1,432	9,937	24,553	98,541.0
Percentages	16.50	3.90	39.40	3.50	0.10	1.50	10.10	24.90	99.9

Source: (CSA, 2015)

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