



Jobs, Gender and Small Enterprises in Africa

Preliminary Report

Women Entrepreneurs in ETHIOPIA

by
Zewde & Associates

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**ILO Office, Addis Ababa
in association with**



boosting employment through
small **e**nterprise **d**evelopment

Foreword

This report has been prepared as part of the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) regional project addressing “Jobs, Gender and Small Enterprises in Africa”. The project contributes to the aims of the ILO’s Jobs For Africa (JFA) programme, and is funded under the ILO-Ireland Aid Partnership Programme, for which the ILO is grateful. At this first stage, the project covers Ethiopia, Tanzania and Zambia.

The ILO’s InFocus programmes emphasize developing the knowledge base so as to move quickly and effectively to strategic interventions in improving advocacy and support services. Consequently, during the first phase attention is given to identifying the characteristics, features, aspirations, motivations, needs and wants of women entrepreneurs in Ethiopia, with the intention of formulating strategic support interventions to improve advocacy and their access to services.

The background research covered several aspects relating to Jobs, Gender and Small Enterprises in Ethiopia, and a literature review on enterprise development, gender issues and women’s entrepreneurship. This report is being distributed to contribute to the existing knowledge base on the afore-mentioned aspects relating to enterprise development in Ethiopia. This research also contributes to the ILO’s work on the Informal Economy, following the conclusions agreed at the International Labour Conference in June 2002 (see annex for details).

As well as contributing to the ILO’s Jobs For Africa programme in Ethiopia, the emphasis on women’s entrepreneurship development is also highly relevant to the Poverty Reduction Strategy Paper process in Ethiopia, and to the achievement Goal 3 of the Millennium Development Goals – to promote gender equality and empower women.

As a result of this review of the existing literature, the Ethiopian national research team from Zewde and Associates, Addis Ababa, has identified and zeroed in on several critical issues that merit further investigation during the subsequent field research stage. The key emerging issues include: inadequate empirical research on women in MSEs; limited responses by financial institutions to MSEs; lack of appropriate technology and related facilities; lack of strong organizations for women entrepreneurs; lack of coordination among business development service (BDS) providers; lack of access to land and premises; and lack of market access and market information. The report also highlights three critical areas for further investigation: Why are the majority of Ethiopian women entrepreneurs engaged in informal and vulnerable enterprises? What lessons can we draw from the experiences of women who have grown their own businesses? What additional measures should be taken to promote/support Ethiopian women entrepreneurs engaged in small-scale enterprises?

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Acronyms

ADA	Amhara Development Agency
AEMFI	Association of Ethiopian Micro-finance Institutions
BDS	Business Development Service
BOE	Bureaus of Education
BOLSA	Bureaus of Labour and Social Affairs
CEFE	Competency based Economies through Formation of Enterprises
CRDA	Christian Relief and Development Agency
CSA	Central Statistical Authority
CSTC	Community Schools Training Centre
ECA	Economic Commission for Africa
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	German Technical Co-operation
IFP/SEED	InFocus Programme on Boosting Employment through SED
IGA	Income generating activity
ILO	International Labour Organization
IYB	Improve Your Business
LDC	Less Developed Countries
MEDAC	Ministry of Economic Development and Co-operation
MFI	Micro-finance Institutions
MoFED	Ministry of Finance and Economic Development
MOLSA	Ministry of Labour and Social Affairs
MSE	Micro and Small Enterprise
NGOs	Non-Government Organizations
ODA	Oromo Development Agency
PRSP	Poverty Reduction Strategy Paper
ReMSEDA	Regional Micro and Small Enterprises Development Agencies
SED	Small Enterprise Development
SEEP	Small Enterprise Education and Promotion
SIDA	Swedish International Development Agency
SYB	Start Your Business
TDA	Tigray Development Agency
TITBs	Trade Industry and Tourism Bureaus
TOT	Training of Trainers
USAID	United States Agency for International Development
WACD	Women's Affairs Co-ordinating Department
WADs	Women Affairs Departments
WDF	Women Development Fund
WED	Women's Enterprise Development
WEDGE	Women's Entrepreneurship Development and Gender Equality
WEPC	Women's Enterprise Promotion Centre

ABSTRACT

This report has been prepared as part of the IFP/SEED's regional project addressing "Jobs, Gender and Small Enterprises in Africa". The project contributes to the aims of the ILO's Jobs For Africa (JFA) programme, and is funded under the ILO-Ireland Aid Partnership Programme, for which the ILO is grateful. At this first stage, the project covers Ethiopia, Tanzania and Zambia. During the first phase attention is given to identifying the characteristics, features, aspirations, motivations, needs and wants of women entrepreneurs in Ethiopia, with the intention of formulating strategic support interventions to improve advocacy and their access to services.

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As a result of this review of the existing literature, the Ethiopian national research team (Zewde and Associates, Addis Ababa), has identified and zeroed in on several critical issues that merit further investigation during the subsequent field research stage. The key emerging issues include: inadequate empirical research on women in MSEs; limited responses by financial institutions to MSEs; lack of appropriate technology and related facilities; lack of strong organizations for women entrepreneurs; lack of coordination among business development service (BDS) providers; lack of access to land and premises; and lack of market access and market information. The report also highlights three critical areas for further investigation which will be followed up in the fieldwork stage. These are: Why are the majority of Ethiopian women entrepreneurs engaged in informal and vulnerable enterprises? What lessons can we draw from the experiences of women who have grown their own businesses? What additional measures should be taken to promote/support Ethiopian women entrepreneurs engaged in small-scale enterprises?

Executive Summary

1. Introduction

The purpose of this secondary research report is to consolidate and distil lessons drawn from earlier literature on factors affecting women entrepreneurs in Ethiopia. The report is based on desk research, covering a wide range of the existing literature on the micro and small enterprise (MSE) sector and on gender in general, and on women entrepreneurs specifically.

Studies conducted in Ethiopia and elsewhere confirm that the MSE sector has the potential to contribute to economic growth, employment generation and poverty alleviation. Microenterprises are considered particularly important in contributing to the socio-economic empowerment of women. However, the MSE sector in Ethiopia faces a number of constraints that hinder its rapid growth and development and therefore reduce the weight of its potential contribution to the national economy, and inhibit the economic empowerment of women.

This report attempts to review: the importance of the sector; the factors that influence the growth and development of MSEs; the experience of women entrepreneurs in Ethiopian MSEs; issues for women when starting and expanding their enterprises, as well as identifying certain other key issues which require further research.

2. Presentation of Report

Section I of the report discusses, amongst other things, the conceptual framework for the report and provides a brief analysis of the situation of women entrepreneurs in Ethiopian MSEs. This analysis draws on the findings of a 1997 report by the Central Statistical Authority (CSA) which found that Ethiopian women operated about 65 per cent of microenterprises and 26 per cent of small-scale manufacturing enterprises in Ethiopia. The low representation of women entrepreneurs in the small-scale manufacturing sector has been attributed to factors such as:

- low levels of education and lack of opportunities for training;
- heavy household chores that leave women less time to devote to their businesses;
- lack of contact with and exposure to the business world;
- meagre financial and human capital at the disposal of the women concerned; and
- issues relating to ownership rights which deprive women of property ownership in general and, consequently, of the ability to offer the type of collateral normally required for access to bank loans.

Section II considers the appropriate enabling environment for a successful enterprise in Ethiopia. The contribution of environmental factors is examined at three levels: micro-level (determining factors of the individual entrepreneur of enterprise); meso-level (the effects of various institutions and networks that provide support), and macro-level (the impact of actions taken at national level).

In assessing the impact of external environmental determinants upon an enterprise at the micro-level, the importance of the individual characteristics of the entrepreneur and of the type of enterprise being developed are discussed (see **section III**).

At the meso-level, the report suggests that the appropriate enabling environment for the MSE sector would require both financial and non-financial support services. Different sources of finance for the sector at present include: the traditional or informal sources; quasi-formal sources; banks, and micro-finance institutions (MFIs). As it stands now,

institutions which provide financial and non-financial integrated support services are not present in Ethiopia. The existing micro-finance institutions are minimalist in their approach; that is, they avail only credit and saving services, and these are mostly provided at the grassroots level. The non-financial business development support services (BDS) are therefore, provided mainly by NGOs, government, private agencies and religious organizations. The accessibility, outreach, sustainability and relevance of these financial and non-financial support services are discussed at length in this report.

At the macro-level we suggest that in contributing to the creation of a suitably enabling business environment, especially for women entrepreneurs, some reform of the policy, regulatory, socio-economic and cultural environments in Ethiopia will be required.

After a change of government in Ethiopia in 1991, several policies were formulated and regulations promulgated in relation to a range of diverse social, economical and political issues. In an effort to create a more conducive environment for the promotion of women's entrepreneurship in Ethiopia, measures, such as, the establishment of the Women's Affairs Office at the Prime Minister's Office and the formulation of a Women's Policy, have been taken. There are however certain gender-related problems with existing laws at the implementation level, although they purport to be gender neutral.

Various positive measures are being taken by the government to stimulate economic growth and reduce poverty. However, as yet no specific practical measures have been introduced to ensure that women can partake fully in that planned growth. At this point in time, it is commonplace to witness police harassment of informal sector operators, including women, on the roadsides.

The cultural environment is also considered to be an influencing factor for women when starting and expanding an enterprise in the MSE sector. This and other issues, which influence women when starting and developing an enterprise, are discussed extensively in **Section III**.

3. The Challenges facing Women Entrepreneurs

Multi-faceted subjects, such as the social and economic empowerment of women, are central to the analysis of women's entrepreneurship. In order for a woman to be empowered however, she needs access to the material, human and social resources necessary for making strategic choices in her life. Yet women have historically been disadvantaged in accessing not only material resources like credit and other property, but also in obtaining social resources such as education, information and modern technology. All of these factors have negative implications for the type of enterprises that women are engaged in.

It has been made clear in some recently conducted studies (AEMFI, 2002) that women engaged in microenterprises started their business to overcome the challenges of poverty and its consequences. Hence, some of the driving forces behind starting a business may include:

- unsatisfied household subsistence needs, such as basic requirements like food, clothes and the education of children;
- girls dropping out of school, being unable to get wage employment and who, perforce, resort to self-employment;
- family pressure upon girl school-leavers to be self-sufficient; and
- credit facilities being offered on women's doorsteps.

Many women have multiple responsibilities as mothers and producers and therefore tend to engage in activities that are home-based and less risky. This may have negative implications however, as often such low risk activities produce limited returns. The reduced physical mobility of many of the women who operate in this category also often prevents them from seeking out information on better economic opportunities. Training and education in technologies could enable them to acquire the necessary skills to diversify and to develop the confidence to explore viable business ideas and market opportunities for their products or services.

The lack of market access, affordable technology and opportunities for bulk purchase of inputs, as well as the low levels of education for women are considered to be some of the main problems faced by women engaged in or aspiring to engage in growth-oriented enterprises.

4. Key issues emerging

Some key issues (such as the constraints and opportunities) identified by this secondary research are summarised below.

A. Inadequate Empirical Research on Women in MSEs

One of the basic problems that we identified in preparing this report is the lack of adequate empirical studies on women entrepreneurs in Ethiopia. Women-owned and operated small enterprises that are relatively growth-oriented are practically unexplored from a research perspective. In fact there is no appropriate institution which conducts research on entrepreneurship development for MSEs in general, let alone on women's entrepreneurship.

At this stage, the lack of documentation and data disaggregated by sex also prove to be barriers to correctly answering questions regarding the characteristics or the true profile of women entrepreneurs at the national level.

B. Limited Responses by Financial Institutions to MSEs

The commercial banks in Ethiopia are not keen on financing MSEs in general. Their branch networks are generally limited to urban areas, and their minimum loan size and collateral requirements are not often feasible for MSEs, particularly those run by women.

At this point in time, micro-financial institutions are the only formal institutions that are accessible to micro and small enterprises. In fact, micro-financial institutions (MFIs) do not finance small enterprises but generally lend for household and domestic requirements.

Although MFIs have been striving to expand their outreach both in terms of the area and size of clients, their loan product development capacity is limited. A recent report by the Association of Ethiopian Micro-finance Institutions (AEMFI) asserts that the loan products of the MFIs in the country are supply-driven and are offered to all clients indiscriminately. These loan products do not suit the particular needs of all sizes of MSEs. The objective of the MFIs is poverty reduction and the sources of their loan funds are mainly provided by donors. This is significant, as one of the main concerns of donors is in seeing that the bottom layers of the population have access to credit and eventually earn a living, and this dictates the spending and allocation of much of the MFIs' resources.

Furthermore, the credit delivery modality of MFIs is largely group-based. This is done to overcome the problems posed by borrowers' inability to put up individual collateral for individual loans. However, as the financial profiles of clients develop, the group system may not, for various reasons, continue to be practical, useful or relevant. The MFIs as they operate now however, are not ready to design and implement alternative systems of relevant collateral to meet the changing credit needs of such clients.

Another serious problem is that women who engage in small-scale enterprises or growth-oriented MSEs do not get credit from MFIs. This is mainly due to the low loan ceiling set by the National Bank (the licensing agency for MFIs). Furthermore, women entrepreneurs are blocked from borrowing from the conventional commercial banks because they cannot offer the required collateral* in fixed asset form. This indicates a serious gap in the provision of credit to such small-scale enterprises and presents a particular obstacle for women entrepreneurs.

C. Lack of Appropriate Technology and Related Facilities

Technology, as related to MSEs, is defined as the ability or capability to translate and convert ideas into tangible goods and services. In addition to the capability (software) aspect, MSEs – particularly those run by women – require labour-saving machinery and equipment (CRDA, 200). This lack of appropriate technology inhibits the growth and development of enterprises operated by women. For instance, women engaged in pottery and semi-processed food items like “enset”, still use age-old, crude tools that are in some cases dangerous for the health of the women involved. The quality of their products is also poor in many cases, forcing them to be sold at very low prices despite the considerable time involved in production.

In rural areas, access to appropriate labour-saving technologies for women entrepreneurs could create opportunities for new and better businesses to which their time could be devoted more productively. However, many of the women lack access to the skills and equipment related to such technologies.

The ease and cost at which such machinery and equipment may be operated determine its suitability for use by women entrepreneurs. New, primary research has been planned in order to make a set of in-depth, location and job specific recommendations regarding appropriate technology for women entrepreneurs.

Women engaged in growth-oriented enterprises cannot afford access to communication facilities like telephone, fax and e-mail. This further reduces the levels of information available to women entrepreneurs.

D. Lack of Strong Organizations for Women Entrepreneurs

Currently some associations of women entrepreneurs have started coming into the picture, such as the Women Exporters' Association. These associations are very young and lack the capacity in many aspects to meet the demands of their members in the areas of training, access to information, marketing and other support services.

The existence of a strong network amongst women entrepreneurs and organizations is also highly essential for increasing the visibility of women's entrepreneurship at government level and among key stakeholders. Such measures should help to draw attention to the need for a better enabling environment for the sector.

* Acceptable collateral includes only fixed assets such as residential houses and vehicles.

E. Lack of Co-ordination Among Business Development Service (BDS) Providers

In spite of the establishment of the Federal Micro and Small Enterprises Development Agency (FeMSEDA) at the national level and the Regional Micro and Small Enterprises Development Agencies (ReMSEDA) in some of the regional states, there is lack of co-ordination among the various actors in the provision of business development services (BDS) in the country. This has resulted in the fragmentation and sub-optimality of various efforts and ad hoc interventions, sometimes encouraging rivalry between projects and institutions. In turn this may result in the low impact of projects and inefficient use of resources, especially in terms of the sustainability of programmes. Furthermore, in most cases, business development services are donor or supply driven in nature; that is, they do not emanate from the perceived needs of the relevant target groups in the BDS market. This is often caused by the type of approach mounted by the service providers, which is donor or supply driven instead of demand driven, and exacerbated by the limited capacity of the BDS service providers.

F. Lack of Access to Land and Premises

It is essential to have greater availability of plots of land and premises in strategic locations for MSEs to produce and market their products. Lack of appropriate premises tends to force many women to operate their businesses from home or resort to unsuitable and sometimes unsanitary working conditions. Policemen often harass some of these women entrepreneurs when they attempt to operate their businesses in places such as street corners.

G. Lack of Market Access and Market Information

Some of the literature on Ethiopian women entrepreneurs, particularly microenterprise operators, indicates that women entrepreneurs face serious difficulties in marketing their products or services. Research has revealed that this problem is often caused by the fact that women entrepreneurs produce and try to market their products or services around the homestead, thereby limiting their market to individual buyers or the immediate neighbourhood. Often these practices stem from a lack of information about market opportunities or access to markets. It is furthermore essential that the marketing of products should be linked to quality, price and timeliness of delivery of goods and services.

Furthermore, their low levels of education, as well as various social and cultural inhibitions and values, tend to have significant implications for the choice of enterprises which women can engage in.

5. Conclusion

The expressed will of the Federal Government of Ethiopia to adopt the Poverty Reduction Strategy Paper (PRSP) affords an opportunity to direct the appropriate attention to the MSE sector that it deserves. In this regard the government is committed to expedite the socio-economic development process with the required care and attention to gender sensitivities (MOFED, 2002).

Overall, this desk research will have to be supplemented by a primary study in order to confirm or refute the findings of the secondary information.

1. Introduction

1.1 Background

It is widely accepted that the micro and small enterprise (MSE) sector has the potential to provide a livelihood for a considerably large number of people in least developed countries such as Ethiopia. In Ethiopia, microenterprises specifically, are generally considered to be the domain of poor, rural and urban women. However, studies confirm that women in Ethiopia are engaged in a wide variety of economic activities and that their income from such activities has been and continues to be pivotal to the survival of poor families.

In the face of rapid demographic changes and various environmental and economic crises, women's microenterprises have become necessary fallback alternatives and safety nets for many households both in rural and urban areas. The incidence of female-headed households which, for various reasons, is steadily increasing, makes such households almost entirely dependent on the female household heads as the sole income-earners (Analysis of Women's IGA, 1999, AA).

Nonetheless, the MSE sector in Ethiopia appears to be fraught with a number of constraints that stifle its rapid growth and development as a means of overcoming poverty and unemployment. It is especially recognised that women entrepreneurs who engage in MSEs face a multitude of problems.

It is against this backdrop that ILO's IFP/SEED Programme, and its WEDGE unit in particular, has commissioned this study on "Factors Affecting Women Entrepreneurs in MSEs in Ethiopia". This is being conducted in a number of major Ethiopian towns, including the City of Addis Ababa. The study is part of the ILO WEDGE's project on Jobs, Gender and Small Enterprises in Africa, covering in the first instances Tanzania, Zambia and Ethiopia. This work on women's entrepreneurship development is financed by Ireland Aid under its Partnership Programme with the ILO.

1.2 Objective of the Study

The objective of the WEDGE project is to identify ways in which governments, the ILO, donors, NGOs and the private sector can help improve the prospects for women entrepreneurship in Ethiopia, Tanzania and Zambia and enhance the contribution of women entrepreneurs to the creation of meaningful and sustainable employment opportunities, to decent work, and to poverty reduction. To this end, this study has been commissioned to gain better insight and understanding of the underpinning issues affecting women entrepreneurs in Ethiopia.

This first phase of the study is based entirely on secondary information or desk research. The final phase of the study will involve field research and is expected to be published by the end of 2002, once it is supplemented by the results of the planned empirical research.

The purpose of this report therefore, is to consolidate and distil lessons drawn from earlier literature on factors affecting women entrepreneurs in Ethiopia. The country context and overview of the MSE sector are attached as Annexes I and II respectively.

1.3 Conceptual Framework

Most empirical literature suggests that to more fully explain the patterns of change or dynamics of individual enterprises, the best approach is to review all the possible influencing factors. These could be factors such as: character of the entrepreneur (including sex), sector, location and age of the enterprise, as well as a variety of meso and macro factors (Carl Liedholm & D.C. Mead, 1999).

Accordingly, this study focuses on the following five levels of analysis:

- the individual (the woman entrepreneur);
- the enterprise;
- the process of starting and developing a business enterprise;
- the enabling environment for the enterprise (policy, legal and institutional frameworks); and
- the broader socio-economic context for the enterprise.

The rationale for selecting these levels of analysis is based on an appreciation that the output of a study which aims to create meaningful and sustainable employment opportunities and help reduce poverty, must be fully evaluated in direct relation to the lives of the human beings affected – in this case to the lives of women. Women form part of households and societies, as well as cultural and socio-economic environments which influence their actions as entrepreneurs. However not all women entrepreneurs are the same; differences in age, levels of education, ethnicity, religion, marital status and station in life allow for varying categorisations of women entrepreneurs.

These varying factors may also have a significant bearing on determining: the type of enterprise; the process of starting and developing enterprises; and the current level of growth and development of enterprises, operated by women.

The output of the study is therefore expected to answer the basic questions: Who are the women entrepreneurs in Ethiopia? What type of enterprises do they own and operate? How and why do they go into their own businesses? What is the gap that needs to be bridged to enhance the contribution of Ethiopian women entrepreneurs to the creation of meaningful and sustainable employment opportunities and to poverty reduction?

1.4 Overview of the MSE Sector

1.4.1 Definition

For the purposes of this report, micro and small enterprises are defined as follows.

Microenterprises¹ are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital² of not more than Birr 20,000, (\$2,500³) but excluding high-tech consultancy firms and other high-tech establishments.

Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500) but excluding high-tech consultancy firms and other high-tech establishments.

¹ Due to the similarity of their characteristics, for the purposes of this literature review informal sector activities and microenterprises are lumped together.

² Paid up capital in this context means fixed assets

³ \$ USD equals approximately 8 Birr.

1.4.2 Size and Diversity of the Sector

The sample survey, conducted in 48 major towns by the Central Statistical Authority (CSA), in May 1997, showed that there were 584,913 informal sector activity operators and 2,731 small-scale manufacturing industries, employing a total of 739,898 people. The survey revealed that a microenterprise on average engages one person, with the average annual operating surplus at about Birr 1,300 (\$162).

With regard to the diverse nature of activities in the informal sector (mainly microenterprises), the survey indicated that the majority of activity is concentrated in two main broad sectors: namely, 47 per cent in manufacturing and 42 per cent in trade and services. The distribution of activities among the rest of the MSEs is about 6 per cent in community and personal services, with the remaining 5 per cent involved in the areas of agriculture, hunting, forestry and fishing, mining and quarrying, construction and transport activities. The part of the survey covering "Small-scale Manufacturing Industries", showed that the small manufacturing industries are mainly engaged in the manufacture of food, fabricated metal, furniture and clothing. These sub-sectors constitute more than 85 per cent of the surveyed small-scale manufacturing industries.

Each small-scale manufacturing activity engages, on average, 3 persons per establishment, including the owner. The average annual wage per employee is Birr 1,914 (\$239). The average operating surplus per industry is Birr 18,934 (\$2,368), which shows that income generated by small manufacturing activities is much greater than that generated by operations in the informal sector. The average capital per informal sector activity during the survey period was found to be Birr 3,528 (\$441), while the average capital per small-scale manufacturing industry was Birr 38,354 (\$4,794).

As highlighted above, the MSE sector is characterised by a range of highly diversified activities, which can create job opportunities for a substantial segment of the population. This suggests that the sector may be a quick remedy for the unemployment problem. To curb unemployment and facilitate a suitable environment for new job seekers and for self-employment, direct intervention and support by the Ethiopian Government is crucial. A comprehensive definition, specifically categorising this sector, is therefore greatly needed in order to channel the right and appropriate forms of support facilities in the right direction.

The Central Statistical Authority (CSA), for the purposes of its survey on "Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries", attached various definitions to enterprises in different sectors, viz: the informal sector, cottage or handicrafts, small-scale manufacturing industries and medium- and large-scale manufacturing industries. The CSA based its definitions on the size of employment and extent of automation for small-, medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators. However, as indicated in the National MSE Strategy, shortcomings in the drafting of these definitions may have meant that some capital-intensive establishments, which should fall solely under medium- or large-scale enterprises, may possibly have come within the scope of the definition for the MSE sector. Therefore in order to exclude those capital-intensive enterprises, which should not be entitled to the support services established for "real" MSEs, it was advised that a new definition be drafted which takes this into account. Hence, a definition that is based on capital, and which takes into consideration the level of technical and technological capacities, was adopted as part of the MSE National Strategy.

1.4.3 Role and Contribution of the Sector

In successful developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology.

The micro and small enterprise sector is also described as the natural home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development.

While we cannot deny the importance of large industrial and other enterprises for the growth of the Ethiopian economy, there is ample evidence to suggest that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia.

According to the results of the study mentioned above, the whole labour force engaged in informal sector activities and small-scale manufacturing industries is more than eight-times (739,898 persons) that of the medium- and large-scale manufacturing industries (90,213 persons¹) - for details see Annex III, Tables I & II.

1.4.4 Constraints Facing the Sector

In most developing countries, MSEs face a wide range of constraints and they are often unable to address the problems they face on their own - even in effectively functioning market economies. The constraints relate amongst others to: the legal and regulatory environments; access to markets; finance; business information; business premises (at affordable rent); the acquisition of skills and managerial expertise; access to appropriate technology; access to quality business infrastructure and, in some cases, discriminatory regulatory practices.

In Ethiopia specifically, MSEs have been confronted by many of these problems. According to the CSA Report (1994-1995), the major obstacles experienced by small-scale manufacturing industries were the irregular and erratic supply of raw materials and a shortage of suitable working premises. The lack of working premises was also found to present difficulties for the informal sector operators who, faced with insufficient capital, were often impeded from the start.

It is suggested that the problems of raw material shortages, lack of working capital and effective marketing which face small manufacturing industries, result in the failure of these businesses to expand. Whereas the same set of problems, when experienced by informal sector operators, have the effect of preventing their expansion almost from the beginning of their operations. For instance, the results of the survey on "Urban Informal Sector Activities" showed that out of the 584,913 informal sector activity operators,

about 50 per cent replied that their first major difficulty when starting their operation was the lack of sufficient initial capital. According to their responses, this problem becomes more critical when they intend to expand their businesses.

1.5 Brief Situation Analysis of Ethiopian Women in the MSE Sector

Literature on MSEs in Ethiopia is scarce, particularly on the subject of women entrepreneurs. However, the crucial economic and social contribution played by this sector has been recognised by the Ethiopian Government, as evidenced by the introduction of a policy strategy on women in the MSE sector. In line with other African countries, the majority of microenterprises in Ethiopia are dominated by one-person operations.

As is the case elsewhere, the individual characteristics of an entrepreneur, such as sex, ethnicity, or religion often influence the opportunities of Ethiopian women entrepreneurs. Of these characteristics, sex difference is the most widely relevant factor. Women and men generally have different degrees of access to opportunities that affect their individual abilities to participate in economic activities. Following from this, gender is in many cases a major determinant of one's additional household obligations, which limit the amount of time one can allocate to economic and other productive activities. Women carry a disproportionate burden of household obligations. Women in comparison to men often differentially experience access to and control over resources.

For many of the reasons stated above, experience shows that in Ethiopia there is a link between complex gender-specific constraints and the types of economic activities which urban and rural women tend to be engaged in. This in turn appears to have a number of implications for the distribution of credit and other support services. Some of the specific constraints include: the limited market-related skills of women; the limited access to and control over productive resources; the limited time owing to the demands associated with the reproductive roles of women, and the general inability of women to recruit and hire skilled labourers.

These constraints, which are further affected by the traditional, gender-based reproductive roles and responsibilities, generally confine poor urban and rural women to economic activities that are less productive or profitable than those of their male counterparts. This is partly related to the fact that self-employed women tend to focus on economic activities that are perceived to be more flexible (such as petty trade which involves less risk), and on activities that can be either home-based or carried out in the vicinity of the household, thus enabling them to fulfil the demands associated with their reproductive role. Evidence suggests that even relatively better off women in Ethiopia tend to focus on areas in which they have traditional, gender-based skills and know-how, such as food processing, clothing and hairdressing (Analysis of Women's IGA, 1999, A.A).

The CSA estimates that the low representation of women entrepreneurs in the small-scale manufacturing sector (26 per cent) could be attributed to a number of factors such as:

- low levels of education and lack of opportunities for training for women;
- heavy household chores that leave women less time to devote to their businesses;
- lack of contact with and exposure to the business world;
- meagre financial and human capital at the disposal of the women concerned;
- issues relating to ownership rights, which deprive women of property ownership in general and consequently, of the ability to offer the type of collateral normally required for access to bank loans.

Much criticism has been voiced in Ethiopia, as in other developing countries, with regard to the types of microenterprises which women are engaged in (Analysis of Women's IGA, 1999 A.A). The activities of the Ethiopian Government and other agencies in continuing to map out strategies that focus on the use of traditional, domestic skills rather than on the development of new skills for women, have raised a number of serious concerns. It appears however, that developing alternative, appropriate strategies to counter this criticism is a difficult task, mainly because of the diverse socio-economic roles of women, involving both productive and reproductive work, and partly because of limited resources on the part of the promotional agencies.

One of the basic reasons why programmes charted out so far could not reverse the situation of Ethiopian women entrepreneurs could be because of the lack of comprehensive empirical research that might help to pinpoint the real problems and barriers of women entrepreneurs in the country, and help suggest appropriate solutions (for details refer to Annex III).

1.6 Methodology

1.6.1 Identification of Sources

The report is based on desk or secondary research. Quite an extensive bibliography has been used by way of reference to substantiate the findings of the desk research. As such, a wide review of literature on the MSE sector in general and on women entrepreneurs in particular, was undertaken. The literature included studies on the experiences of the informal economy in other countries. Available research papers on Ethiopian MSEs, Ethiopian women entrepreneurs, government policies and regulations that relate to the sector, and occasional papers on issues relating to the delivery of micro-finance in the country have been reviewed.

1.6.2 Developing a Common Conceptual Framework

A workshop was organized by the ILO's IFP/SEED and its WEDGE unit in Dar es Salaam, Tanzania, from April 8-11, 2002, where the national consultants from Ethiopia, Tanzania and Zambia met with the ILO's international consultants and developed the "common conceptual framework" for the secondary research, and ultimately for this report. The workshop provided an opportunity to clarify the conceptual issues of the study, and for the participants to exchange experiences. Moreover, documents and materials provided by the ILO during the workshop were very useful in offering greater insights into many of the issues. The briefings prepared by the ILO's international consultants were instrumental in developing the common conceptual framework for the study, and a large part of this framework is based on the Sustainable Livelihoods approach, as adopted by the UK Government's DFID.

2. Enabling Environment for an Enterprise

2.1 Impact of enabling environment on enterprise development

Most literature in this field, analyses the enabling environments for enterprise development at three levels. These are: micro-level (individual, household and enterprise), meso-level (support providing institutions and networks) and macro-level (national level). The three levels will be discussed here in the Ethiopian context.

Policy-makers in Ethiopia and elsewhere often do not adequately recognise that changes in socio-economic, political and other macro-level enabling environments affect women and men in different ways. There is a tendency to ignore the fact that women and men play different roles, have different needs and face different constraints in responding to economic policy changes and to changes in incentive mechanisms.

Such differences arise from the fundamental imbalances and gender-based inequalities in the respective rights and obligations of women and men, and from their having highly differential economic roles, as reflected in their access to, use of and control over economically productive resources. These differences have implications not only in terms of foregone economic output and income, but also, and much more importantly, for economic equity.

The significance of the enabling environment, especially in terms of the macro-economic context in which women in MSEs operate, should not be underestimated because it is crucial for the expansion of productive enterprises. In fact many of the problems that entrepreneurs identify have their roots in the macro-level enabling or regulatory environment, although the entrepreneurs may relate such problems to other circumstances (Mead & Liedholm, 1998).

2.2 Policy and Regulatory Environment

A legal and regulatory framework that creates a conducive environment is crucial for the promotion and growth of micro and small enterprises in general and women entrepreneurs in particular. After the change of government in Ethiopia in 1991, several policies were formulated and regulations promulgated relating to diverse social, economical and political issues. These frameworks relate to the:

- adoption of market economic policy;
- decentralization of power and the formation of regional states;
- formulation of a policy on women;
- privatization programmes;
- revision of the investment code;
- enactment of laws on establishing capital goods leasing companies (which provide an alternative option for access to credit);
- issuance of Proclamation no. 40/96, which regulates the business of micro-finance in the country;
- issuance of the National Micro and Small Enterprises Development Strategy in 1997;
- formulation of a new labour law;
- the issuance of Proclamation No. 33/98 to provide for the establishment of the Federal Micro and Small Enterprises Development Agency (FeMSEDA).

USAID's definition of an enabling environment includes the following

- *A stable fiscal and monetary policy setting, resulting in an economy with reasonable interest rates and reasonable levels of inflation.*
- *A system of financial markets that provides incentives to save and offers efficient mechanisms to channel savings into investments that raise productive capacity over time.*
- *A competition policy that establishes rules against monopoly and against anticompetitive group behaviour.*
- *A human capital development programme that calls for universal basic education and advances vocational training for those with the skills and drive to be successful in these areas.*
- *An infrastructure development programme that provides for the communication networks, roads, water and sewer systems and ports needed to facilitate business transactions.*
- *A set of policies that establish a favourable climate for the start-up of new businesses and for the growth of businesses; policies that minimise the costs of licensing and registering a business, policies that call for the government to provide easy access to information about laws and regulations and policies such as commercial codes that establish rules to minimise the costs of doing business by defining the rights and responsibilities of all parties to a transaction.*
- *Policies that establish and enforce clear rights to property and clear rules related to the performance of contracts.*

The World Bank proposal on enabling environments for enterprise

- *Addressing market failures which create cost disadvantages for small and medium firms, restrict their access to markets and inhibit the development of markets for financial and non-financial services appropriate for small firms.*
- *Reconsideration of public policies and regulations which produce fixed costs and thus create a competitive disadvantage for small firms.*
- *Investment in public goods which open market access and develop markets for support services including: information, infrastructure (transport, market facilities, communications), training, product development for financial and non-financial services and institutional capacity-building.*

Source: Halberd 1999, reviewed by Linda Mayoux (2001).

The “National Micro and Small Enterprises Development Strategy” for Ethiopia is one of the specific measures which the government has taken to guide and support the growth and development of micro and small enterprises in the country. The strategy sets the overall framework for the promotion of the MSE sector in Ethiopia. The main objective of the strategy is to create an enabling environment for the growth and development of MSEs. (This MSE strategy is currently under review.)

An emphasis on the advancement of women, the promotion of start-ups, and the expansion of businesses owned by women are identified as some of the fundamental principles of the strategy. Priority sectors or groups of MSEs that qualify for support are also referred to.

In an effort to create a more conducive environment for promoting women's entrepreneurship, some measures have already been taken. However, these measures are very general and do not focus on the specific problems and challenges facing women entrepreneurs. One such measure is the establishment of a Women's Affairs Office at the Prime Minister's Office and the formulation of a policy on women. The Women's Affairs Office at the Prime Minister's Office is well aware of the problems affecting women. The Office actively participated in the drafting of the Constitution and in all other new policies in fields such as agriculture, health and education, so as to ensure the incorporation of the economic and social rights of women. The overall responsibility of this office is to ensure that the efforts of the Women's Affairs Bureaus in the regions, and those of both governmental and non-governmental organizations, are co-ordinated and carefully evaluated so as to help bring about positive changes in the lives of millions of women in the country.

However, most of the problems with the existing laws and regulations relate to their practical implementation. The absence of implementing guidelines, some traditional or cultural attitudes to women, and various gender-neutral legal provisions which are largely "gender blind" are examples of factors which may damage the effectiveness of certain laws.

2.3 Socio-economic Environment

The existence of physical and institutional infrastructures (roads, telephones, skilled labour or human capital) is an important variable, which affects entrepreneurship in developing countries like Ethiopia. Conversely, the non-existence of these infrastructures affects the incidence of poverty. Poverty and low levels of education are probably the most powerful determinants of the level of unemployment and the type of enterprises that Ethiopian women engage in. As has been stated earlier, some positive measures are generally being undertaken by the Government to stimulate economic growth and reduce poverty in the country. However, there are no specific practical measures to ensure that women can partake in that planned growth.

As indicated above, the government has recently taken some monetary, fiscal and other measures. These include:

- reducing both the lending interest rates and interest on savings deposits;
- ensuring that the supply of foreign exchange is made in a competitive way among the existing commercial banks;
- developing a legal framework for the establishment of micro-finance institutions (Proclamation No. 40/96);
- planning the "National Micro and Small Enterprises Development and Promotion Strategy";
- simplifying the licensing procedures for enterprises.

In addition, according to the Sustainable Development and Poverty Reduction Strategy Paper of the Federal Democratic Republic of the Government of Ethiopia (FDRGE) issued by the Ministry of Finance and Economic Development (MOFED), June 2002, the government has incorporated the following salient points on the issues of gender and development:

"The Government of Ethiopia is committed to eradicate poverty, particularly by addressing the gender dimension. Over the last decade the government has reviewed its commitment to address the gender inequalities that deter long-lasting change and equitable development. Apart from endorsing the National Policy on Ethiopian Women, the government has created supportive constitutional provisions to establish women's

equality with men. Women are a critical component of the rural economy and are engaged in agricultural production. They contribute significantly to the off-farm production /employment, cash and food crops, subsistence farming and reproduction of agri-labour forces. Nonetheless, they lack adequate access to extension services. (...)

The level of education attained by women has had a direct bearing on poverty. Women's education is one of the important aspects of their self-development and is closely related to their participation in productive activities, control over their own life and body, the education of their children (particularly daughters) and their negotiation ability vis-à-vis institutions and men".

Lack of appropriate technology that would reduce the burden of household chores in peri-urban and rural Ethiopia is one of the determinants for young women's low levels of education. Households in some parts of the country cannot afford to send their daughters to high schools that are located far away from their villages or homesteads. A gender study sponsored by SIDA in 1999, indicated that the average enrolment in high school for girls during a five-year period was 44.8 per cent. Girls are expected to assist their mothers in domestic activities.

2.4 Cultural Environment

The Ethiopian socio-cultural environment is rather complex as the population is composed of more than 76 different ethnic groups with varied attitudes and traditional beliefs towards women. Accordingly, the major constraints on women's participation in any developmental activity lies in the socio-cultural belief of that society, particularly as it governs marriage and property ownership by women in particular, and also in the patriarchal social system of the society in general. These factors entail a lower level or, in some cases, complete absence of women's involvement in the areas of formal education, politics and decision-making both at household and public levels.

In some areas, women are not allowed to work on the land due to the superstition that the land will not yield crops if women touch the plough (e.g. Amhara, Tigray). In other communities however, they play major roles in food production, such as in the Gurage tribe. In certain communities women are allowed to inherit property, while in others the brother-in-law inherits widows, their children and livestock. Due to these and other practices, women find it extremely difficult to break away from traditions and behave independently. This constitutes a major impediment to enterprise development by women in Ethiopia (Alemtsehay, 1998). A study conducted on the Afar women entrepreneurs indicates that, although a woman has equal access to livestock and household articles, practically speaking, she does not have any say over the property without the order and consent of a senior/elder female relative. It is clear that the productivity of Afar women is affected by this socio-cultural practice (Hayat, 1997).

A study titled "Gender and Cross-cultural Dynamics in Ethiopia", by Hadera Tesfaye (1999) was conducted across 11 ethnic groups residing in about 94 per cent of the country, and it confirmed that Ethiopia is a male-dominated, patriarchal and tradition-oriented society. Furthermore, socio-cultural dynamics within the domestic and social spheres determine the status of women and the differential participation of women and men in public spheres. This has a significant impact for gender roles and relations.

In some parts of the country, women's mobility is limited by culture. As a result, women can engage only in activities that do not take them away from home. They may engage in the commercial production of poultry, goat and sheep rearing, but when they start rearing larger animals, such as fattening oxen, men immediately take over. The marketing aspect of even the smaller domestic animals is, as much as possible, handled

by their male folk. This is of course, mostly true in rural areas of the country. Among urban women however, there is a strong connection between a woman's access to independent income and her control over the resources of the household. A recent study (AEMFI, 2002) on the impact of micro-finance confirms that the ability to earn and control income appears to be one of the most powerful determinants of a woman's status and level of decision-making in the family.

As has been pointed out in the previous sections of this paper, a number of general measures have been taken to ameliorate the situation of women. However, it is clear that no amount of good policies and laws are capable of changing societal attitudes and beliefs, unless they are gradually inculcated in the educational and communication media of that society. Thus, much needs to be done in this respect. In general, successful women entrepreneurs in Ethiopia are not receiving the kind of public attention, recognition and media focus which is increasingly being observed in industrialised and emerging developing countries.

2.5 Support Environment

The support environment for the MSE sector includes both financial and non-financial services. As it stands, institutions that provide integrated support services are almost entirely unexplored. The existing micro-finance institutions (MFIs) are minimalist in their approach; that is, they avail only credit and saving services at the grassroots level. The non-financial support services are therefore, provided mainly by NGOs, government, private agencies and religious organizations. The accessibility, outreach, sustainability and relevance of these two basic forms of support services are discussed in subsequent sections of this report.

2.5.1 Financial Support

Current sources of finance in Ethiopia can be categorised into traditional or informal, quasi-credit (NGO and government projects), and formal institutions such as micro-finance and conventional banks. Some studies indicate that personal savings and inheritance make a certain contribution as seed money for MSEs (Fasika and Daniel, 1997).

(a) Traditional or Informal System

In Ethiopia, informal financial institutions are entities operating outside the domain of the National Bank of Ethiopia. The informal finance sector includes the commercial money-lenders and the traditional system or 'Ekub'⁴: a system of forced saving through which people raise capital to invest in simple businesses in order to improve their economic positions. Relatives and friends are other traditional sources of finance for MSEs. They account for 78 per cent of agricultural credit (Dejene Aredo, 1993).

The commercial moneylenders are known as 'Arata Abedari'⁵ and they lend at an interest rate which is more than 200 per cent per annum in some cases. In most cases, collateral or guarantee is not required to back up the loan. In the event of default however, their loan recovery rate is very high. Besides the exorbitant interest rate, this source of finance has limited ability to produce long-term finance or substantial loans for investment. As a result, there is limited chance for growth and development for entrepreneurs who continuously use this source of finance.

⁴ Ekub is a communal type of saving arrangement whereby people raise capital for their business.

⁵ Arata Abedari is the term for a traditional money-lender who extends credit at exorbitant interest rates.

Credit “in kind” appears to be an important part of the transactions between small traders and farmers in some of the bi-weekly open markets in Addis Ababa and its peripheries (SFPI baseline survey, 1998). About 70 per cent of the people interviewed in these open markets disclosed that traders themselves provide credit either in kind or cash. For instance, a producer or wholesaler provides petty traders (mostly women) with commodities worth a certain amount of money on credit. If the petty trader is able to sell the commodity above the agreed price, the additional price becomes the income of the petty trader. If the trader sells the commodity at a lower price, then he or she loses. Many of the women working in most of the open markets in Addis have been tied up in this system for many years. Therefore, supplier's credit is one feature of the informal credit system especially among urban area traders. By virtue of the nature or size of their businesses, many entrepreneurs – and in particular women in small businesses – tend to resort to these sources of finance.

The scope and magnitude of traditional or informal finance in Ethiopia remains significant despite the introduction of micro-finance institutions in the country. This could be mainly due to the inflexible nature of the lending policies and procedures of the micro-finance institutions or their limited financial products.

(b) Quasi Credit

Many NGOs have become increasingly involved in savings and credit operations over recent years as a measure to reduce poverty. Most of the credit programmes have been community-based savings and credit co-operatives, and their major beneficiaries were poor women in both rural and urban areas of the country. Although some segments of the population have therefore benefited from such credit programmes, their outreach in terms of clients and area coverage was very much limited. Furthermore, the sustainability of such programmes depends on the continued existence of the NGOs in the area. However, after Proclamation 40/96 was issued, NGOs were prohibited from directly involving themselves in credit and saving activities. Nonetheless, NGOs are now contributing more in this regard by establishing their own MFIs as share companies or by mobilising financial resources for established MFIs (Dr. Wolday Amha, 2002).

(c) Formal Sources: Conventional Banks

The major institutions that presently comprise the financial system (besides the National Bank of Ethiopia, which is the central bank of the country) are three publicly owned banks and six private commercial banks. The conventional banks in Ethiopia are not keen on financing MSEs. The capacity of the conventional banking sector in Ethiopia has been too weak to serve the needs of MSEs. Furthermore, their branch networks are limited to urban areas.

This MSE sector is considered high risk for commercial lending because the banks do not have adequate information, such as character references of the owners or operators of the MSEs. The other main barrier is that the MSE operators cannot meet the collateral⁶ requirements of the banks. The administrative costs associated with the delivery of small amounts of credit are a further disincentive for banks in lending to the MSE sector.

A brief look into the lending policies and procedures of some of these banks shows that they do not appear to make gender differentiations among their borrowers. As disbursement and repayment data in the banks are not disaggregated by sex, it is not possible to obtain precise estimates of the access of women to formal bank credit compared to their male counterparts (Tsehay Tsegaye, 1998).

⁶ Collateral is usually interpreted as only fixed assets such as residential houses and vehicles.

(d) Formal Sources: Micro-finance Institutions

Although savings and credit programmes were operated by NGOs in Ethiopia for a number of years, the micro-finance operations in a formalised capacity are a relatively new phenomenon (about 5 years old). Micro-finance institutions started mushrooming following the issuance of Proclamation No. 40/96, which institutionalised the business of micro-finance in the country. The National Bank of Ethiopia, which is the licensing authority, has since been releasing a number of guidelines that underpin the operation of micro-finance in the country. Currently, there are 20 licensed MFIs operating in both rural and urban areas in Ethiopia.

The major target clients of most of the MFIs operating in urban areas are women, while for those in rural areas the majority of the clients are men. The outreach in terms of the size of clients for the MFIs in the country is estimated to be about half a million active clients (for detailed performances of the MFIs see Table 1 overleaf).

The objective of almost all of the micro-finance institutions in Ethiopia is poverty reduction. According to the guidelines, they are permitted to mobilise savings deposits from their clients as well as from the public at large. The credit delivery modality of all the MFIs is group-based (group guarantee), thereby waiving the usual requirement for collateral in fixed asset form. However the loan ceiling of the MFIs has been set to Birr 5,000 (USD 584), which is very small for some growth-oriented microenterprises. Furthermore the group-based credit delivery modality does not fit the requirements of MSEs that want to take individual loans based on particular business needs, either as working capital or as a medium-term investment loan (AEMFI, 2002).

A study on "Sharing Experiences: Success Stories of Women Entrepreneurs", conducted by Mohammed Gonji Hadiya (1998) in Addis Ababa, indicated that women who are engaged in businesses which have the potential for growth and who have been in business for many years, were not financially strong enough to either expand or diversify their businesses. These women believe that they are the most neglected category of women entrepreneurs because there is no institutional credit or other support service available to them. This is mainly because they cannot borrow from formal banks because of the collateral requirement and the loan provided by MFIs is small and inappropriate for them.

There is an obvious missing link here, because this category of women entrepreneurs can neither borrow from banks nor from MFIs. They therefore, fall back to the traditional forms of finance like 'Equb' or the traditional moneylenders or "Arata Aberdai" who charge exorbitant interest rates. As stated earlier in this paper, these forms of finance have various shortcomings, which limit the development and expansion or diversification of businesses operated by women. There is clearly a need to bridge this gap with a dynamic, fresh approach to finance provision for this segment of women entrepreneurs.

Table 1

**A Summary of the activities of MFIs in Ethiopia:
Active clients, share of women and average loan size of MFIs in Ethiopia, January 2001**

No	Micro finance Institutions	Official year of establishment	Region Cover	No. of Branches	No. of sub branches	Active clients	% of women to total borrowers	Active clients Rural %	Active clients Urban %	Average loan size (Birr)
1	Amhara Credit & Saving Institution S.C.	1997	Amhara	15	160	192,571	47	75	25	900
2	Dedebit Credit & Saving Institution S.C.	1997	Tigray	12	109	187,550	41	80	20	600
3	Oromia Credit & Saving Institution S.C.	1997	Oromia	29	0	37,000	12	99	1	1,000
4	Omo Credit & Saving Institution S.C.	1997	SNNPRS	8	53	39,342	35	95	5	600
5	Specialized Financial and Promotional Institution S.C.	1997	Addis Ababa	0	1	3,700	80	1	99	1,000
6	Gasha Micro-financing S.C.	1997	Addis Ababa	2	3	3,217	85	0	100	800
7	Wisdom Micro-financing S.C.	1998	Amhara & SNNPRS	2	11	8,535	30	85	15	755
8	Sidama Micro-financing S.C.	1998	SNNPRS	11	0	4,286	60	90	10	1,800
9	Asser Micro-financing S.C.	1998	Addis Ababa & SNNPRS	3	0	3,100	-	73	27	750
10	Africa Village Financial Services S.C.	1998	Addis Ababa	1	7	450	60	-	100	1,500
11	Bussa Gonfa Micro-finance S.C	1999	Oromia	3	0	2,758	85	87	13	-
12	Mekket Micro-finance Institution S.C.	1999	Amhara	1	0	2,300	85	100	0	400
13	PEACE Micro-finance Institution S.C.	1999	Oromia, Amhara & SNNPRS	7	0	974	62	100	0	682
14	Addis Credit & Saving Institution S.C.	2000	Addis Ababa	4	0	7000	70	-	100	1,300
15	Eshete Micro-finance Institution S.C.	2000	Oromia	1	0	516	54	70	30	500
16	Wassa Micro-finance Institution S.C.	2000	Oromia	2	0	562	31	69	31	498
17	Meklit Micro-finance Institution S.C.	2000	A.A & Oromia	2	0	1,001	73	-	100	700
18	Benishangul Micro-finance Institution S.C.	2001	Benishangul			425	60	100	-	-
19	Shashemene Eddir Yelmat Agar MFI S.C.	2001	Oromia			200	58	-	-	1,275
	Total			103	344	495,487	42	62	38	793

Source: adapted from Wolday and Bekele (2001), Revising the Regulatory framework of the MF Industry

2.5.2 Non-financial Services (Business Development Services)

In order to assist the development of the micro and small enterprise sector, it is essential that both the financial as well as the non-financial service needs of the sector are equally addressed. Non-financial services - or as it is known today - "business development services" (BDS), refer to a wide range of services used by entrepreneurs to help them manage and strengthen the capabilities of their businesses.

According to the Small Enterprise Education and Promotion (SEEP) Guide, business development services include the following seven major categories: market access, input supply, technology and product development, training and technical assistance, infrastructure, policy or advocacy, and alternative financing mechanisms. In order to bring about adequate impact, these services have to be tailored to the needs of individual entrepreneurs and delivered by BDS providers in a business-like manner. In other words, BDS providers should develop transactional relationships with MSE clients based on business rather than charity, and develop a sound understanding of the needs of their clients as part of their business strategy.

In the Ethiopian context, the range of business services enjoyed by MSEs is very limited, and often the services are less effective as they are not tailored to the needs of individual businesses. Government and donors mainly support business development services on a limited scale, as do private sector actors. Almost all of the business development services are fully subsidised and offer free of charge services to MSEs.

The government is involved as the main BDS provider to MSEs. However, there are also local and international non-governmental organizations, donor-supported programmes, private sector organizations and informal commercial BDS providers which are engaged in the provision of services to MSEs. A profile of BDS providers follows below.

2.6 Financial and Non-Financial (BDS) Service Providers

2.6.1 Public/Government Organizations

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 through NGOs and the private sector.

(a) Federal Micro and Small Enterprise Development Agency (FeMSEDA)

According to the National MSE Development Strategy, the role of the Federal Agency is to assist, encourage and support regional MSE development agencies. In particular, the Federal Agency focuses on the training of trainers, dissemination of developed prototypes, information and consultation, facilitation of services, marketing and maintaining technological databases to be used by regional MSE development agencies and other concerned institutions. FeMSEDA mainly provides training and marketing services to potential and existing MSE operators. In the training aspect, it provides vocational and technical skills in various fields such as ceramics, bamboo, foundry, woodwork, handicraft and leather. It also provides business skills such as the GTZ's CEFE (Competency based Economies through Formation of Enterprises) and the ILO training packages: "Improve Your Business" (IYB) and "Start Your Business" (SYB). In regard to the marketing services, FeMSEDA provides a market outlet for MSE products through its sales and display centre and by organizing MSE product exhibitions at national and local trade fairs. FeMSEDA normally charges fees for its services but usually the payment is made by NGOs.

(b) Regional Micro and Small Enterprises Development Agencies (ReMSEDAs)

Regional MSE Development Agencies (ReMSEDAs) were established to co-ordinate support services for the implementation of the Regional MSE Development Strategies. According to the National Strategy, the major role of ReMSEDAs is to provide MSEs at regional, zonal and local levels with services in relation to business expansion. These services shall include inter alia: human resource development, information and consultation, and technical and marketing services. ReMSEDAs are established and functional only in three regional states: Tigray, Oromia and Amhara. The Addis Ababa City Government is also in the process of preparing the necessary conditions for the establishment of a Regional MSE Agency. Neither FeMSEDA nor the ReMSEDAs have specifically focused programmes or specialized services for women entrepreneurs.

(c) Trade, Industry and Tourism Bureaus (TITBs)

Trade, Industry and Tourism Bureaus are regional government bodies that are mandated to promote trade and industry in the respective regions. In addition to their regulatory role, they are also involved in the provision of business development services to MSEs. They mainly provide services on business training, based on the ILO training packages, and also deliver some marketing services with regard to trade fair organization and market price information.

(d) Ministry of Education and the Ministry of Labour and Social Affairs

The Ministry of Education and the Ministry of Labour and Social Affairs as well as their delegated regional structures, are jointly involved in providing training services. The training services concentrate on developing vocational and technical skills and last for up to ten months. The training areas include: metal and woodwork, mechanics, electronics, leather manufacturing, draughting and surveying, building construction and handicrafts. The services are offered free of charge and operate on an open access basis.

(e) The Women's Affairs Departments (WADs)

These are departments established under each of the sectoral ministries at federal level and in each of the bureaus at regional level. The departments are meant to support women in various sectors of the economy. These offices have been instrumental in facilitating certain entrepreneurship training for women entrepreneurs and in supporting the establishment of a number of the regional women entrepreneurs' associations. In this regard, the Women's Affairs Department of the Ministry of Trade and Industry, in co-operation with the Regional Women's Affairs Offices, and Regional Trade and Industry Bureaus, has been active in facilitating the delivery of certain services to women entrepreneurs. It has been involved in: creating access to various types of training for women entrepreneurs; forming associations of women entrepreneurs in five regional states; and organizing various fora where pertinent issues affecting women entrepreneurs may be discussed.

(f) The Women's Affairs Co-ordinating Department (WACD)

This office is a Department within the Ministry of Labour and Social Affairs and it is responsible for the socio-economic conditions of women at the central level. Although its impact may not have been sufficiently felt by the beneficiaries, WACD has been in existence for a long time and has organized some useful projects. Notable among these is the vocational training programme for women (including young girls who have dropped out of school) which helps provide employment in areas such as fuel wood collecting and pottery (Selamawit Abebe, 1996).

(g) The Women's Enterprise Promotion Centre (WEPC)

This centre is based in Addis Ababa and has a mandate to extend its services to women producers nationally, but does not currently have the resources to do so. A study conducted by USAID explains that WEPC focuses on crafts training and marketing for women (Weidmann & Associates, 2000).

(h) Women Development Fund (WDF)

The fund's overall aim is to enhance women's participation in development by mobilizing women at the grassroots level. The fund has two main components: a grassroots initiative fund and an institutional strengthening programme. The grassroots initiative fund is being implemented in Addis Ababa, Dire Dawa, Amhara and Afar Regional States.

2.6.2 Non-Governmental Organizations (NGOs)

While the Bureaus of Education (BOE) and the Bureaus of Labour and Social Affairs (BOLSA) provide most of the infrastructure (such as the centres) for microenterprise training services, it is mainly the foreign and local NGOs who provide staff, trainers, training materials and financial resources to these centres rather than establishing ones of their own. The same NGOs are following up on the training services and providing feedback, revision of materials and training of trainers.

Vocational skills training has often been donor/supply driven. Bi-lateral donors tend to focus on particular skills, such as the Spanish on automotive mechanics; the Italians on building construction; and the Germans on metalwork.

Some NGOs actually channel their training services through Community Schools Training Centres (CSTCs) by providing trainers, materials and scholarships. Several NGOs have developed materials and processes for a wider range of skills training than that of the BOE. These NGOs offer training programmes that are more appropriate to microenterprises. Some of the training programmes are more market driven than others.

2.6.3 Private Sector Organizations

Included in this category are chambers of commerce and private sector associations. There are 12 city chambers in the country and they all strive to provide some form of business development services to their members. However, with the exception of the Addis Ababa Chamber of Commerce, most of the city chambers are very poor at providing effective services to their members and to the business community at large.

The Addis Ababa Private Manufacturers' Association is also engaged in providing limited services to its member enterprises. In fact its members are not microenterprises, but usually they are small- and medium-sized enterprises.

There are also some women entrepreneur associations in parts of the country that are established to promote women's entrepreneurship. Currently women entrepreneur associations are established in six regions, namely: Addis Ababa, Amhara, Southern Region, Oromia, Dire Dawa Administrative Council and in Tigray. These associations are assisted by the respective regions' government bodies such as the Trade, Industry and Tourism Bureaus, Women Affairs Bureaus, the Chambers of Commerce, and donor programmes such as the GTZ-MSE Development Programme, UNIDO and others. The ILO, through the Ireland Aid Partnership Programme, is also assisting the development of these women entrepreneur associations. The associations are very young and suffer from lack of capacity in the areas of trained manpower, finance and office facilities. As a result, their involvement in the provision of services to women entrepreneurs is so far, very much limited, and this is where some donors are focussing their support efforts.

2.6.4 Bilateral/Donor Assisted Programmes – Finance, BDS, etc.

(a) GTZ-MSE Development Programme

This is a bilateral programme with the German Government and implemented by GTZ. The major objective of the programme is to support the promotion of MSEs by providing capacity building support to intermediary organizations such as FeMSEDA, ReMSEDA, Chambers of Commerce and private sector associations. Its services include: training in business and management skills; CEFE ToT; capacity building in terms of equipment and training materials; support in organizing exposure trips and study tours locally as well as abroad; providing expertise support at both local and international levels on undertaking studies; training; and also providing small amounts of direct financial support required to strengthen the technical support being provided. Support is given free of charge to the project partners but in certain areas such as training, a cost-sharing scheme is being implemented on a step-by-step basis.

(b) International Labour Organization (ILO)

As well as commissioning this research into the factors affecting women entrepreneurs in Ethiopia, the ILO's IFP/SEED programme, with the support of the Ireland Aid Partnership Programme, is providing capacity-building support for research capabilities in the field of women's entrepreneurship development. In addition, exchanges of information and approaches are facilitated with research teams from Tanzania and Ethiopia, as well as with the ILO's international consultants based in the United Kingdom. Additional activities being undertaken by the ILO's WEDGE unit include the commissioning of a video film on women entrepreneur role models. This film has the objectives of promoting the idea of women's entrepreneurship, as well as acting as a training tool for existing and potential women entrepreneurs. The ILO, in association with Ministry of Trade and Industry, GTZ and UNIDO, is also providing capacity-building support for associations of women entrepreneurs and women entrepreneur support agencies. In addition, as part of a pilot action research project, IFP/SEED's WEDGE unit is providing systematic trade fair support for a number of women micro-entrepreneurs, and this is being delivered in association with the Micro Enterprise Development Forum (MEDF) and Women in Self Employment (WISE). This latter form of support is proving to be a very valuable vehicle for enhancing the economic empowerment of both able-bodied women, as well as women who have disabilities. As well as improving their awareness, knowledge, skills and self-confidence, this support also enables them to improve the presentation and marketing of their products.

The ILO's SKILLS programme has a special component relating to disability and employment. Also as part of the ILO-Ireland Aid Partnership Programme, the ILO's SKILLS programme in Ethiopia is identifying ways to support a large number of women entrepreneurs who have some form of disability, and some of the target beneficiaries have been assisted as part of the systematic trade fair support mechanism.

(c) Informal Commercial BDS Providers

There are many kinds of BDS in developing countries like Ethiopia that are offered to MSEs, but often they are not well known to governments and donors. A study carried out on "Commercial Business Development Services in Addis Ababa" revealed that micro and small enterprises in Addis Ababa pay for various types of commercial services, either in cash or in kind. The assessment shows that the range of services provided by the informal commercial BDS providers includes: legal services, secretarial services, training, book keeping, foreign exchange services (the 'black market'), fax, e-mail, internet and telephone services, advertising, liaison services, organized security, and renting of storage services.

Although the desire to promote micro and small enterprises has been clearly expressed in the National MSE Development Strategy that was issued by the Ministry of Trade and Industry in 1997, there are no co-ordinated efforts among stakeholders in supporting the growth of the MSE sector. The National and Regional MSE Development Strategies clearly state that FeMSEDA and the ReMSEDA are respectively the federal and regional bodies responsible for the co-ordination of efforts for the implementation of the strategies. In practice however, the various government institutions, private sector institutions and NGOs, who are active in the promotion of MSEs, operate independently of each other and, therefore, without a common vision.

Furthermore, MSEs are not aware of many existing BDS services and the respective BDS providers. Some of those who have some knowledge of BDS do not seem to fully appreciate the benefits that these services can provide in terms of improving the performance of their business operations. The involvement of government and donors in BDS development and in the delivery of services is not limited to pre- and post-transactional interventions, and it is more clearly evident on a transactional level. This has quite a significant implication for the longevity of institutions and the sustainability of services rendered. Moreover, the highly subsidised nature of much of the service delivery may have a potentially “crowding-out” effect on private commercial BDS providers.

Furthermore, the business development service providers, particularly FeMSEDA and the ReMSEDA, also lack the adequate institutional capacity and operational structures to discharge their responsibilities. This has created a situation where there is a weak communication network between BDS providers: each operating under different modalities, few working on commercial bases, and most delivering free services, thus distorting the market and crowding out emerging commercial BDS providers.

3. Issues Relating to Women Starting and Growing an Enterprise

3.1 Ethiopian context

A discussion of the issues which relate to women when starting and expanding an enterprise necessarily involves broaching multi-faceted subjects such as the empowerment of women. In order for a woman to be empowered, she needs access to and control over the material, human and social resources necessary to make strategic choices. As mentioned earlier, in Ethiopia many women have historically been disadvantaged in accessing not only material resources like credit and property, but have also been deprived for cultural reasons, of social resources such as education, information and modern technology. For the purposes of this report however, only some of the basic issues relating to Ethiopian women in enterprise development will be reviewed below, based on the existing literature.

3.2 Key issues

An impact study, recently conducted on the activities of four micro-finance institutions (two urban and two rural) operating in two regional states, revealed that the microenterprises run by women were generally started as a result of:

- unsatisfied household subsistence needs (such as food, clothes and education of children);
- girls dropping out of school and being unable to find wage employment;
- family pressures on girls to earn their own living;
- credit facilities being directly offered to women on their doorsteps.

The study emphasised that the type and nature of the enterprises in which women entrepreneurs were engaged were often directly linked to their initial motivation for starting an enterprise. Such enterprises, run by women, are not generally growth-oriented and remain at survival level.

The impact study cited above, further revealed that because of their multiple responsibilities as mothers and producers, most women tend to engage in activities that are home-based and less risky. This has implications of its own, as low risk activities generally yield limited returns. The reduced mobility of women in this category may often restrict them from seeking out information on training and technology. Such information could potentially enable them to acquire the necessary skills to explore viable business ideas and market opportunities for their products or services.

All of the issues stated above apply to microenterprises that are at survival level, and to those microenterprises which have potential for growth but remain micro mainly due to the constraining environment surrounding them. However, the small-scale manufacturing and service providing enterprises however are mostly started by relatively better off women who may have been educated up to university degree or diploma level. The majority of these women started businesses for profit, economic independence or to change careers.

As in a lot of cases, women who operate MSEs begin with business ideas copied from family, neighbours and friends and with a small amount of capital, mostly in the form of personal savings and loans from family or friends. In areas where micro-finance institutions operate, the women can access credit. Most of the MFIs are however funded by donors. This is significant,

as one of the main concerns of donors lies in serving the bottom layer of the poor and, to a certain extent, this dictates the allocation of MFI resources. In any case, the amounts of initial and subsequent repeat loans are very small and even if some enterprising women come up with viable business ideas, the loan products of the MFIs do not encourage growth-oriented activities. Currently, they are not ready to handle all categories of enterprises that in some way may contribute to reducing poverty and promoting economic development.

At the start-up level, the women begin with very small enterprises and therefore go into business without training or any experience or exposure to business. These women may encounter problems in expanding or diversifying their activities mainly because they lack the basic requirements for such situations. In order to grow in terms of employment, productivity and income, an enterprise must submit itself to the discipline of the market, in anticipation of the benefits that a closer alignment with markets can bring (Mead and Liedholm, 1999). Operating according to the discipline of the market could help to foster an understanding of the market's requirements in terms of product type, quality, timeliness and price. However, for Ethiopian women microenterprise operators who start businesses due to lack of better options, for survival and above all, in the absence of tailored supported services, none of the business strategies above are easy to accomplish.

3.3 Barriers facing women entrepreneurs

Some of the major barriers to expanding women's enterprises are listed below.

3.3.1 Lack of Market Access and Information

As women's businesses, especially those in the rural areas, are operated very close to the home, their market access is limited to individual buyers or the immediate neighbourhood. This narrows the market and limits the enterprise's expansion capacity. Product quality and external factors such as the situation of the existing infrastructure, also affect market access for the products of women entrepreneurs.

3.3.2 Lack of Affordable Appropriate Technology

A study conducted among women microenterprise operators in Kenya showed that lack of access to improved technology (including training in business skills) acted as a barrier to expansion, rather than as a barrier to entry in the MSE sector. The study states that technology is likely to be synonymous with new tools or new machinery that the micro-entrepreneur cannot afford (Gichira, 1992). Likewise, a brief study sponsored by the Christian Relief and Development Agency (CRDA) in 1998 revealed that failure to promote and develop improved technology has discouraged women in the southern part of Ethiopia from producing and marketing "enset" (banana used as staple food) on a commercial scale (Tsegaye, 1998).

3.3.3 Lack of Opportunities for Bulk Purchase of Inputs

Women who want to expand their business often have insufficient financial resources to buy inputs in bulk so as to minimise their costs (AEMFI, 2002). Many women-owned enterprises therefore suffer a disadvantage in the price of inputs because of the lack of economies of scale. This holds true for male entrepreneurs as well, but the idea of organizing groups for bulk purchasing is relatively difficult for women entrepreneurs to implement as they are impeded by cultural barriers and a lack of information for enjoying such schemes.

3.3.4 Low Levels of Education

Low educational levels are characteristic of the women who operate survival level enterprises, especially in the rural areas of the country. Unless interventions are directed at young women and school-leaving girls, the existing, traditionally women-operated enterprises will not move up or graduate to the upper end of MSEs. Young people, owing to their better education, can be guided, retrained and redirected so as to become more productive and growth-oriented entrepreneurs. The government should therefore identify and motivate young girls coming out of school and provide the appropriate facilities to help transform them into a new breed of women entrepreneurs (Tsehay Tsegaye & Mengistu Bedieye, 2002).

4. Conclusions and Key Recommendations

4.1 General findings

In compiling this report, we reviewed a wide range of literature on the MSE sector in Ethiopia and elsewhere. The literature on MSEs in Ethiopia is scanty and most of the available studies were conducted for specific purposes or on specific aspects of MSEs. The Central Statistical Authority carried out a relatively comprehensive study in 1997 on the MSE sector in Ethiopia, however it is very general and outdated for current purposes. There has been little empirical research conducted at national level on the situations of women entrepreneurs across all categories. Current available research is mainly in connection with micro-finance and poverty reduction, and has been conducted in particular areas for the purposes of certain NGOs or donors who commissioned the studies. Research on women-owned and -operated small, growth-oriented enterprises is practically unavailable.

In previous sections of this report we noted that women in the MSE sector make a considerable contribution to household incomes and that for women household heads, the income generated from such enterprises is normally their only means of subsistence. Furthermore, it is clear that women who are engaged in small manufacturing and service providing activities, have the potential to make a greater contribution to the country's economic development. However, we also highlighted the many constraints which hinder the development and expansion of micro and small enterprises generally, and which particularly impede operations by women entrepreneurs. These include both the internal shortcomings, such as the lack of appropriate managerial and technical skills, and the external problems that are institutional, infrastructural and cultural in nature. Consequently, many women who operate microenterprises are likely to face the prospect of stagnation or closure, while many others remain at survival level.

4.2 Key Issues Emerging

A review of the available literature on the MSE sector in general, and on women entrepreneurs in particular, shows that the sector has very real potential to provide economic opportunities for a large number of unemployed, and especially for different categories of women entrepreneurs in Ethiopia. However the constraints which inhibit the growth of this sector need to be fully addressed. Some of the key issues or opportunities and constraints that we have discussed earlier in this report, are summarised below.

4.2.1 Inadequate Empirical Research on Women in MSEs

A basic problem in analysing the experience of women in MSEs is the lack of adequate empirical studies on women entrepreneurs in Ethiopia. Women-owned and -operated small enterprises that are growth-oriented are practically unexplored from a research perspective. (Through the exchanges facilitated by the ILO with research teams from other countries, we recognize that in countries such as Tanzania there is a substantial body of knowledge relating to women's entrepreneurship development.) In fact there is no appropriate institution that conducts research aimed at entrepreneurship development for MSEs in general or by women. This lack of recorded information on women entrepreneurs is a barrier to making any kind of qualitative assessment on the characteristics or true profiles of women entrepreneurs at the national level.

This report has identified some of the problems of women-operated MSEs in Ethiopia. A related primary research study, sponsored by ILO's SEED-WEDGE unit, and funded under the Ireland Aid Partnership Programme, is currently in progress and should prove to be an eye opener for all concerned bodies in Ethiopia on the multi-faceted problems of women entrepreneurs in the country.

4.2.2 Limited Response by Financial Institutions

So far conventional banks have not proved to be a suitable form of finance for MSEs. This is due to a number of reasons.

- The commercial banks in Ethiopia are not keen to extend credit to MSEs because of the small size of individual loans and the high cost of administering many small loans.
- MSEs cannot put up the collateral requirements of banks.
- Branch networks are generally limited to urban areas.

As things currently stand, micro-finance institutions (MFIs) are the only formal institutions that are accessible to microenterprises. In fact, microenterprises are largely the exclusive concern of MFIs, who do not finance small enterprises at all. Though micro-finance institutions have been striving to expand their outreach, both in terms of the area and size of clients, their loan product development capacity is limited. A recent report by the Association of Ethiopian Micro-finance Institutions asserts that the loan products of the MFIs in the country are supply-driven and are offered to all clients in a generic manner, without targeting specific needs or requirements. These standard loan products do not in many cases suit the particular needs of all sizes of MSEs. However, MFIs are principally funded by donors who to a large extent dictate the allocation of resources. Poverty reduction is often their primary objective, and donors work to ensure that the bottom layers of the population have access to credit so as to eventually earn their own living.

Furthermore the credit delivery modality of MFIs is generally group-based. This is done to overcome the problems associated with the inability to put-up individual collateral for individual loans. However, as the financial profiles of clients develop, the group system may not, for various reasons, continue to be practical, useful or relevant. The MFIs as they operate now however, are not ready to design and implement alternative systems of collateral in order to meet the credit needs of such clients.

Another serious problem is that women entrepreneurs engaged in small-scale enterprises or growth-oriented MSEs do not get credit from MFIs. This is mainly due to the low loan ceiling, set by the National Bank (the licensing agency for MFIs), but which can be extended by the MFIs themselves. Many women entrepreneurs are equally blocked from borrowing from the conventional commercial banks because they often cannot offer the required collateral in fixed asset form. This indicates a serious gap in the provision of credit to such small-scale enterprises and presents a particular obstacle for women entrepreneurs.

4.2.3 Lack of Appropriate Technology and Facilities

Technology, as it relates to MSEs, is defined here as the ability or capability to translate and convert ideas into tangible goods and services. In addition to the capability (software) aspect, most MSEs – including those run by women – require labour-saving machinery and equipment. The lack of appropriate technology inhibits the growth and development of enterprises operated by women. For instance, women engaged in pottery and semi-processed food items like "enset", still use age-old, crude tools that are in some cases dangerous for the health of the women involved. The quality of their products is also poor in many cases, forcing them to be sold at very low prices despite the considerable time involved in production.

In rural areas, access to appropriate labour-saving technologies for women entrepreneurs could create opportunities for new and better businesses to which their time and effort could be devoted more productively. However, many of the women lack access to the skills and equipment related to such technologies. The ease and cost at which such machinery and equipment may be operated also determines its suitability for use by women entrepreneurs. Furthermore, many women engaged in growth-oriented enterprises cannot afford access to communication facilities like telephone, fax and e-mail. This further reduces the levels of business and market information available to women entrepreneurs.

4.2.4 Lack of Strong Organizations for Women Entrepreneurs

At present there are at least six associations of women entrepreneurs established at the regional state level. In addition, other associations of women entrepreneurs have started coming into the picture, like the Women Exporters' Association. These associations are very young and lack capacity in many aspects, to meet the demands of their members in the areas of training, access to information, marketing and other support services.

However, the development of such associations can be very important as they can have the effect of improving representation for women entrepreneurs in policy-making and other important forums, and ensuring that their voice is heard by policy-makers. To this end, the Ministry of Trade and Industry is promoting and supporting regional associations of women entrepreneurs, and this development is being supported by the GTZ, UNIDO, ILO and other organizations.

The existence of a strong network amongst women entrepreneurs and organizations is also highly essential for increasing the visibility of women's entrepreneurship at government level and among key stakeholders. Such measures should help to draw attention to the need for a better enabling environment for the sector.

4.2.5 Lack of Co-ordination Among Business Development Service (BDS) Providers

In spite of the establishment of FeMSEDA at national level and the ReMSEDA in some of the regional states, there is lack of co-ordination among the various actors in the provision of BDS in the country. This has tended to result in the fragmentation and sub-optimality of various efforts as well as ad hoc interventions, sometimes encouraging rivalry between projects and institutions. In turn this may result in the low impact of projects and inefficient use of resources, especially in terms of the sustainability of activities and programmes. Furthermore, in most cases business development services are donor or supply driven in nature; that is, they do not emanate from the perceived needs of the relevant target groups in the BDS market. This is often caused by the type of approach mounted by the service providers, which is donor or supply driven instead of demand driven, and exacerbated by the limited capacity of the service providers.

4.2.6 Lack of Access to Land and Premises

The availability of plots of land and premises in strategic areas for MSEs to produce and market their products is essential. Lack of appropriate premises tends to force women to operate their businesses from home or resort to unsuitable and sometimes unsanitary conditions. Policemen are known to harass some of the women entrepreneurs when they attempt to operate on street corners. In addition, low levels of education as well as social and cultural inhibitions and values have significant implications for the type of enterprises in which women can engage.

The expressed will of the Federal Government of Ethiopia to adopt the Poverty Reduction Strategy Paper (PRSP) affords an opportunity to direct appropriate attention to the MSE sector, as well as to address gender-based inequalities.

4.2.7 Lack of Market Access and Market Information

Some of the literature on Ethiopian women entrepreneurs, particularly microenterprise operators, indicates that women entrepreneurs face serious difficulties in marketing their products or services. Research has revealed that this problem is often caused by the fact that women entrepreneurs produce and try to market their products around the homestead, thereby limiting their market to individual buyers or the immediate neighbourhood. Often such practices stem from lack of information about market opportunities or access to markets. It is essential that the marketing of products should be linked to quality, price and timeliness of delivery of goods and services.

The ILO's systematic support for women micro-entrepreneurs' participation in trade fairs forms part of a range of pilot initiatives in several countries, all aimed at bridging the "product-market divide", and helping to improve market access for women in the informal economy. The Ireland Aid Partnership Programme, as well as a pilot project funded by the UK Government, are enabling the ILO to undertake such pilot activities. In addition, as the problems experienced by women with disability are of even greater magnitude, the ILO's SKILLS programme (also with assistance from Ireland Aid), is striving to improve market opportunities and access for women entrepreneurs with disabilities.

4.3 General Conclusion

Overall, the purpose of this secondary research has been to map out the known situation facing women entrepreneurs in Ethiopia. It is essential therefore that this desk research will have to be supplemented by a primary study in order to confirm or refute the findings drawn from the secondary information.

The systematic support provided by the ILO's SEED-WEDGE team, as well as that of the ILO's international consultants, has played a vital role in enabling the Ethiopian research team to zero in on some of the critical issues affecting the expansion, growth and formalization processes of women entrepreneurs.

4.4 Areas identified for further empirical research

Based on the review of the existing sources of information, and in close consultation with the ILO's team of international consultants, it has been agreed that the following three aspects will constitute the major part of the field research to be conducted within Ethiopia. The key research questions are:

- I. Why are the majority of Ethiopian women entrepreneurs engaged in informal enterprises, which are vulnerable?
- II. What lessons can we draw from the experiences of women in growing business?
- III. What measures should be taken to promote/support Ethiopian women entrepreneurs engaged in small-scale enterprises?

Based on the findings of this empirical research, findings and recommendations will be brought to a national conference in November 2002, and a final report will be prepared subsequently. This report will clearly outline recommendations areas and topic requiring implementable actions.

Annex - I

1. Country Context

Ethiopia covers an area of 1.2 million square kilometres and has a population of about 63 million. The population growth rate is 2.8 percent per year. In spite of Ethiopia's natural and human resources, the country nonetheless remains backward.

GNP per capita, at roughly US \$ 167 per annum (1999), is one of the lowest in the world. The majority of the population lives below the poverty line. Health services cover only 45 per cent of the population. According to figures from the Ministry of Economic Development and Co-operation (MEDAC), the adult literacy rate in 1995 was 35.5 per cent of the population. The combined ratio of enrolment at primary, secondary and tertiary levels of education was only 17 per cent (much lower than the average for sub-Saharan Africa which is 42 per cent).

The agricultural sector, consisting of mostly peasant farms accounts for roughly 51.4 per cent of the GDP, 85 per cent of total employment and 90 per cent of export earnings (MEDAC, 1997). The manufacturing sector plays a less significant role, contributing about 11 percent of GDP. The important sectors in manufacturing include: food, beverages, textiles, clothing and leather.

The Federal Government of Ethiopia has adopted a "Free Market Economic Policy" and an Agricultural Development-Led Industrialisation Strategy (ADLI) to assist the overall development of the country. This includes four key components: the maintenance of an appropriate macroeconomic framework; improvements in agricultural efficiency and growth; private sector development and public sector reform; and reduction of poverty and development of human resources.

Along with the overall development policy and strategy, different policies and regulations were issued in order to facilitate the development of the country. Micro and small enterprises (which assume the largest share in terms of the number of establishments and employees in the non-agricultural sectors) are special focus areas for the government. Considering the important role that MSEs may play in creating income and employment opportunities and eventually in reducing poverty, the Federal Government developed a strategy in 1997 for the development and promotion of MSEs.

The Poverty Reduction Strategy Paper (PRSP) is also being collectively prepared by the government, members of the private sector and civil society, NGOs and donors (at the time of writing, the latest draft had been prepared in May 2002). The incorporation of women entrepreneurship as part of this strategy, is expected to advance the socio-economic empowerment of women and hence poverty reduction at large.

2. Overview of the Study Areas

The following six major towns constitute the focus of the planned assessment of the constraints faced by women entrepreneurs in the country.

- a) **Addis Ababa** is the capital city of Ethiopia and the seat of the Federal Government. It covers an area of 21,000 hectares. The Central Statistical Authority (CSA) projected the population of Addis Ababa to be 2.8 million by the year 2001. Out of the total population, about 52 per cent are women. Merkato, one of the biggest open markets in Africa, is found

in Addis Ababa. In addition to Merkato, there are four big open markets in the outskirts of Addis Ababa. Overall, Addis Ababa is the major terminal market in Ethiopia. Though these markets are open six days a week, each market has one major and one minor market day every week.

- b) **Dire Dawa** is located about 515 kms, to the east of Addis Ababa. It is situated in a strategic location along the railway line between Addis Ababa and Djibouti. This railway line is the only one in the country and serves the import-export activity of the country. Dire Dawa is a vibrant business centre and a melting pot of peoples and cultures. The total area is 120,020 ha.
- c) **Bahir Dar** is the capital city of the Amhara National Regional State, where business activities, including small and microenterprises are increasingly becoming very important. As a result, Bahir Dar is one of the major towns in the region, as well as in the country as a whole, where a large number of MSE operators exist and new ones flourish.
- d) **Awassa** is also the seat of the Southern Nations, Nationalities and Peoples Regional State, located in the southern part of the country. According to 1997 CSA Statistics, Awassa is the major town in the region where high concentrations of MSE operators are found. It is located in one of the tourist attraction sites of the country and a number of small-scale enterprises engaged in tourism-related services are flourishing rapidly.
- e) **Mekelle** is also the seat of the Northern Regional State - Tigray. Mekelle being a business centre of the Tigray Region, has a number of business establishments ranging from micro to large-scale, basic industries.
- f) **Nazareth** is located 87km south of Addis Ababa. It is the seat of the Government of Oromia Regional State. Being close to Addis Ababa and along the Ethio-Djibouti railway line, has made Nazareth an important and vibrant business centre. Nazareth is also at the crossroads of three important administrative regions: Dire Dawa, Southern Regions and Addis Ababa. Hence, there are a number of MSEs related to manufacturing and service activities in Nazareth.

Annex - II

2. The Context for Women's and Gender Issues

This annex of the report tries to explore the particular cultural, economic, financial and social constraints which women entrepreneurs face in carrying out their multiple roles and responsibilities.

Profile of Women's Roles and Constraints

Ethiopian women have primary responsibilities for household management, child rearing, food preparation, care of the sick and elderly, and family health and welfare. In rural Ethiopia, these tasks are also carried out, in most cases, without the benefit of labour-saving technology or adequate social service and transport infrastructure. Women's primary responsibilities for these tasks are difficult to document in the absence of time-use data. This combination of responsibilities however means that women have a very heavy workload, which may often lead to health problems.

According to the survey conducted by the Central Statistical Authority (CSA) in 1997 on informal sector operators in Ethiopia, 59 per cent of the women entrepreneurs were illiterate, while nearly 20 per cent had only an elementary formal education (grade 1-6) background. The survey also revealed that 87 per cent of women entrepreneurs are either married, divorced and widowed. The comparable figure for the male folk is 69.8 per cent. This shows that women are often more likely to become entrepreneurs in order to support their families because of the responsibilities they shoulder as married women, as well as due to the problems they face when they are divorced and/or widowed. The survey also revealed that 56 per cent of the women entrepreneurs are heads of households, while 32 per cent are housewives.

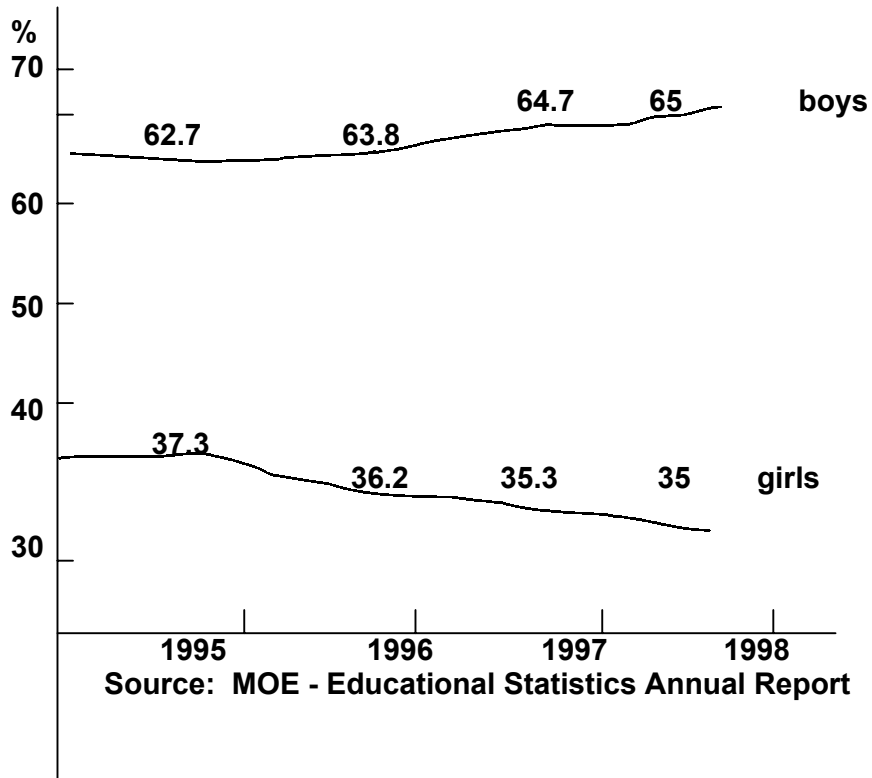
Concerning the age category of women entrepreneurs, the same survey shows that 60 per cent are in the 20-44 year age group, indicating that most of the women become entrepreneurs during the time when they are assuming household responsibilities as married women and as mothers.

Tradition and culture generally confine poor urban and rural women to economic activities that are less productive or profitable than those of men. Partly, this is related to the fact that self-employed women tend to focus on economic activities that are perceived to be more flexible (such as petty trade which is less risky) and on activities that can be either home-based or carried out in the vicinity of the household, so as to enable them to fulfil the demands associated with their reproductive roles. Evidence suggests that even relatively better off women in Ethiopia tend to focus on business areas in which they have traditional skills and know-how, such as food processing, clothing and hairdressing (Analysis of Women's IGA, 1999, AA).

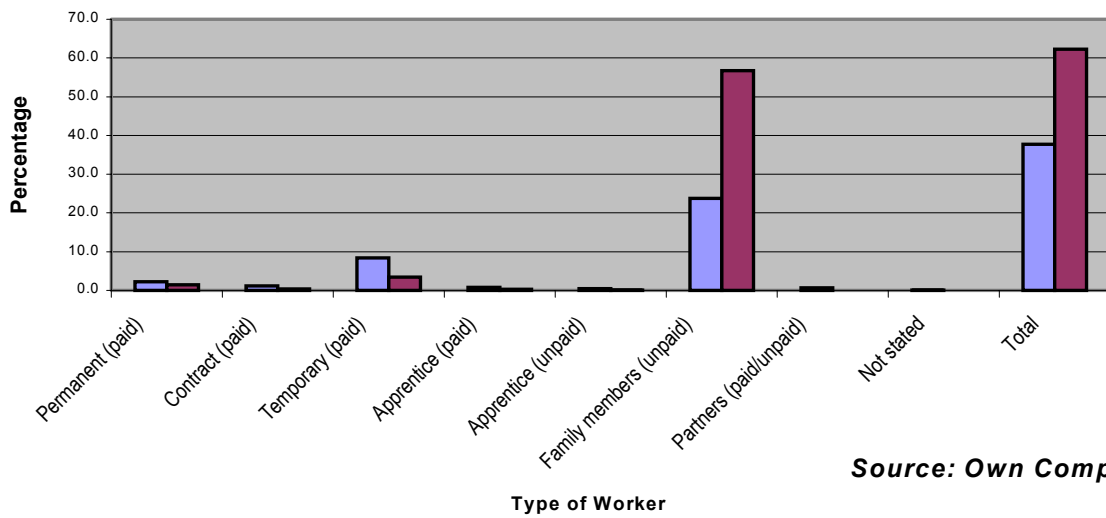
The CSA survey (1997) estimated that sole proprietors operated 82 per cent of the urban microenterprises in 1996. It also found that the children and spouses of the operators alone accounted for 60 per cent of the employees of the urban microenterprises in 1996. Beyond family members, apprentices constituted a large proportion of the work force.

**Annex III
Tables**

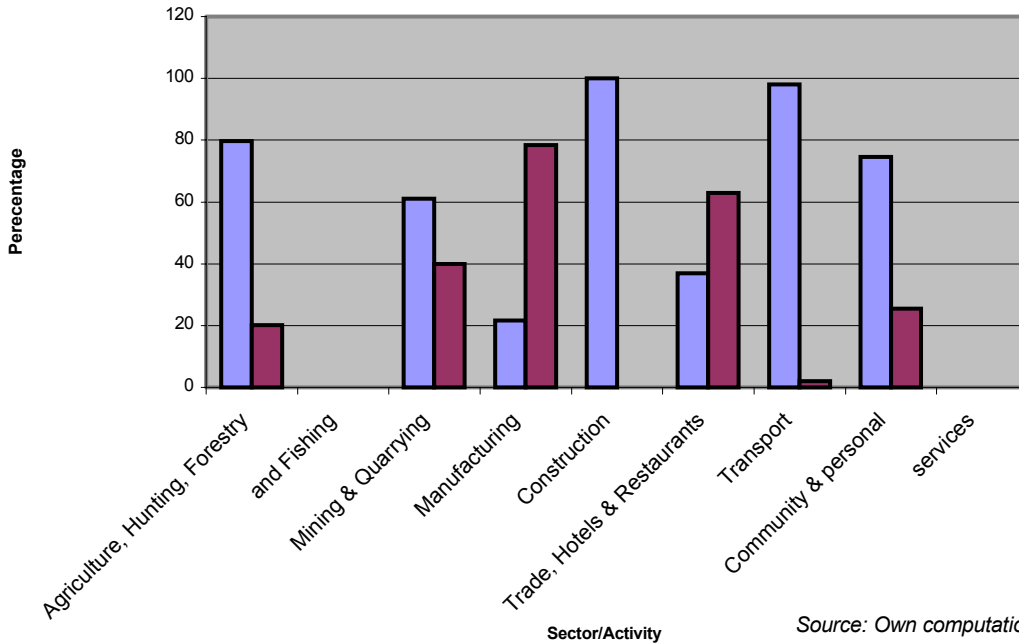
Enrolment in Government Primary Schools



**Distribution of Persons engaged in Informal Sector Establishments
by Gender and Type of Worker**



Distribution of Informal Sector Operators by Type of Activity/Sector and Sex



Women account for the majority of the labour force in the microenterprise sector of Ethiopia. The CSA report estimated that 65 per cent of urban microenterprise operators were women, while the report of the Ministry of Labour and Social Affairs (MOLSA, 1997) pointed out the high participation of women and youth in the rural areas.

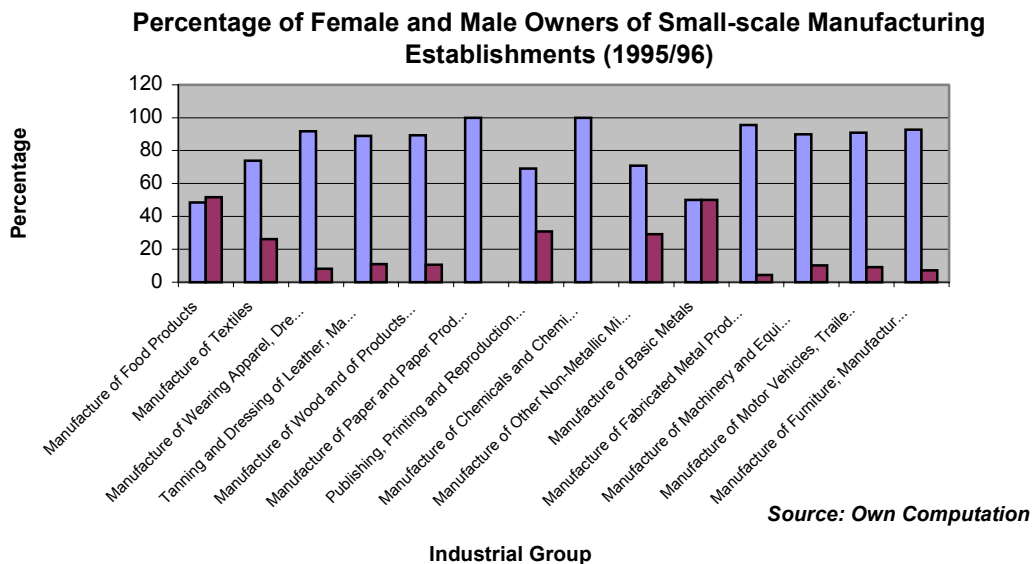
The MOLSA report also indicated that women entrepreneurs largely engage in activities that are in the domain of traditional household-related activities such as the preparation of food and drink and handicrafts (MOLSA, 1997). Outside of these fields of employment women work in a number of other industries including: leather, chemicals, plastic, beverages, ceramics, candle and hollow blocks. Women in rural Ethiopia are also predominantly engaged in the production of handicraft items, particularly traditional goods. The main industries in this respect are: tailoring, pottery, carpet making and weaving. Most of the activities in which women are engaged are known to be seasonal, especially in the rural areas, and such activities may lend themselves to flexible working hours, which fit in well with the women's multiple domestic responsibilities (including reproductive work).

As we noted above, women are more likely to be employed in activities that are less risky and consequently in activities which normally produce low returns. Women therefore find it difficult to engage in growth-oriented activities. The level of education of an entrepreneur has a direct effect on the income earned from microenterprises, except in the area of handicrafts, which have been found to have negative social values (MOLSA, 1997). Similarly, a study conducted in North Shoa Zone, emphasised the direct relationship between education and income level. It deduced that relatively high education might improve rationality and stimulate diversified use of resources in marginal areas.

It is widely recognised that in most cases the engine behind any entrepreneurial venture is profit - that is, entrepreneurs in general seek a return on their capital as reward for their financial investment and the associated risks that they have taken. A strong desire to achieve and the willingness to take risks are seen as some of the most important characteristics of a successful entrepreneur.

When we consider women entrepreneurs in Ethiopia however, and their reasons for entering into business activities, profit making may often not be the overriding reason. As indicated by the CSA survey of 1997, women entrepreneurs choose to engage in business: because of the small amount of investment needed to start an enterprise (43.7 per cent); to establish a micro business for survival and due to the absence of any other alternatives to engage in (38.3 per cent).

One study also confirmed that the need for employment in order to gain livelihood is the most important motive for starting a small business in Ethiopia. This study showed that 42 per cent of the sampled entrepreneurs stated employment as their motivating reason for going into business (Dawit,1998).



**Number and Percentage Distribution of Persons Engaged in
Cottage/Handicraft Industries by Urban/Rural Areas,
Type of Employment and Sex: 1996**

No	Type of Employment	Country Level						Urban Areas						Rural Areas					
		Male		Female		Both Sexes		Male		Female		Both sexes		Male		Female		Both Sexes	
		No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
1	Partners and unpaid family workers	407469	31.1	820336	62.5	1227805	93.5	168973	30.5	336374	60.7	505347	91.2	238496	31.5	483962	63.8	722458	95.3
2	Apprentices	23519	1.9	9474	0.7	32993	3.6	12051	2.3	3908	0.7	15959	3.0	11468	1.5	5566	0.7	17034	2.2
3	Employers	34724	2.6	16223	1.2	50947	3.8	21190	3.8	11331	2.0	32521	5.8	13534	1.8	4892	0.7	18426	2.5
	Total	465712	35.6	846033	64.4	1311745	100	202214	36.6	35163	63.4	553827	100	263498	34.8	494420	65.2	757918	100

Source: Survey of Cottage/Handicraft Industries, Central Statistical Authority(CSA), 1996

**Number and Percentage Distribution of Persons Engaged in Small Scale
Manufacturing Industries by Type of Work and Sex: 1995/96**

No	Type of Work	Male		Female		Total	
		No	%	No	%	No	%
1	Unpaid family workers	2663	29.82	995	11.14	3658	40.96
2	Unpaid apprentices	352	3.94	18	0.20	370	4.15
3	Paid apprentices	242	2.71	13	0.15	255	2.86
4	Permanent paid employees	3210	35.85	549	6.15	3750	42.00
5	Seasonal and temporary workers	-	-	-	-	896	10.04
	Total	6458	72.32	1575	17.64	8929	100

Source: Survey of Cottage/Handicraft Industries, Central Statistical Authority(CSA), 1997

Annex IV

International Labour Conference Conclusions Concerning Decent Work and the Informal Economy

1. Recognizing the commitment of the ILO and its constituents to making decent work a reality for all workers and employers, the Governing Body of the International Labour Office invited the International Labour Conference to address the issue of the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to "conditions of freedom and dignity, of economic security and equal opportunity". We now seek to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.

2. The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; extending social protection; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy – because most of them are unable to find other jobs or start businesses in the formal economy.

3. Although there is no universally accurate or accepted description or definition, there is a broad understanding that the term "informal economy" accommodates considerable diversity in terms of workers, enterprises and entrepreneurs with identifiable characteristics. They experience specific disadvantages and problems that vary in intensity across national, rural, and urban contexts. The term "informal economy" is preferable to "informal sector" because the workers and enterprises in question do not fall within any one sector of economic activity, but cut across many sectors. However, the term "informal economy" tends to downplay the linkages, grey areas and interdependencies between formal and informal activities. The term "informal economy" refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. The ILO's work needs to take into account the conceptual difficulties arising from this considerable diversity.

4. Workers in the informal economy include both wage workers and own-account workers. Most own-account workers are as insecure and vulnerable as wage workers and move from one situation to the other. Because they lack protection, rights and representation, these workers often remain trapped in poverty.

5. In some countries, the term “informal economy” refers to the private sector. In some other countries, the term is considered synonymous with the “underground”, “shadow” or “grey” economy. However, the majority of workers and enterprises in the informal economy produce legal goods and services, albeit sometimes not in conformity with procedural legal requirements, for example where there is non-compliance with registration requirements or immigration formalities. These activities should be distinguished from criminal and illegal activities, such as production and smuggling of illegal drugs, as they are the subject of criminal law, and are not appropriate for regulation or protection under labour or commercial law. There also may be grey areas where the economic activity involves characteristics of both the formal and informal economy, for instance when formal workers are provided with undeclared remuneration, or when there are groups of workers in formal enterprises whose wages and working conditions are typical of those existing in informality.

6. The informal economy absorbs workers who would otherwise be without work or income, especially in developing countries that have a large and rapidly growing labour force, for example in countries where workers are made redundant following structural adjustment programmes. Most people enter the informal economy not by choice but out of a need to survive. Especially in circumstances of high unemployment, underemployment and poverty, the informal economy has significant job and income generation potential because of the relative ease of entry and low requirements for education, skills, technology and capital, but the jobs thus created often fail to meet the criteria of decent work. The informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services.

7. Workers and economic units in the informal economy can have a large entrepreneurial potential. Workers in the informal economy also have a reservoir of skills. Many people working in the informal economy have real business acumen, creativity, dynamism and innovation, and such potential could flourish if certain obstacles could be removed. The informal economy could also serve as an incubator for business potential and an opportunity for on-the-job skills acquisition. In this sense, it can be a transitional base for accessibility and graduation to the formal economy, if effective strategies are put in place.

8. In many countries, both developing and industrialized, there are linkages between changes in the organization of work and the growth of the informal economy. Workers and economic units are increasingly engaged in flexible work arrangements, including outsourcing and subcontracting; some are found at the periphery of the core enterprise or at the lowest end of the production chain, and have decent work deficits.

9. The decent work deficits are most pronounced in the informal economy. From the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. Workers in the informal economy are not recognized, registered, regulated or protected under labour legislation and social protection, for example when their employment status is ambiguous, and are therefore not able to enjoy, exercise or defend their fundamental rights. Since they are normally not organized, they have little or no collective representation vis-à-vis employers or public authorities. Work in the informal economy is often characterized by small or undefined workplaces, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours and lack of access to information, markets, finance, training and technology. Workers in the informal economy may be characterized by varying degrees of dependency and vulnerability.

10. Although most at risk and therefore most in need, most workers in the informal economy have little or no social protection and receive little or no social security, either from their employer or from the government. Beyond traditional social security coverage, workers in the informal economy are without social protection in such areas as education, skill-building, training, health care and childcare, which are particularly important for women workers. The lack of social protection is a critical aspect of the social exclusion of workers in the informal economy.

11. While some people in the informal economy earn incomes that are higher than those of workers in the formal economy, workers and economic units in the informal economy are generally characterized by poverty, leading to powerlessness, exclusion, and vulnerability. Most workers and economic units in the informal economy do not enjoy secure property rights, which thus deprives them access to both capital and credit. They have difficulty accessing the legal and judicial system to enforce contracts, and have limited or no access to public infrastructure and benefits. They are vulnerable to harassment, including sexual harassment, and other forms of exploitation and abuse, including corruption and bribery. Women, young persons, migrants and older workers are especially vulnerable to the most serious decent work deficits in the informal economy. Characteristically, child workers and bonded labourers are found in the informal economy.

12. Unregistered and unregulated enterprises often do not pay taxes, and benefits and entitlements to workers, thus posing unfair competition to other enterprises. Also workers and economic units in the informal economy do not always contribute to the tax system, although often because of their poverty. These situations may deprive the government of public revenue thereby limiting government's ability to extend social services.

13. To promote decent work, it is necessary to eliminate the negative aspects of informality while at the same time ensuring that opportunities for livelihood and entrepreneurship are not destroyed, and promoting the protection and incorporation of workers and economic units in the informal economy into the mainstream economy. Continued progress towards recognized, protected decent work will only be possible by identifying and addressing the underlying causes of informality and the barriers to entry into the economic and social mainstream.

14. Informality is principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultation; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws. Macroeconomic policies, including structural adjustment, economic restructuring and privatization policies, where not sufficiently employment-focused, have reduced jobs or not created adequate new jobs in the formal economy. A lack of high and sustainable economic growth inhibits the capacity of governments to facilitate the transition from the informal to the formal economy, through the creation of more jobs in the mainstream economy. Many countries do not have explicit employment creation and business development policies; they treat job quantity and quality as a residual rather than as a necessary factor of economic development.

15. In appropriate circumstances, trade, investment and technology can offer developing and transition countries opportunities to reduce the gap that separates them from advanced industrialized countries, and can create good jobs. However, the problem is that the current globalization processes are not sufficiently inclusive or fair; the benefits are not reaching enough people, especially those most in need. Globalization lays bare poor governance. Trade, without export subsidies that distort the market, without unfair practices or the application of unilateral measures, would help living standards to be raised and conditions of employment to be improved in developing countries, and would reduce decent work deficits in the informal economy.

16. Since a defining characteristic of workers and enterprises in the informal economy is that they often are not recognized, regulated or protected by law, the legal and institutional frameworks of a country are key. The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards are as applicable in the informal as in the formal economy. But some workers are in the informal economy because national labour legislation does not adequately cover them or is not effectively enforced, in part because of the practical difficulties of labour inspection. Labour legislation often does not take into account the realities of modern organization of work. Inappropriate definitions of employees and workers may have the adverse effect of treating a worker as self-employed and outside the protection of labour legislation.

17. Inappropriate legal and administrative frameworks that do not guarantee and protect freedom of association make it difficult for workers and employers to organize. Democratic, independent, membership-based organizations of wage workers, own-account workers, self-employed persons or employers in the informal economy are sometimes not allowed to operate under local or national legislation and are often unrecognized and excluded from or under-represented in social dialogue institutions and processes. Without organization and representation, those in the informal economy generally do not have access to a range of other rights at work. They are not able to pursue their employment interests through collective bargaining or to lobby policy-makers on issues such as access to infrastructure, property rights, taxation and social security. Women and youth, who make up the bulk of workers in the informal economy, are especially without representation and voice.

18. Economic units operate in the informal economy mainly because inappropriate regulations and excessively high tax policies are responsible for excessive costs of formalization and because barriers to markets and the lack of access to market information, public services, insurance, technology and training exclude them from the benefits of formalization. High transaction and compliance costs are imposed on economic units by laws and regulations that are overly burdensome or involve dealing with corrupt or inefficient bureaucracies. The absence of an appropriate system of property rights and the titling of the assets of the poor prevents the generation of productive capital needed for business development.

19. Informality can also be traced to a number of other socio-economic factors. Poverty prevents real opportunities and choices for decent and protected work. Low and irregular incomes and often the absence of public policies prevent people from investing in their education and skills needed to boost their own employability and productivity, and from making sustained contributions to social security schemes. Lack of education (primary and secondary) to function effectively in the formal economy, in addition to a lack of recognition of skills garnered in the informal economy, act as another barrier to entering the formal economy. The lack of livelihood opportunities in rural areas drives migrants into informal activities in urban areas or other countries. The HIV/AIDS pandemic – by illness, discrimination or loss of adult breadwinners – pushes families and communities into poverty and survival through informal work.

20. The feminization of poverty and discrimination by gender, age, ethnicity or disability also mean that the most vulnerable and marginalized groups tend to end up in the informal economy. Women generally have to balance the triple responsibilities of breadwinning, domestic chores, and elder care and childcare. Women are also discriminated against in terms of access to education and training and other economic resources. Thus women are more likely than men to be in the informal economy.

21. Since decent work deficits are often traceable to good governance deficits, the government has a primary role to play. Political will and commitment and the structures and mechanisms for proper governance are essential. Specific laws, policies and programmes to deal with the factors responsible for informality, to extend protection to all workers and to remove the barriers to entry into the mainstream economy will vary by country and circumstance. Their formulation and implementation should involve the social partners and the intended beneficiaries in the informal economy. Especially in countries struggling with abject poverty and with a large and rapidly growing labour force, measures should not restrict opportunities for those who have no other means of livelihood. However, it should not be a job at any price or under any circumstances.

22. Legislation is an important instrument to address the all-important issue of recognition and protection for workers and employers in the informal economy. All workers, irrespective of employment status and place of work, should be able to enjoy, exercise and defend their rights as provided for in the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards. To ensure that labour legislation affords appropriate protection for all workers, governments should be encouraged to review how employment relationships have been evolving and to identify and adequately protect all workers. The elimination of child labour and bonded labour should be a priority goal.

23. The informal economy provides an environment that allows child labour to thrive. Child labour is a key component of the informal economy. It undermines strategies for employment creation and poverty reduction, as well as education and training programmes and the development prospects of countries. Child labour also exists in industrialized countries. The eradication of child labour requires poverty reduction, good governance, effective enforcement, improved access to universal education and social protection. It requires commitment and cooperation between the social partners as part of the promotion of fundamental rights and the programme to transfer jobs from the informal to the economic mainstream. Key to the success of abolishing child labour is the creation of more quality jobs for adults.

24. It is the responsibility of governments to provide an enabling framework at national and local levels to support representational rights. National legislation must guarantee and defend the freedom of all workers and employers, irrespective of where and how they work, to form and join organizations of their own choosing without fear of reprisal or intimidation. Obstacles to the recognition of legitimate, democratic, accessible, transparent and accountable membership-based organizations of workers and employers in the informal economy must be removed, so that they are able to participate in social dialogue structures and processes. Public authorities should include such organizations in public policy debates, and provide them access to the services and infrastructure they need to operate effectively and efficiently and protect them from harassment or unjustified or discriminatory eviction.

25. Policies and programmes should focus on bringing marginalized workers and economic units into the economic and social mainstream, thereby reducing their vulnerability and exclusion. This means that programmes addressing the informal economy, such as provision of education, training, microfinance, etc., should be designed and implemented with the main objective of bringing workers or economic units in the informal economy into the mainstream, so that they are covered by the legal and institutional framework. Statistical and other research should be focused and designed to give effective support to these policies and programmes.

26. Governments must provide the conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies and also to promote well-functioning labour markets and labour market institutions, including labour market information systems and credit institutions. To increase job quantity and quality, emphasis should be placed on investing in people, especially the most vulnerable – in their education, skills training, lifelong learning, health and safety – and encouraging their entrepreneurial initiative. Poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs), should specifically address the problems in the informal economy. The creation of decent jobs should be a measure of success for these strategies. In many developing countries, rural development and agricultural policies, including supportive legal frameworks for cooperatives, need to be enhanced and strengthened. Special attention should be given to the care responsibilities of women to enable them to make the transition from informal to formal employment more easily.

27. A conducive policy and legal environment lowers the costs to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation. It also increases the benefits of legal registration, facilitating access to commercial buyers, more favorable credit terms, legal protection, contract enforcement, access to technology, subsidies, foreign exchange and local and international markets. Besides, such policies discourage businesses in the formal economy from shifting into the informal economy. This helps new businesses to start and smaller businesses to enter the formal economy and to create new jobs, without lowering labour standards. This also increases state revenues.

28. Another high priority is a coherent legal, judicial and financial framework for securing property rights to enable assets to be turned into productive capital through sale, lease or use as collateral. Reform of legislation regarding property rights should give special attention to gender inequalities in rights to own and control property.

29. To address the needs of the poor and vulnerable in the informal economy, the conclusions concerning social security adopted by the 89th Session of the International Labour Conference in 2001 should be supported and implemented. Governments have a lead responsibility to extend the coverage of social security, in particular to groups in the informal economy which are currently excluded. Micro insurance and other community-based schemes are important but should be developed in ways that are consistent with the extension of national social security schemes. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy.

30. The implementation and enforcement of rights and protections should be supported by improved systems of labour inspection and easy and rapid access to legal aid and the judicial system. There should also be provisions for cost-effective dispute resolution and contract enforcement. National governments and local authorities should promote efficient bureaucracies that are corruption and harassment free, are transparent and consistent in the application of rules and regulations, and that protect and enforce contractual obligations and respect the rights of workers and employers.

31. An important objective for both employers' and workers' organizations is to extend representation throughout the informal economy. Workers and employers in informal activities may wish to join existing trade unions and employers' organizations, or they may want to form their own. Employers' and workers' organizations play a critical role in either strategy: extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member-based, accessible, transparent, accountable and democratically managed representative organizations, including bringing them into social dialogue processes.

32. Both employers' and workers' organizations can play an important advocacy role to draw attention to the underlying causes of informality and to galvanize action on the part of all tripartite partners to address them, and to remove the barriers to entry into mainstream economic and social activities. They can also lobby the public authorities for the creation of transparent institutions and the establishment of mechanisms for delivering and linking services to the informal economy. The innovative and effective strategies and good practices that employers' organizations and trade unions in different parts of the world have used to reach out to, recruit, organize or assist workers and enterprises in the informal economy should be more widely publicized and shared.

33. Employers' organizations in collaboration with or through other relevant organizations or institutions could assist economic units operating in the informal economy in a number of important ways, including access to information which they would otherwise find difficult to obtain, such as on government regulations or market opportunities, and also access to finance, insurance, technology and other resources. They could extend business support and basic services for productivity improvement, entrepreneurship development, personnel management, accounting and the like. They could help develop a lobbying agenda specially geared to the needs of micro and small enterprises. Importantly, employers' organizations could act as the conduit for the establishment of links between informal enterprises and formal enterprises, the opportunities for which have increased due to globalization. They could also initiate activities adapted to the needs of the informal economy that can yield important results such as improved safety and health, improved labour-management cooperation or productivity enhancement.

34. Trade unions can sensitize workers in the informal economy to the importance of having collective representation through education and outreach programmes. They

can also make efforts to include workers in the informal economy in collective agreements. With women accounting for a majority in the informal economy, trade unions should create or adapt internal structures to promote the participation and representation of women and also to accommodate their specific needs. Trade unions can provide special services to workers in the informal economy, including information on their legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives. These services should not, however, be regarded as a substitute for collective bargaining or as a way to absolve governments from their responsibilities. There is also a need to develop and promote positive strategies to combat discrimination of all forms, to which workers in the informal economy are particularly vulnerable.

35. The ILO should draw upon its mandate, tripartite structure and expertise to address the problems associated with the informal economy. An approach based on decent work deficits has considerable merit and should be pursued. The ILO approach should reflect the diversity of situations and their underlying causes found in the informal economy. The approach should be comprehensive involving the promotion of rights, decent employment, social protection and social dialogue. The approach should focus on assisting member States in addressing governance, employment-generation and poverty-reduction issues. The ILO should take into account the conceptual difficulties arising from the considerable diversity in the informal economy.

36. The efforts of the Office should:

(a) better address the needs of workers and economic units in the informal economy and they should be addressed throughout the Organization, including already existing policies and programmes;

(b) strengthen its tripartite approach to all activities in this area and especially to ensure close consultation and active involvement of the Bureau for Workers' Activities and Bureau for Employers' Activities in all aspects of the work programme, in particular their design;

(c) include an identifiable and highly visible programme of work with dedicated resources that is able to draw together relevant expertise including experts in workers' and employers' activities;

(d) be linked logically and integrally to the ILO's major strategic objectives and InFocus programmes, for example the Decent Work Agenda, the Declaration on Fundamental Principles and Rights at Work and its Follow-up, the Global Employment Agenda, and upholding the overall goals of gender equality and poverty reduction; and be able to draw upon the multidisciplinary expertise and experience of all four technical sectors and operate effectively across all sectors and field structures. Linkages should also be made with major international initiatives, such as the Millennium Development Goals and the Youth Employment Network;

(e) be organized in innovative and effective ways to focus the particular and/or combined expertise of specialists in labour law, eradication of the worst forms of child labour, equal opportunities, social aspects of globalization, labour inspection, social dialogue, social protection, micro and small enterprise development and employment policy, together with specialists in workers' and employers' activities, to deliver specifically designed strategies to address the identified causes and impacts of decent work deficits thus contributing to poverty reduction;

(f) ensure that technical assistance activities seek to integrate workers and economic units in the informal economy into the mainstream economy and are designed to produce this result;

(g) be reflected in the programme and regular budget and technical assistance priorities and supported by adequate regular budget and extra-budgetary resources.

37. Specific priority areas for the ILO's work programme and technical assistance should be to:

(a) help member States to formulate and implement, in consultation with employers' and workers' organizations, national policies aimed at moving workers and economic units from the informal economy into the formal economy;

(b) place special emphasis on removing obstacles to, including those in the legal and institutional framework, the realization of all the fundamental principles and rights at work;

(c) identify the obstacles to application of the most relevant labour standards for workers in the informal economy and assist the tripartite constituents in developing laws, policies, and institutions that would implement these standards;

(d) identify the legal and practical obstacles to formation of organizations of workers and employers in the informal economy and assist them to organize;

(e) gather and disseminate examples and best-practice models of innovative and effective strategies used by employers' organizations and trade unions to reach out to, recruit and organize workers and economic units in the informal economy;

(f) undertake programmes and policies aimed at creating decent jobs and education, skill-building and training opportunities to help workers and employers move into the formal economy;

(g) target those areas of the informal economy where child labour is prevalent with the objective of assisting member States to design and implement policies and programmes to eradicate child labour;

(h) apply the ILO's policies and programmes on enhancing employability, skills and training, productivity and entrepreneurship to help meet the massive demand for jobs and livelihoods in ways that respect labour standards and enable entry into the economic and social mainstream;

(i) assist member States to develop appropriate and facilitating legal and regulatory frameworks to secure property rights and title assets, and to encourage and support the start-up and sustainable growth of enterprises and their transition from the informal to formal economy;

(j) mainstream the issues concerning and solutions to the challenges often presented by the informal economy in poverty reduction strategies, in particular the Poverty Reduction Strategy Papers (PRSPs);

(k) promote the renewed campaign agreed at the International Labour Conference in 2001 to improve and extend social security coverage to all those in need of social protection, especially those in the informal economy, inter alia, through the development and piloting of innovative ideas, such as the Global Social Trust;

(l) address discrimination in the informal economy and ensure that policies and programmes specifically target the most vulnerable, in particular women, young first-time jobseekers, older retrenched workers, migrants and those afflicted with or affected by HIV/AIDS;

(m) develop greater understanding of the relationship between the informal economy and the feminization of work, and identify and implement strategies to ensure that women have equal opportunities to enter and enjoy decent work;

(n) assist member States to collect, analyze and disseminate consistent, disaggregated statistics on the size, composition and contribution of the informal economy that will help enable identification of specific groups of workers and economic units and their problems in the informal economy and that will inform the formulation of appropriate policies and programmes;

(o) expand the knowledge base on governance issues in the informal economy and solutions and good practices for dealing with these issues;

(p) collect and disseminate information on transitions made to the mainstream economy, how such transitions were facilitated, and key success factors;

(q) take the lead role in working with other relevant institutions whose expertise could complement that of the ILO in addressing the issues in the informal economy;

(r) include work with other international organizations including United Nations and Bretton Woods institutions, promoting dialogue to avoid duplication, identify and share expertise, while the ILO itself takes the lead role.

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