

Introduction

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

In Ethiopia, like in any other developing countries, medium and large-scale manufacturing or service giving sectors and state bureaucracies could not create enough jobs to absorb the ever-increasing labor force, especially in urban areas. A range of interrelated factors contribute to this dismal situation. These include town-ward migration, population growth, landlessness, structural adjustment policies etc. In such situations, MSEs may be reported to by poor and unemployed people in both urban and rural areas as source of livelihood. MSEs may therefore have a critical potential role in poverty reduction and economic recovery and growth.