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RESEARCH ARTICLE

**BUSINESS DEVELOPMENT SERVICES (BDS) FOR MICRO AND SMALL ENTERPRISES (MSES)
(IMPACT ASSESSMENT ON THE CASE OF MEKELLE CITY, TIGRAY, ETHIOPIA)**

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ABSTRACT

MSEs are playing prominent role in the economies of developing countries like Ethiopia. For this reason, the Federal Government of Ethiopia as well as the authorities at different levels of the country have attempted to promote MSEs through offering Business Development Services (BDS). The objective of BDS is to improve MSEs' performance. To this end, this study aims examining the contribution of BDS provided by various stakeholders in Mekelle City, Tigray, Ethiopia on the expansion and development of MSEs. Both qualitative and quantitative data were used in the study. The effect of BDS (particularly training) on the performance of MSEs were assessed in terms of its contribution to growth (current capital and the number of employees). BDS has brought changes in MSEs in terms of innovation which results in efficiency and profit improvement. The supply driven nature of the training may shade lights on the sustainability of training. The lack of willingness to pay for training implies dependency of the MSE owners which may affect the participation of the private sector in the training that in turn affects the continuity and the sustainability of the BDS services. Making the training demand driven may help fit to the interest of the MSE owner which in turn improves the satisfaction level of the trainees. Attitudinal change in avoiding dependency on government and NGO provision and make MSE owners interested in training and willing to pay for it. This will assure the sustainability and the continuity of the service and its contribution to business development.

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INTRODUCTION

Today the MSEs are playing a prominent role in the economies of developing countries of Africa. Similarly, with the increased urban population dynamics of Sub-Saharan Africa, the importance of micro and small enterprises (MSEs) is also growing. In Sub-Saharan Africa, given the rapid rural-urban migration and deficiency to absorb this migration, MSEs have become important urban economic activities and providers of urban employment (Elias, 2005). In cities and towns of Ethiopia, MSEs and informal sector in general are the predominant income generating activities; they have a significant contribution to local economic development and used as the basic means of survival (Tegegne and Mulat, 2005; Elias, 2005). The government of Ethiopia long recognized the important contribution that Micro and Small Enterprises (MSEs) can make to poverty reduction, employment creation, private sector development and industrialization of the country. For these reasons, the Federal Government of Ethiopia as well as the authorities at different levels of the country has attempted to promote the MSEs through offering Business

Development Services. The ultimate objective of the government and the stake holders in Business Development Services (BDS) is to improve micro and small enterprises' performance especially in urban areas, as a means to achieve higher economic growth and employment, reduce poverty, and meet social objectives (Shimelis Admassie, Bavaiah, 2010). Accordingly, a full support package that contains organization, land supply, credit service market, technology, training and other supports has been prepared for micro and small enterprises operating in selected fields. This is provided in the form of a BDS with the help of extension agents. In light to the scaling up of the BDS and MSE development program generally in Ethiopia and particularly in Tigray region, it is essential to conduct an impact assessment of the BDS program on the overall performance of MSEs. Such an assessment would help to improve the design and modalities with the effectiveness of BDS delivery. But the number of researches that analyzed the issues of the impact of BDS programs on the overall performance the MSEs is few. As a result, little is known about the impact of the BDS provision on the performance and development of MSEs in Ethiopia in general and Tigray region in particular. Therefore it is essential to conduct a study to assess the achievements made so far on MSEs through the provision of BDS. Thus, this paper attempts to contribute towards filling the knowledge gap about the BDS

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impact on MSEs’ revenue improvement, creation of employment opportunity and wealth creation.

The objectives of the study were:

- To assess the status of BDS programs’ impact with regard to the changes in the creation of employment opportunity by the MSEs
- To measure the extent to which BDS programs has contributed in improving the assets of MSEs.
- To review the sustainability of BDS programs.

MATERIALS AND METHODS

Both qualitative and quantitative types of data were used in the study. Qualitative data were obtained through interview with stakeholders in the process of providing business development services such as officials of Tigray TVET Agency, Tigray MSEs Development Agency, Wired MSEs extension workers, Tigray Development Association Office and others. More on this, the quantitative data were gathered from primary and secondary sources. The primary data were secured from the micro and small enterprises which are receiving BDS, business development service program providers, BDS facilitators and other key informants. Secondary data were collected from the stakeholders of the BDS program provision such as; Tigray MSEs Development Agency, TVET Agency, Wereda and Sub-city MSEs Coordination Offices and other stakeholders involved in the BDS provision. As per the data obtained from the Tigray MSEs Development Agency, in Tigray there are more than 106,000 businesses registered as micro and small enterprises. Out of these, more than 90 percent are receiving BDS. Based on the data obtained from Tigray MSEs Development Agency, the number of MSEs which are receiving BDS in Mekelle city is more than 16,000. The sample size taken from these MSEs in Mekelle were 250. A large sample proportion were taken from non-participants and one-fifth (1/5th) of the sample were taken from the participants (MSEs taking business development services).

Proportional stratified sampling technique was applied to select samples from the participants and non-participants population. Tigray MSEs Development Agency categorizes MSEs in Tigray in six sectors namely; Construction, Manufacturing, Food Preparation, Urban Agriculture, Service and Merchandise. Due to the fact that the MSEs in the service sector lacks sustainability and the merchandise sector is also mostly operated by individuals, this study were focused only on the first four sectors of MSEs in Tigray. These four categories were the stratum. MSE operators were the unit of analysis for BDS impact in terms of changes in MSEs revenue, employment opportunity creation and wealth creation. In assessing the effect of BDS on MSEs’ performance, we considered the training as the main BDS service in the region and considered the differences in growth between those who attended training and who did not.

RESULTS AND DISCUSSION

BDS services are provided so as to bring change in many aspects within the organization. Accordingly, respondents were

asked their perception regarding the change they observe after receiving BDS services. Respondents perceive that they have seen changes in the rate of reducing turnover, improving efficiency by reducing labor and material costs and they also replied that they observed changes in terms of profit. Reduction in material cost takes the lead. This implies that BDS services are inducing changes in MSEs.

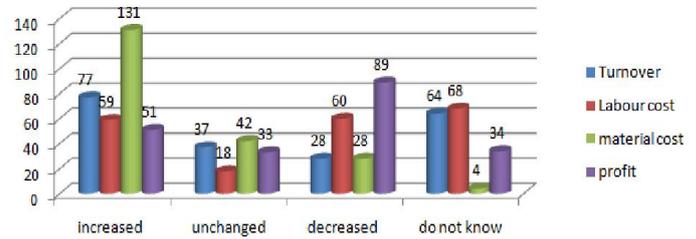


Fig. 1. A change indicator after BDS

BDS services are also provided to improve the creativity and the innovativeness of the MSE owners which in turn leads to effectiveness. BDS services provided in the different parts of Michelle results in innovations in the improving production, production processes, new organization and management systems and new selling and marketing practices. The survey indicated that:

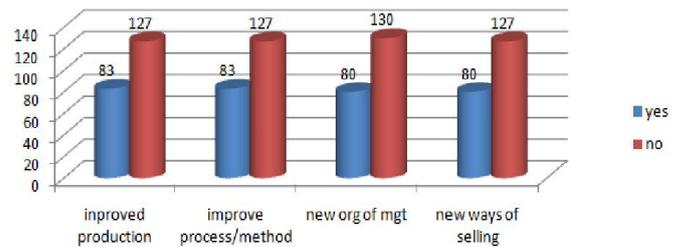


Fig.2. Innovations after BDS

Considerable number of respondents (more than 80) believed that the BDS services offered has brought innovations in improving production, improving processes and methods, introducing new organization and management systems and introducing new ways of selling goods and services which may in turn contribute to efficiency and profit. Among the various BDS services, the major component is training. The training contents provided in the region include management, bookkeeping, project design and development and marketing.

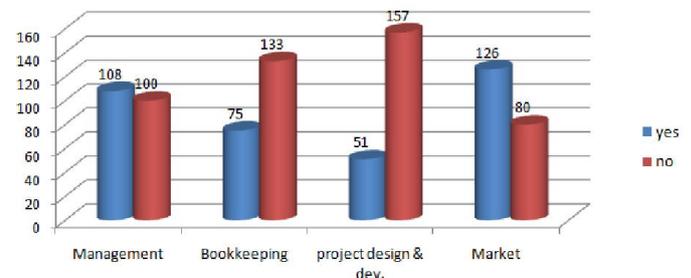


Fig. 3. Contents of training

The survey indicated that MSE owners have taken marketing training largely followed by management, bookkeeping and

project design and development. Nevertheless the training is largely supply driven as indicated on fig. which may affect the sustainability.

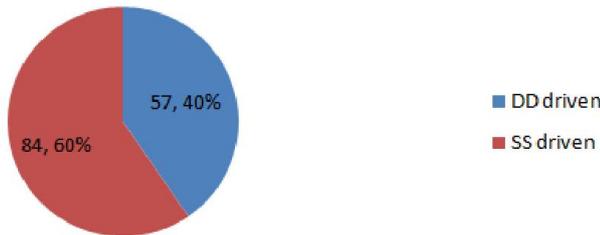
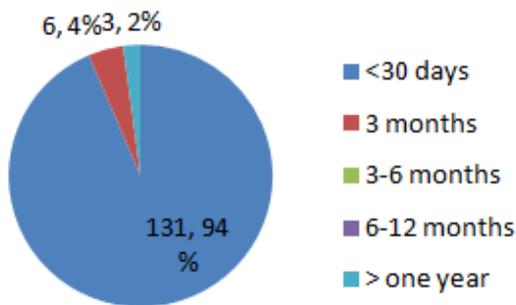


Fig. 4. Whether the training is demand driven or supply driven

The trainings offered are largely short term, which are given within 30 days. It is also infrequently provided; i.e., one year.

duration of training



training frequency

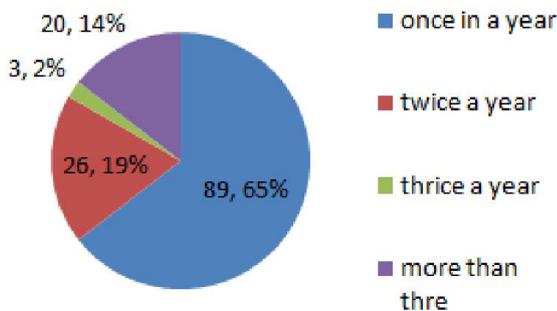


Fig. 5. Duration and frequency of training

Respondents were also required to evaluate the relevance the training provided to them. The relevance has been measured in terms of enabling restructuring of their business, improving profitability, expanding the business in terms of manpower. Accordingly, 79% believed that profitability has increased in their business. 34% believed that it enables them to restructure their business and the rest 4% believes that they expand their business in terms of man power and 2% believes that it enabled them to restructure and improve profit. This implies that the training offered has been relevant in introducing changes and bringing outcomes to MSEs. The convenience of the training in terms of timing and location has been also evaluated as it has an effect in attending the training. Accordingly, large part of the respondents appreciates the convenience in terms of timing

and location. There are also considerable numbers of respondents questioning the convenience mainly the place as they prefer to get the training closer to their working place.

relevance



Fig.6. Relevance

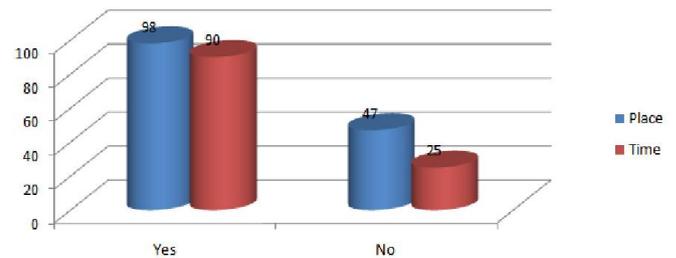


Fig. 7. Convenience of the training in terms of time and place

Currently the BDS services in the region are provided by the government and Non-government development organizations. However, such free provision of the services may not sustain as the government and NGOs will not provide it forever. Once the MSE owners develop their capacity, they are expected to demand the training and cover costs for it. However, large number of the respondents (100) still believes that BDS has to be owned by the government. 25 respondents believe that the private sector has to own it. The rest 13 believes that both the government and the private sectors have to own it.

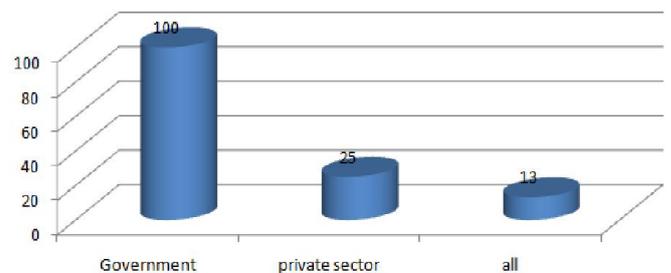


Fig. 8. Ownership of BDS

MSE owners were also required to express whether they are willing to pay for training. 74% of the respondents believe that it has to be the obligation of the government and unwilling to pay for it. Quarter of the respondents is willing to pay for it which will affect the transfer of ownership to the private sector that again determines the sustainability of the service. Whether the training services provided are to the best interest of the MSE owners and whether they satisfy them are evaluated. 67% of the respondents replied that they are satisfied with the training which will be encouraging for the providers. However, the rest 33% still indicates that they are dissatisfied with the training they are provided which requires analysis of their reasons so as to improve the satisfaction level of the training provided to MSEs.

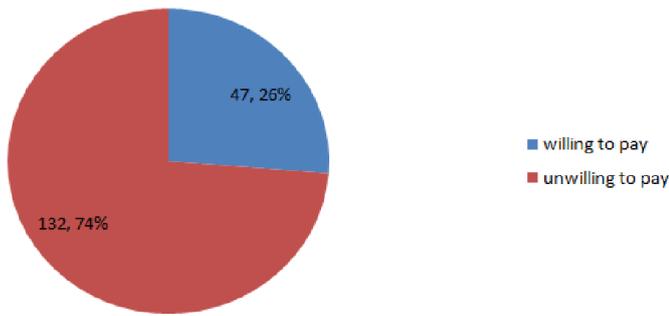


Fig. 9. Willingness to pay

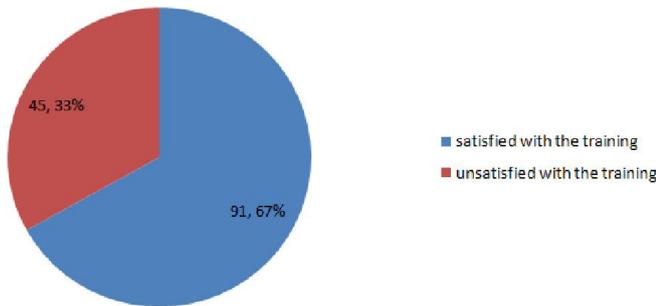


Fig. 10. Whether MSE owners are satisfied with the training provided

Unsatisfied MSE owners mention a number of reasons for their dissatisfaction. Among others inconvenience in terms of place and time takes the largest share followed by not relevant and inconvenient in terms of time and place.

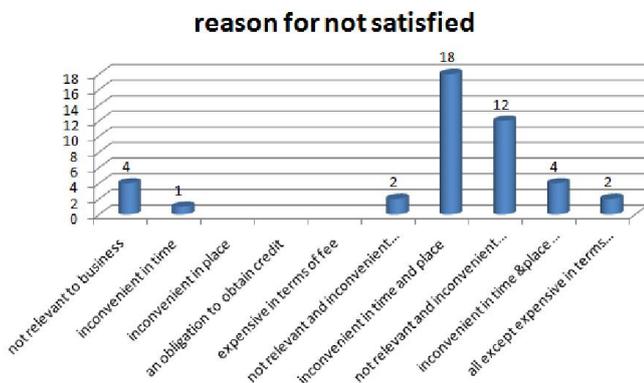


Fig. 11. Reasons for not being satisfied with training provided

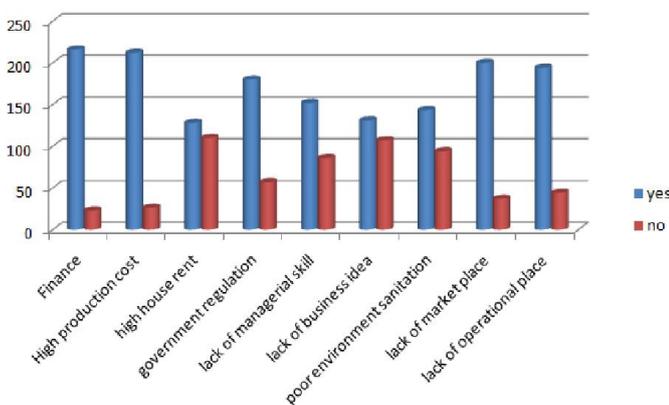


Fig. 12. Problems of MSEs

As per the data collected from MSE owner respondents asked about the problems they face, among the 240 MSEs, 216(90%) said lack of finance, 212(88%) reply high production cost and 200(83%) respondents believed lack of market place is their problem.

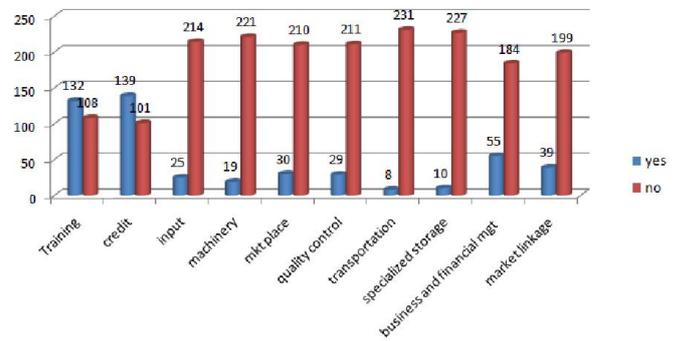
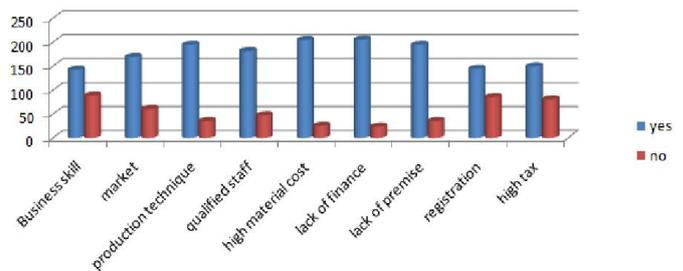


Fig. 13. Types of BDS services received

Among the MSEs owners who have participated in the survey requested about the BDS support they have received in the last five years and the sources of support, 139(58%) reported that credit support was given to them, 132 (55%) respondents said training was given and 55(23%) participants responded business and financial management support was provided to them in the last five years. Regarding the sources of the BDS support, 122(92%) respondents replied the training was given by Government Agencies, whereas, only 3(2%) said that they were trained by NGOs. From this we conclude that almost all the trainings given to MSEs is given by government agencies. Concerning the credit support, 96(69%) reported that the credit was provided by NGOs and 33(23%) respondents claim it was given by Government agencies. In addition, 50(91%) MSEs reported that Government Agencies were the source of the business and financial management support.



When we look at the problems they had before BDS support and to what extent the BDS support provided to them helped to overcome the problems, from the MSE respondents asked about the problems they before BDS support, 205(85.5%), 204(85%) and 194(81%) replied lack of finance, high material cost, and high production cost respectively were the problems.

Moreover, among the respondents asked about the whether the BDS support provided helped them to alleviate the problems they had or not. From the respondents who had financial problem, 86(42%) replied the financial support did not helped them to solve the problem whereas 49(20%) respondents said the support helped them to solve their financial problem. Similarly, 98(48%) participants said the BDS support provided to them did not help to mitigate the problem of high material cost.

Table 1. To what extent BDS overcome the problem?

| no. | Type of problem | Helped Much | Undecided | Did not help |
|-----|----------------------|-------------|-----------|--------------|
| 1 | Business skill | 70 | 58 | 89 |
| 2 | market | 45 | 68 | 99 |
| 3 | production technique | 45 | 65 | 102 |
| 4 | qualified staff | 31 | 58 | 122 |
| 5 | high material cost | 34 | 80 | 98 |
| 6 | lack of finance | 49 | 77 | 86 |
| 7 | lack of premise | 44 | 59 | 109 |
| 8 | registration | 43 | 69 | 100 |
| 9 | high tax | 44 | 41 | 126 |

To the contrary, 34 (16%) respondents replied the support did help them to minimize the problem of high material cost. In addition, 102(52%) of the MSEs participated in the survey replied the BDS support helped them to combat the problem of production technique. In contrast, 45(23%) respondents said it did not help them. Here one can conclude that the BDS support provided to MSEs significantly helped majority of the receivers to solve the problem they had before they given BDS support.

Strengths and Weaknesses on the existing practices

Strengths

- Since there were awareness problem at the beginning of the package, now there is improvement due to the effort made.
- Regarding timing, the BDS services are given at the time when it is convenient to the receiver
- Organization and staffing of the BDS provider in manufacturing and urban agriculture are well organized and staffed
- As the BDS extension workers assessment the satisfaction level of the BDS service receivers' result showed 80% are satisfied, 15% neutral and 5% are dissatisfied.
- To ensure sustainability of the BDS services, they develop a plan to charge fee starting 2006
- The training provided is customized based on the trainees' requirement, the types of training given are customized based on the levels of MSEs and the training is given based on the requirement of the trainees.

Weaknesses that can be hamper sustainability of BDS

- Organization and staffing of the BDS provider in service, there is shortage of manpower
- Generally the problems such are lack of premises, loan and awareness problem. In addition the lack of motivation and turnover of industrial extension employees due to dissatisfaction.
- As UNDP (2004) reported, most BDS fail to become viable or sustainable once donor funding terminates. This is also a big treat in sustainability of the existing BDS service.

I. Conclusions and implications

From the study, we are able to infer that BDS has brought changes in MSEs in terms of innovation which results in efficiency and profit improvement. It also recognized that the BDS services are largely supply driven which may shade lights on the sustainability of training. The belief that government

should own the BDS indicates how dependent the MSE owners are and they still demand the government to take responsibility in providing BDS services. Attitudinal changes on ownership and payment for the services has to be made to improve the situation. The lack of willingness to pay for training may reveal dependency of the MSE owners which may affect the participation of the private sector in the training that in turn affects the continuity and the sustainability of the BDS services. The inconvenience in the time and the location of the training services result in dissatisfaction of the MSE owners. This implies that expanding the BDS services by introducing new schemes such as cost sharing and sponsoring so as to attract large number of MSE as it brings change and innovation is important. Making the training demand driven may help fit to the interest of the MSE owners which in turn improves the satisfaction level of the trainees. Attitudinal change in avoiding dependency on government and NGO provision and make MSE owners interested in training and willing to pay for it is among the interventions to be done. This will assure the sustainability and the continuity of the service and its contribution to business development. By making needs assessment, it is better to find convenient time and place for the respondents as it affects the level of satisfaction of the MSE owners in the training.

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