



MICRO & SMALL ENTERPRISE (MSE) SYSTEM OVERVIEW

THE PROBLEM

MSEs are key drivers of income generation and job creation in Addis Ababa, particularly as wage employment opportunities are unable to keep pace with the burgeoning labour supply. However, despite government strategies and initiatives to support MSE start-up and growth, MSEs continue to be constrained by several factors. These include lack of access to operational space and finance, inadequate business-related information and networks, limited entrepreneurship and technical skills, lack of conducive rules and regulations, and insufficient and low-quality input supply systems, among others.

Women and youth experience even greater constraints with respect to MSE start-up and growth. For example, youth, in particular migrant youth, face barriers to business development in Addis Ababa due to weak social networks and lack of ID cards to access public resources, and women are constrained by domestic responsibilities and societal expectations that dictate which types of businesses are pursued. It is estimated that youth make up about 75% of microentrepreneurs in Ethiopia¹ and women account for 35% of microenterprise owners², with slightly higher figures for women employees of microenterprises. There is therefore a need to improve how the MSE system works, particularly for poor women and youth.



75%

of microentrepreneurs in Ethiopia are youth¹

35%

of microenterprise owners are women²

Following a comprehensive analysis of the MSE system in Addis Ababa, LIWAY identified the following critical constraints that have high feasibility for change with potential to improve the system in a way that is sustainable and affects a large number of poor women and youth.



LIMITED ACCESS TO OPERATIONAL SPACE

Government bazaars occur three times a year and tend to be poorly located, organised, and publicised, and private bazaars exclude MSEs through high fees. Further, while the government intends to pursue digital strategies, online marketplaces are not well developed in Ethiopia due to various constraints. MSEs therefore lack access to appropriate and affordable retail spaces, which combined with cost prohibitive production spaces, limits their ability to produce and promote their products.

¹ Ethiopia Growth and Transformation Plan II (GTP II).

² Central Statistics Agency, 2016.



LACK OF ACCESS TO FINANCE

The Federal Micro and Small Development Agency (FeMSEDA) has designed a national MSE microcredit and saving directive, however, it is limited to MSEs engaged in import substitution, construction, and export. There is not an effective market for other MSEs to access loans, particularly as they tend to lack required collateral. This restricts both MSE entry and growth and limits the types of businesses in which poor people can engage.



INADEQUATE BUSINESS-RELATED INFORMATION & NETWORKS

The main source of information for micro and small business owners is word of mouth. Formal information platforms lack information suited to the MSE market, and the limited market research available to MSEs is out-of-date and of poor quality. Exposure to new business opportunities and ideas is therefore limited, as is access to information about customer needs and preferences, which constrains MSE growth potential.



LACK OF CONDUCTIVE RULES & REGULATIONS

There are several rules and regulations that impact the ability of MSEs to start-up and grow, such as those relating to licensing, taxation, and working space.

OUR SOLUTION & APPROACH

LIWAY aims to improve how the MSE system works for poor women and youth in a way that ensures lasting change and ongoing investment and innovation within the system. We work with various market actors to reduce barriers to MSE entry and growth and stimulate innovation, to not only increase incomes of MSE owners but also potentially generate employment opportunities for our target group.



AVAILABILITY OF ACCESSIBLE & AFFORDABLE PHYSICAL & ONLINE SPACES FOR PRODUCTION & TRADE

This involves the development of commercial and affordable models for shared workspaces for production and marketplaces such as physical bazaars and digital platforms that extend the marketing and sales reach of MSEs.



NEW FINANCIAL PRODUCTS & REQUIREMENTS SUITED TO MSEs

This ranges from establishing new forms of collateral for loans to working with financial service providers and other actors to develop financial products that are suitable for MSEs (e.g., access to credit, savings, and inclusion in digital finance).



AVAILABILITY & RELEVANCE OF BUSINESS-RELATED INFORMATION FOR MSEs

This includes improving market delivery of various types of information that can help MSEs start and grow businesses, such as business news and contacts, information on prices and customer preferences, tender notifications, and legal requirements.



VALUE CHAIN PARTNERSHIPS TO CREATE NEW BUSINESS OPPORTUNITIES

This includes development of partnerships between input suppliers and potential or existing MSEs to enable the establishment of new businesses, address inconsistent product supply and prices, and provide access to goods on credit to maintain and grow product sales.



POLICY & REGULATION REFORM TO CREATE AN ENABLING ENVIRONMENT FOR MSEs

This involves assessing current policy and regulation and using evidence from MSE interventions to advocate for changes, for example, simplification of the tax collection system for lower end taxpayers.

Within our MSE interventions and through our activities in the interrelated skills system, we are also working with market actors to improve delivery of embedded and external business and technical skills training to enable poor women and youth to develop the skills needed to effectively start and grow businesses. As the LIWAY programme progresses, we will continue to revisit critical constraints and may develop other intervention areas.

Across all our intervention areas, we work with various market actors to develop and deliver sustainable market-based solutions. Our role ranges from establishing linkages and dialogue between different actors, to engaging in direct research and advocacy, to providing (co)-financing, loan guarantees, equipment subsidisation, and technical assistance, all with the explicit objective of piloting sustainable new models that deliver impact.



Our aim is to improve how the MSE system works for poor women and youth, while demonstrating benefit to public and private actors who play a role in the system to ensure sustainability and continued improvement beyond the programme period. We share lessons learned and best practices to encourage involvement of other market actors to scale solutions and develop new innovations to maximise impact for the target group.



OVERVIEW OF LIWAY'S MSE SYSTEM FOCUS & APPROACH

CRITICAL CONSTRAINTS



Limited access to operational space



Lack of access to finance



Inadequate business-related information & networks



Lack of conducive rules & regulations

INTERVENTION AREAS



Availability of accessible & affordable physical & online spaces for production & trade



New financial products & requirements suited to MSEs



Availability & relevance of business-related information for MSEs



Value chain partnerships to create new business opportunities



Policy & regulation reform to create an enabling environment for MSEs

EXAMPLE INTERVENTIONS

Public Private Partnership (PPP) Bazaar Service

The business model is increased visibility of MSEs and their products through a public private bazaar that is sustainable due to private sector ownership of the business model. The bazaar is affordable, conveniently located, regularly held and promoted, and includes support services such as training on product presentation, brand development, and marketing and sales skills. LIWAY conducted the initial landscape study to understand the challenges and opportunities, convened and engaged public and private actors, provided information (e.g., on target groups) and technical assistance (e.g., for business model development), and shared initial costs to test the model.



Digital Marketing Service for MSEs

This intervention entails the pilot of an ecommerce platform (HelloMarket) with a value-added services provider, which extends the marketing and sales reach of MSEs and provides improved payment and product storage and delivery capabilities. It also includes technical and marketing training and access to customer feedback and information on preferences. LIWAY co-financed the pilot and provided information and technical assistance to co-create the business model and understand and link to target groups.



Digital Payment for Jobs Creation

The business model is sustainable self-employment through an agent model for sales of mobile top up (electronic vouchers) and other services. It includes technical and management support services for agents, as well as access to working capital to buy float. LIWAY provided a loan guarantee, as well as technical assistance for target group identification and selection. Iceaddis, a consultancy and co-creation space, rendered training and an agent management service.



Digital Payment for Jobs Creation

This intervention entails the pilot of a subscription-based information platform tailored for MSEs in partnership with a private service provider. Through different portals, MSEs can access various types of information including business news, a business directory, tender notifications, construction labour and materials prices, MSE rules and regulations, and tax regulations. It includes the Megbia portal for B2B and B2C, a construction portal, a call centre, and technical training for improving awareness and information seeking behaviours of women and youth. LIWAY co-created the business model shared costs to pilot the service and provided technical assistance and information about MSE needs.



For more information about the LIWAY programme and how we are improving the MSE system for poor women and youth, please visit www.liway.org or contact us at info@liway.org