

THE CONTINUED CRISES IN ETHIOPIA AND ITS IMPACT ON SMALL ENTERPRISES, A CASE IN AMHARA REGION

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ABSTRACT

This study aimed to highlight the challenges and difficulties that face small business enterprises on inhibiting from contributing to developing the Ethiopian economy and to know the impact of the successive crises and conflict on small business. Through a review of the literature and previous studies in this regard, it was possible to summarize the most critical problems facing small business in Ethiopia Amhara region, which could be difficulties like getting funds, poor infrastructure, corruption, difficulties in securing raw materials, lack of skilled employees, and also difficulties to get Licensing and the absence a specific small business authority.

Keywords: Small Enterprises, Crisis, Obstacles, Challenges.

INTRODUCTION

The Role of Small Business in the Economy

Small Enterprises play a prominent role in enhancing the economy of a nation, and can provide income generation opportunity for low income groups. These small scale enterprises provide work culture and boost of the economy against economic crises, such as low per capita income, poverty and unemployment. According to Government of Ethiopia, Government has recognized the contribution of the sector in terms of job creation, income generation and as a means of poverty. It is the major source of employment and income for the urban dwellers in most developing countries.

Small business enterprises are seen as the most important alternative sector in fostering socio-economic developments in both developed and developing countries. Particularly, they make undoubtedly a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists. Several studies reveal that MSEs in these countries are considered as crucial in employment creation and generally contribute to economic growth as an engine of development and vehicle towards fulfilling the Millennium Development Goals. Chief among these goals is the reduction of poverty through creating employment, wealth and improvement of living standards, because poverty and unemployment rate are considerably higher in these countries than developed countries.

A study conducted by Endeshaw (2005) also shows that micro and small business sector is an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures to alleviate poverty. MSEs can play a role in improving the socio-economic condition of the poor since they create employment opportunity that enable them to generate their income which in return leads to access for socio-economic merits such as education, better health condition, good housing and nutrition (Endalsasa, 2012; Setegn, 2010).

Different nations use various methods to separate micro and small business enterprises from other type of business within. The common criteria used in the definitions according to Carpenter include various combinations of the following: Number of employees, financial strength, sales value, relative size, initial capital outlay and types of industry. As an example, European Commission uses three criteria to determine whether an enterprise is a micro or small sized. These are staff headcount, annual turnover, and annual balance sheet. According to the commission Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro.

Today, there are various problems like extreme poverty, unemployment, low per capita income, and unequal income distribution facing in many developing countries. Due to this, different governments are creating different strategies and policies to create job opportunities and to pull these countries out of their problems. Like many developing countries, Ethiopia is also suffering from severe poverty, unemployment, income inequality and lower per capita income. In response to the mentioned problem, and also by recognizing the significance of this sector, the Ethiopian government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy program of 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers.

However, according to Weldegebriel and Admasu this sector faces lot of constraints such as, lack or in adequate trainings, lack of loan, lack of working space, lack of quality of employment, lack of managerial skill inadequate market linkage etc. These problems are highly restricting the contribution of small business for socio-economic development. Despite these challenges the sector contribute much for alleviating the poverty of those who are in the sector, by creating employment jobs and in return increase their income and fulfilled their basic needs.

The nature of the difficulties encountered by small business is intertwined with each other. In general, part of these problems is internal, which are the problems that occur within the enterprise or its owner. Simultaneously, there are considered external problems if they occur due to the action and influence of external factors or the environment surrounding these facilities.

At the same time, small enterprises sector in Ethiopia specifically in amhara region suffer from many problems and obstacles despite its essential position on the map of development plans in the country as one of the main pillars in developing economic life and its role in the growth of national income and contributing to meeting the needs of society, by providing opportunities for people to get Work and also the productivity. The main problem facing the small business sector in Amhara region Ethiopia is the violent conflict (war) which starts in the north Ethiopia from October 2020 onwards, which is affecting the nation's economy as a whole.

A Detail Narrative of the Situation in Ethiopia

Ethiopia is one of the poorest and least developed countries in the world with a GDP of 92.76 billion U.S. dollars in 2021 according to official data from the World Bank and projections from Trading Economics), and ranking 145th among 167 of the poorest countries and regions in the world. Combined with high annual population growth (2.49 percent) United Nation projection, 2021, Ethiopia has a high unemployment rate (estimated at 21.6 percent). These negative figures were caused by many factors, perhaps the most prominent of the political problems since 2028 and the war that has existed in north Ethiopia since 2020 until now, and many other issues causing the low level of the Ethiopian economy's rising unemployment rates.

Because of those problems, the sector of micro and small enterprises in Amhara region, Ethiopia suffers from many problems and obstacles; one of the biggest problems facing the sector is that the financing problem which is the most critical obstacle preventing the sectors development establishments in the region (Table 1).

Year	GDP growth rate compared to previous year
2021	1.99%
2020	6.06%
2019	9.04%
2018	7.7%
2017	10.21%
2016	8%
2015	10.4%
2014	10.3%
2013	9.9%
2012	8.7%
2011	11.4%

Source: Statista 2022.

The Problem of the Study

Small enterprises have huge importance for the economy of any nation, as they work to revitalize the economy, minimize unemployment rates, and maximize production efficiency and others. Still, in recent years the sector in Ethiopia has lived a challenging period due to the current political conditions and the successive crises that affected the growth of small enterprises and caused the deterioration of this capacity (FDRE, 2011). The sector is based on the growth of the Ethiopian economy and also raising employment rates. Therefore, in this article, I will discuss the most critical problems and challenges facing the small business enterprise sector due to the continuous crises in Northern part that have affected Ethiopia since 2020 until now.

The Objective of the Study

The main objective of this study is to know the challenges and difficulties facing small enterprises in Amhara region of Ethiopia. To be more specific, this study aims to describe the impact of the war in north Ethiopia and the political environment since 2020 on the performance of small business.

Review of Literature

The shift in focus, in developing countries, towards the development of micro and small scale enterprises results from the fortunes being laid by the enterprises. These enterprises are said to be much contextual to the existing situations of most developing countries. In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth (FDRE/MoTI, 1997). It is recognized that, in most of the developing countries, majority of the people are engaged in the operation of micro and small scale enterprises which are likely to locate everywhere (both in urban and rural areas) in the countries. Due to their small and

perceived flexible nature, MSEs are expected to be able to withstand adverse economic conditions and survive where many large businesses would collapse (Aryeetey & Ahene, 2004). The flexible structure is also an advantage when it comes to adapting quickly to customers' demands (Kayanula & Quartey, 2000). The implication of this is that economic need of the mass of the people of these countries is possibly be satisfied through the development the sector.

The business development service field is now quickly adopting new high impact strategy that can reach large number of business in a sustainable manner. The provision of some services, like communications and advertizing are on a fully commercial basis that has shown effective markets for business services offer the opportunity to help many small enterprises develop and complete. The business development service field is currently focused (Philipos, 2006). The micro and small enterprises' role could be in job creation when the micro and small enterprises sector in Kenya create 50% of new jobs yearly to explain this sector's importance in any economy. Still, the micro and small enterprises sector faces many problems in accessing credit facilities in Kangemi Harambee Market in Nairobi City County, Kenya (Gichuki et al., 2014). They found that the main problem facing the micro and small enterprises sector was the high-interest rate, difficult collateral, the unwillingness of people to act as guarantors, and also high credit facilities' processing fees and short repayment period; all of those could be challenges for micro and small enterprises sector in Kenya to accessing to the financial institutions and getting fund. According to Avevor (2016), Small and medium enterprises are the spine of any economy globally, and most large companies were SMEs in the past. The impact of small and medium enterprises in Ghana's economy is still facing many challenges and difficulties when accessing financial institutions' funds because of the difficult requirement to get funds. The researcher found that financial institutions consider small and medium enterprises a risky sector, thereby offering them credit facilities at a high-interest rate compared to large enterprises. However, the small and medium enterprises sector in the developed countries greatly contributes to the economy and the countries' growth. On the other hand, the SME sector in developing countries has not fared well. The failure of the developing countries to take the SME sector development initiative in the right direction has been the major reason for this sector's slow process. According to Ilahi (2015) The Micro and Small Enterprises are the primary factor in accelerating economic and social development and play an important role in the economic growth in any country. This role could be production, employment, and exports.

Micro and Small Enterprises

There are many definitions related with the concept of micro and small enterprises. They differed between organizations and countries; some look at it from the point of the number of employees. Another view is in terms of the size of capital. According to International Labor there is found to be 75 definitions within 50 industrialized and developing countries. If consider the number of workers as a criterion for distinguishing between micro, small and medium enterprises, we find that there is no agreement on a specific number as a basis for determining the size of MSEs, as this varies according to the degree of industrial progress, which in turn differs from one country to another.

In Ethiopia, although there is a specific legislation in which to distinguish micro and small, enterprises from large enterprises, any of the following sources can be guided: the legislation which is effective from 2000 defined micro and small enterprises as any income-generating activity in the field of industry, trade, or services (excluding primary industries) that employs not greater than 10 workers and with a paid up capital of not exceeding 20,000 birr for

micro and 50,000 birr for small enterprises respectively, who are working in hotel and tourism, manufacturing and poultry etc.

The Obstacles and Challenges Facing Small Enterprises

Many micro and small enterprises face several challenges that stand as a bottleneck in front of them to achieve their economic and social goals. The nature of these challenges varies according to the nature of the business, the activity that the business exercises, and the country in which it operates. The novelty of small enterprises' concept is one of the difficulties facing this type of enterprise, especially in the Arab countries (Endeshaw, 2005; Workneh, 2007). Micro and small enterprises face many obstacles, especially about obtaining capital and the lack of adequate distribution channels.

The United Nations stated that the year 2005 is the year of financing small projects to provide the necessary financing for more than 20 million families in developing countries (Prasad & Tata, 2009). One of the main obstacles for small enterprises is obstacle of getting finance, where it isn't easy to rely on self-financing. The high cost of financing compared to the rate of return on the business, which in most cases leads to loss or stoppage of the business. Many studies shows that the owners of new business suffer from insufficient financing, lousy product, and ineffective marketing (Endeshaw, 2005; Workneh, 2007) and that the local consumer preference for similar foreign products is motivated by imitation, and the lack of sufficient incentives for local products to strengthen their competitiveness compared to the foreign work and the pursuit of dumping policy by some foreign institutions greatly weakens the ability of the domestic product to compete.

Inflation, which is a significant reason for the rise in the prices of raw materials and workers' wages, and consequently the high operating costs of small business, which leads to higher prices for its products, which means its inability to face intense competition from large enterprises, should not be undermined as well as the governmental measures are considered the high tax rates on small business are among the main obstacles to the development of this sector.

In addition to the inconsistency of information available between financial institutions and small enterprises, access to the required financing is one of the main obstacles for small and micro companies (Gebru, 2009). In a study Gebru (2009), it was found that the lack of adequate guarantees that could cover the value of the required loan, which is one of the main grounds for banks to agree to grant the loan, which created a significant problem for small enterprises that do not have sufficient fixed assets, especially at the beginning of their working life. About these projects, the banks depend on the establishment's capital and not on the income of the establishment to make the credit decision to grant or reject the loan.

Challenges and Difficulties Facing Small Business in Ethiopia

Micro and small enterprises sector in Ethiopia specifically in amhara region are suffering from many hurdles and obstacles despite its essential position on the development plans in the country and the region as one of the main pillars in developing economic life of the low income households and its role in the growth of national and regional income and contributing to meeting the needs of society, by providing opportunities for people to get self employed and also the productivity. The main problem facing the sector in amhara region since October 2020 was the violent conflict (war) between Tigray region and the federal government of Ethiopia which is fully takes place in the case region, which will be affected in the economy in general

and in turn led to high inflation rates in the country, that is affected by the rise in the prices of raw materials and the cost of labor, which will inevitably lead to higher operating costs. Here, these establishments face a significant problem: their confrontation with competition from medium and large enterprises in the rest of the country, which prevents them and limits their ability to raise prices to avoid raw material prices. And directly that will be reflected in the cost of capital, which is one of the biggest problems facing small business enterprises because it is directly reflected in this business profitability through the demand from the sector to pay a high-interest rate. Also, the enterprises depend on borrowing from banks, which leads to an increase in their costs.

POLITICAL PROBLEMS

The biggest problem facing small enterprises in Amhara region since 2020 until now is the political situation represented by an intense war in northern Ethiopia that ravaged Ethiopia still. Ethiopia is one of the poorest African country and has unstable political situation in recent years, due to political and power disagreements between the former ruling party TPLF and the new party prosperity of the federal government and in addition it's many nations and nationalities (more than 86 ethnic clans exist). When the tigray state government attacks the northern military command in the region, which leads to the current chaos and weak situation it escalated to the current conflict which leads to violence which started in November 2020 and resulted in devising the country into continuous crisis. The private sector in amhara region is the most affected sector by the war because most of the fighting are takes place in the region and lead to the closing of the small enterprises. Small business in the services sector was also the most affected sector, which most of them are closing. Also, the most physical harm was to the two zones of amhara region wich are south and north wollo zones of which 95% of all small businesses are collapsed due to the war, most of these damages are complete disasters; on the other hand, the impact of war on businesses in north shoa zone of amhara region was not caused much harm compared to the damage in the two zones of wollo. In addition to the business sector in Amhara region, 4,107 schools are damaged of which 25% completely damaged, 30 hospitals, 280 health centers and 890 health posts are damaged due to the war.

Financing Micro and Small Enterprises

The shortage of adequate finance and credit has been one of the most hindering problems facing small business sectors in Amhara region Ethiopia because of their small size in providing collateral to get credit. Therefore, financing institutions are exposed to several risks when financing this sector in their various stages of growth, because of these risks, Amhara credit and saving institution (ACSI) commercial bank of Ethiopia (CBE) avoid providing the necessary financing for these business due to their keenness on depositors' cash. So, the most challenge facing this sector in the region is to access financial institutions to get funds. By this obstacle small business owners are forced to try to get finance from a different source, which could be loans from family or friends. Compared to other lending institutions ACSI is a little bit helping in providing loan for entrepreneurs, even if it is with high interest rate.

Poor Infrastructure

Other challenges facing micro and small enterprises in Amhara region Ethiopia and according to Survey of Micro and Small Enterprises in Ethiopia (MSE Survey), the Lack of infrastructure is rated third in the sequence of the problems that is facing the sector in the region. Poor countries like Ethiopia has a poor Infrastructure and many areas in the country are difficult to access by road, roads are not always well maintained, and in this two years due to the war, the roads became deteriorated because big war machines are moving on them and in addition the roads are unsafe to travel, which in turn posed a great challenge to micro and small enterprises. Also, electricity cuts since the beginning of the conflict were a very big problem for the business sector as a whole in Amhara region, not just the sector due to that every small business has to have its own electricity backup system or solar energy to keep running. Another problem facing the small business sector under Infrastructure is that the supply of water is available through the public network to the whole population. The supply is not constant, so water is usually bought and delivered and stored in special containers to the business premises. The extra costs all are incurred as a result of inadequate infrastructure. They need to handle stuff like securing water and maintaining power generators in addition to the financial costs, an additional burden on already weak management systems.

SECURITY ISSUES

Security problem and the rule of law were among the most challenges since the outbreak of the war, facing the growth of micro and small business in Amhara region Ethiopia which put the country in crisis-affected on the economy which is now shattered, and also the business is damaged, affected, or in loss. Crimes like theft and fraud were the most problems facing small business in connection with the war. In these aspects due to the lawlessness status resulted from the fragile political situation.

LICENSING AND THE ABSENCE OF A SPECIFIC SMES AUTHORITY

License and register micro and small business could be a challenge for the owner because there is no particular authority for the small business enterprises in Ethiopia, which contributed to the lack of support for the sector. However, there is a responsible authority for medium and large enterprises dedicated to supervising the small industrial enterprises, according to which the enterprises were defined in every year through a regulation based on the number of employees and the capital as well (Endeshaw, 2005). There is some organization working to help medium-sized enterprises, such as Office of Development Commissioner (MSME), Khadi Village Industries Commission (KVIC), National Small Industries Corporation Limited (NSIC) and National Institute for micro, Small and Medium Enterprises (NIMSME) with the help of the international community, in particular the World Bank, which they gave little focus for small enterprises.

Corruption

Ethiopia is one of the countries that is most corrupted in prior years even if it shows some decline in recent years according to the Global Corruption Perceptions Index prepared by Transparency International. Corruption is considered one of the most common problems that

affect MSEs. Corruption is a complicated and broad term that may be through receiving informal money to complete work (bribery), and administrative leakage also could be classified under Corruption. A feature of Corruption in the least developed countries, where facilitation payments or bribery are used to resolve or strengthen bureaucratic and administrative activities, which becomes a significant impediment to investment. And Small business enterprise in Amhara region of Ethiopia is facing the problem of these types of corruption (Table 2).

Year	2016	2017	2018	2019	2020	2021
Rank	108	107	115	96	94	87

Source: Transparency international, 2022.

Raw Materials

The bottleneck in obtaining raw materials arises from the dependence of these firms on imported raw materials and local ones because they produced commodities that are substitutes for imported goods. This problem becomes clear when the war began, and imports disturbed since 2020, which lead to raising the prices of raw materials, so it is difficult for these business to obtain the amount they want.

CONCLUSION

Small enterprises have great importance in any country's economy, whether developing or developed, and its importance lies in reducing unemployment rates and innovation and contributing to raising the GDP. Therefore, many countries seek attention and development of this sector in many aspects, whether financial or non-financial, by providing them appropriate funds to start the business and by issuing laws regulating its work and reducing tax rates for them. From the above, it becomes clear the importance of small business. On the other hand when the world focuses on developing MSEs, small enterprise sector in Ethiopia function in a harsh business environment. Ethiopia is one of the least developing countries and a more challenging environment in light of the current socio-economic unrest and instability. The challenges and difficulties became more affecting small enterprises performance after the political crisis, which started in 2020 October, and the conflict exists until now.

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