



**GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**

**MINISTRY OF URBAN DEVELOPMENT & HOUSING**

# **Micro and Small Enterprise Development Policy & Strategy**





**Government of the Federal Democratic Republic of Ethiopia**

**MINISTRY OF URBAN DEVELOPMENT & HOUSING**

**Micro and Small Enterprise Development  
Policy & Strategy**

**CONTENTS**

---

<b>SECTION</b>	<b>PAGE</b>
<b>1 INTRODUCTION.....</b>	<b>1</b>
<b>2 CONCEPTUAL APPROACH AND SITUATION ANALYSIS.....</b>	<b>3</b>
<b>2.1 MSE Development: Conceptual and Situation Overview .....</b>	<b>3</b>
<b>2.2 Experiences Gained and the Challenges Faced .....</b>	<b>10</b>
<b>2.3 International Experience .....</b>	<b>13</b>
<b>2.4 Definitions: International and Ethiopian Experiences.....</b>	<b>15</b>
<b>2.5 Areas Prioritized for Government Support.....</b>	<b>19</b>
<b>2.6 Sustainable Development Goals .....</b>	<b>20</b>
<b>3 VISION, OBJECTIVES AND POLICY DIRECTIONS.....</b>	<b>21</b>
<b>3.1 Vision.....</b>	<b>21</b>
<b>3.2 General Objectives .....</b>	<b>21</b>
<b>3.3 Micro and Small Enterprise Development Policies .....</b>	<b>21</b>
3.3.1 General Policy Commitments	21
3.3.2 Human Resource Development and Technology Growth	22
3.3.3 MSE Financing Sources and Financing Methods	22
3.3.4 MSE Production and Market Facilities	23
3.3.5 MSE Market Development	23
3.3.6 MSE One Stop Shop Service	23
3.3.7 Industry Extension Services	24
3.3.8 MSE Support Institutions	24
3.3.9 Creating a Favorable Business Environment	25
<b>4 MSE DEVELOPMENT STRATEGIES .....</b>	<b>27</b>
<b>4.1 Support During Stages of MSE Development.....</b>	<b>27</b>
4.1.1 Background	27

4.1.2	Enterprise Support Services at Business Startup	28
4.1.3	Strategies for MSE Startup	28
4.1.4	Enterprise Development Support Services during MSE Growth	29
4.1.5	Enterprise Development Support Services at MSE Maturity	31
4.1.6	Support Growth Orientated Medium Enterprises	32
<b>4.2</b>	<b>MSE Development Support Strategies .....</b>	<b>33</b>
4.2.1	Objectives and Guiding Principles	33
4.2.2	Human Resource Development and Technological Improvement	34
4.2.3	Market Development and Support Strategies	38
4.2.4	Financial and Credit Services Support Strategies	42
4.2.5	MSE Production and Marketing Facilities	45
4.2.6	One Stop Shop Service Center Strategies	47
<b>5</b>	<b>IMPLEMENTING MSE DEVELOPMENT STRATEGIES .....</b>	<b>49</b>
<b>5.1</b>	<b>Capacity Building for Implementation.....</b>	<b>49</b>
5.1.1	Building the Capacity of Support Institutions	49
5.1.2	Capacity Building for TVET Institutions	49
5.1.3	Capacity Building for MSE Development Agencies	50
5.1.4	Capacity Building for MFIs	51
5.1.5	Capacity Building for Leadership	51
<b>5.2</b>	<b>Implementation Roles and Responsibilities.....</b>	<b>52</b>
5.2.1	Federal Organizations	52
5.2.2	Regional Organizations	54
5.2.3	Collaborating Institutions	56
5.2.4	Federal MSE Development Agency	56
5.2.5	MSE Council Members	60
<b>5.3</b>	<b>Implementation Guidelines: Aims &amp; Principles .....</b>	<b>64</b>
<b>6</b>	<b>CONCLUSIONS.....</b>	<b>69</b>

## ABBREVIATIONS

BDS	Business Development Support	MFIs	Micro Finance Institutions
EC	Ethiopian calendar	MoUDH	Ministry of Urban Development and Housing
EUR	European Euro		
ETB	Ethiopian Birr	MSE	Micro and Small Enterprise
FeMSEDA	The Federal Micro and Small Enterprise Development Agency	TVET	Technical and Vocational Education and training
GC	Gregorian calendar	SDGs	Sustainable Development Goals
GoE	Government of the Federal Democratic Republic of Ethiopia	ULGs	Urban local governments
GTP	Growth and Transformation Plan	USD	United States Dollar

Approved by GoE of Ethiopia

Produced by: Public Relations and Developmental Communication Secretariat,  
Ministry of Urban Development and Housing



# 1 INTRODUCTION

The rapid economic growth, achieved by Ethiopia during the past 12 years, has been the result of its economic and social development programs as well as the measures the country has taken to build good governance. In recognition of the vital role micro and small enterprises (MSEs) play in the country's economic and social development, much attention has been paid by government of the Federal Democratic Republic of Ethiopia (GoE) to the development of MSEs. The Micro and Small Enterprise Development Policy and Strategy is evidence of the focus given to MSE development.

The Micro and Small Enterprise Development Policy and Strategy prepared by Ministry of Urban Development and Housing (MoUDH) takes into account the experience gained in the implementation of the MSE component of the Industry & Urban Development Package (2006) that formed part of the Ministry's contribution<sup>1</sup> to GoE's Plan for Accelerated and Sustained Development to End Poverty (2005/06-2009/10), as well as analysis of best practices from other countries. The major aims of the Micro and Small Enterprise Development Policy and Strategy are to build further the gains achieved in MSE development to date, fulfil the objectives of next five year's Growth and Transformation Plan (GTP) as well as attain the MSE development targets set by GoE.

The Micro and Small Enterprise Development Policy and Strategy has six sections:

- Section 1. **Introduction.**
- Section 2. **Conceptual Approach and Situation Analysis**, includes the definition of MSEs, the rationale for MSE development and the MSE sub sectors to which priority support shall be given.
- Section 3. **Vision, Objectives and Policy Directions**, presents the MSE development vision, objectives and policies.
- Section 4. **MSE Development Strategies** includes details of support to be provided to MSE development, be based on their development stages.
- Section 5. **Implementing MSE Development Strategies** outlines the implementation mechanisms, to ensure that the prepared strategy is effectively implemented and describes the core implementation documents.
- Section 6. **Conclusions** - the overall summary.

---

<sup>1</sup> The Urban Development Package and the Urban Good Governance Package, GC 2005/06-2009/10





## 2 CONCEPTUAL APPROACH AND SITUATION ANALYSIS

### 2.1 MSE DEVELOPMENT: CONCEPTUAL AND SITUATION OVERVIEW

Micro and small enterprise development hold a strategic place within Ethiopia's Industrial Development Strategy. All the more so as **MSEs are the key instruments of job creation in urban centers**, whilst **job creation is the centerpiece of the country's development plan**. The role of MSEs as the principal job creators is not only promoted in low income countries like Ethiopia, but also in high income countries including the United States of America. Accordingly, because MSEs play a pivotal role in employment creation, stimulating and strengthening MSE development should be one of Ethiopia's top development priorities.

MSEs are yet to be key players in the manufacturing sector. The potential to fill this gap provides justification for the priority given to MSE development. In Japan - the home of major international companies such as Toyota and Sony - for example, more than half of manufacturing output is generated by MSEs. In Ethiopia, the need to support MSE development goes beyond the current priorities given to employment creation as, in addition, they have a critical role to play in the country's industrial development, especially when the rapid expansion envisaged for the manufacturing sector under the ongoing renaissance program is taken into account.

Experience shows that, while many MSE start-ups may survive, many others fail in a few years leaving only a small percentage to grow into medium and large enterprises. Nevertheless MSE operators still serve as the most important pool of growth oriented investors engaged in developing entrepreneurial attitudes and skills. For example, if there are half a million MSEs, and 99% are not able to develop into medium or large enterprises or fail completely, this still means that 1% - or 5,000 - become medium sized enterprises, and eventually may become large scale businesses. MSEs should be recognized as incubators of developmental investors. This rationale is not limited to low income countries like Ethiopia, but also holds true in high income industrialized countries.

There is also a political justification for providing policy and strategy related support to MSEs. Just as farmers are the basis for a developmental state (developmental administration) in rural areas that will fulfil the interests of rural residents whereby a crucial role is to be played by rich farmers, achieving this would give impetus (for the governing party) to achieve progress in terms of democracy and development and muster the support of the urban population. MSE operators in urban centers, which normally constitute a significant segment of the urban population, also share similar characteristics with rural farmers. The MSE operators in urban centers not only strive to create wealth by providing their labor and mobilizing other resources but are also susceptible to rent seeking behavior. Hence they are expected to benefit from the Micro and Small Enterprise Development Policy and Strategy and become the basis for political support. Among the major benefits from provision of priority support to MSE development is the strategic advantage of mobilizing the remaining sections of the population to support general urban development efforts.

The idea that MSEs are merely a means of survival or a choice to be made in the absence of other alternatives needs to be changed. On the contrary, MSEs are a means of lifting people out of poverty as well as accelerating development. It is also worthwhile to note that the range of MSE typologies goes even up to those supplying high-tech spare-parts for spacecraft. Recognizing the strategic importance of MSEs will give leverage to the realization of Ethiopia's renaissance.

While offering appropriate recognition of the strategic importance of MSEs and providing appropriate policy support to their growth constitute important first steps, it is imperative to take additional actions. It is necessary to identify the constraints faced by MSE development and design appropriate strategies to overcome them. Although several challenges inhibit the development of MSEs, the critical problem is damaging rent-seeking behaviors, which are manifested itself in different forms. Other challenges that undermine the growth of MSEs are access to technology, skills, capital financing and markets.

The generally negative attitude towards MSEs is the core challenge and takes different manifestations of which the most important are.

- **Lack of knowledge of the potential of MSEs.** The attitude that considers engagement in MSEs a sign of poverty and backwardness and discounts their potential role because of this narrow perspective - their size and use of simple technologies, rather than their operations and potential.
- **Preference for paid employment.** Most of the graduates from Ethiopia's higher education and technical and vocational training (TVET) institutions seek paid secure employment rather than an entrepreneurial path.
- **Dependency.** The dependency syndrome is common and is expressed in an expectation of receiving subsidies and charity rather than working and investing in one's own future.

These attitudes and the behavior that results undermine the attractions and benefits of hard work and self-reliance as the main routes out of poverty. The practice of selling poor quality products and the desire to make quick profits is more widespread than the practice of making modest profits by producing and selling good quality products and services. The key factor explaining these and other manifestations of attitudinal and behavioral constraints to MSE development is the **lack of a development oriented democratic culture.**

**Inadequate start-up capital is another major constraint most MSEs face during their establishment.** It is caused partly by operators that **lack the confidence to use their own savings to start a business and persevere through hard work.** On the other hand, there is evidence of loans that can serve as start-up capital not being fully utilized and this indicates **problems in MSEs' capacity limits to absorb funds.** The prevalence of unused technology and limited willpower to reverse the situation is also not uncommon among MSEs. The **market related constraints for MSEs' products and services are another area of concern.** Among the factors that explain marketing-related challenges include examples of MSEs who have made products or provided services without first identifying customers' needs through a market surveys, use weak marketing strategies (i.e., quality and pricing) and are reluctant to take their own initiative to expand their market access.

Notwithstanding the aforementioned factors, whatever efforts MSEs' make to alleviate their problems, they do not get effective institutional support.

The issues described are starting points for analysis of MSEs' development-related challenges. It is also necessary to recognize that the main problem is the presence of rent seeking attitudes and practices in the society and within GoE. It is imperative to overcome rent seeking behavior through collaborative efforts. **Replacing inappropriate attitudes and work practices with positive attitudes requires continuous education, training and frank discussion.** This should be complemented by day to day engagement in development work, taking into account the knowledge and experience of the population. This basic principle provides the strategy for dealing with inappropriate attitudes.

Concerning government institutions, in line with the aforesaid principle, it is essential to organize information and knowledge about job creation, including understanding MSE development, the development challenges and approaches to overcome them. This can be achieved through continuous engagements in education, training and using different methods to develop supportive attitudes towards MSE development. These initiatives should be combined with improved leadership and managerial qualities recruited from the civil service to lead urban local governments (ULGs) and those institutions established to support and develop MSEs. Once the right people are in place, there will be continuous learning and improvement using practical experiences from the field. The current situation is that the leadership in ULGs is not better than that in rural areas. The main reasons being that: a) a rent seeking political economy has gained the upper hand in urban centers, and b) there have been inadequate efforts to build strong leadership and management in MSE development. Notwithstanding the efforts to eliminate rent seeking behavior, more emphasis must be given to building strong leaders in ULGs.

The effort to root out rent seeking behavior in MSEs is inseparable from the overall effort to change attitudes and behavior within society as a whole. Efforts to bring about attitudinal changes are also inseparable from day to day MSE development initiatives. **The efforts to improve the performance of MSE promotion institutions need to be synchronized with the drive to change attitudes among the general population.** In an effort to bring about attitudinal changes GoE shall make use of all available means ranging from civic and moral education in schools to the use of public forums. The establishment and strengthening of MSEs' organizationally should also be at the center of the struggle to bring about attitudinal change. Women's and youth organizations as well as other MSE organizations should serve as the main catalysts for change. These organizations should be involved in periodic MSE related plan and implementation reviews (evaluation) organized at various levels. The discussions at these performance review meetings should be seen as opportunities to influence attitudes. An initiative to influence attitudes and behavior shall be mainstreamed and coordinated with education and training activities.

The process of **influencing changes in attitude among MSE operators and support providers can be successful if it is interwoven with practical actions whereby guidelines to be followed by MSEs are developed and disseminated among MSEs.** These guidelines should discourage rent seeking practices. Implementation plans and guidelines need to take into consideration the values they should be moving attitudes towards, for MSEs and larger enterprises. As an example, taxes to be collected from MSEs may not have significant impact in terms of boosting GoE revenues; the amount of taxes collected from

500,000 or so MSEs is very small when compared with taxes that can be collected from two or three big businesses, nevertheless, keeping systematic records on financial transactions and nurturing a taxpaying mindset should be given utmost importance so that, when MSEs' tax relief period elapses, they are encouraged and prepared to pay whatever tax may be due in accordance with the tax laws.

**Strategic plans and working manuals have been produced for MSE development and actions taken to familiarize MSE operators with them.** In addition it is essential to identify those MSEs and operators that have achieved success and place them at the center of the MSE development policy and strategy. Though they might be few at the beginning, as long as the selections are done carefully, they can be popularized as role models, while incentives can be provided for others to equal their achievements. This will make it possible to create conditions to encourage others to follow suit. It is necessary to attract and build the capacity of successful operators so that they become models of success that motivate others to follow their examples. Where those involved with MSEs engage in rent seeking activities, the preferred approach, when possible, is rehabilitation by giving them a second chance thereby helping them, and others, to learn from their mistakes. **The practice of selecting exemplary achievers, strengthening and using them as role models needs to be integrated with the main task of building positive and supportive attitudes toward the development of the MSEs.**

**The right approach to alleviate the lack of financial resources is to build on the self-help efforts of MSE operators and their families and, in case of expenses that are beyond their means, to help them access finance from government financial institutions.** As this is the right path to the development of MSEs, it should be adopted as a general direction for provision of financial support for MSE development. Those who cannot make a contribution from their own savings to their start-up capital should not be permitted access to credit. It is also possible that, although some young persons may not have sufficient savings of their own, they may be able to mobilize start up resources from parents and families in rural areas. **GoE believes that it is parents, rather than GoE, that have primary responsibilities for their children's future.** Nonetheless, there are still young people and their families, including women, who may not have sufficient means of daily survival let alone be able to make savings. Such individuals need to engage in activities that do not require startup capital such as employment in cobble stone road construction, mining of precious minerals and construction activities. In these cases, priority should be given to those who do not discriminate between jobs, whether they are university graduates or have little or no formal education. GoE should help young people from poor families as long as they are willing to take up employment and start their own savings.

**On this basis, GoE will facilitate access to start-up capital for those who are willing to work and where possible contribute savings, provided that they organize themselves, come up with feasible business ideas (proposals) and contribute part of the required start-up capital.** Contributions to start-up capital would include compulsory savings requirements attached to employment schemes, own savings and/or family contributions. In this regard, as a significant part of start-up capital is intended to cover the costs of arranging production and sales premises as well as investment in machines and equipment, an alternative solution is to provide assistance that will reduce the amount of startup capital requirement. Urban local governments should promote the

construction of affordable production and sales premises that meet basic standards - this will help reduce development of slum areas. The fact that MSE related public expenditures in urban centers are given priority immediately after education and training demonstrates the high priority given by GoE to MSE development and supports the **high priority that should be given by ULGs to the construction of production and sales premises**. Given the tendency for medium and large industries to concentrate in a few urban centers, the majority of smaller Ethiopian cities are unlikely to attract medium and larger enterprises. For this reason the preferred alternative for industrial development in most cities will be MSEs as they have the potential to be replicated across all cities. It is, therefore, crucial to give emphasis to constructing infrastructure and facilities that support MSEs, as well as making other needs-based improvements, so that MSEs can get access to the facilities at affordable prices and thereby reduce their start-up costs.

**The process of constructing and delivering MSE production and marketing premises requires careful planning and management.** Cities should avoid building corrugated iron sheds for MSEs - be overly concerned with cost reduction. If MSE facilities are built in a quantity that exceeds demand and of high quality that results in high cost<sup>2</sup>, it is likely that they will not be fully occupied. A more effective approach is to build a limited number of premises that are affordable to MSEs and build more as demand arises. The sites to be chosen should be appropriate to the needs of MSEs. Sites should not be placed in peripheral locations or in city centers; both locations that may limit MSEs' expansion potential. A transparent system should be created for allocation of MSE production and sales premises, involving regular and on time payment of rents as well as appropriate measures for noncompliance. Putting such procedures in place will discourage rent seeking practices; accelerate MSE development effort and contribute to the development of urban centers. The building and renting of MSE production and sales premises should be a top priority for ULGs. This strategy has to be executed effectively with commitments for continuous improvement based on experience and good practices.

**Machinery leasing** is a second direction to be adopted in alleviating start-up capital shortages. Establishing and strengthening capital leasing companies in the country can create opportunities for MSEs to start with lower start-up capital. This will be possible as they can lease machinery and rent spaces, which will also enable them to accumulate capital for further growth.

**The third type of support is to facilitate access to finance for those who take their own initiatives towards enterprise start-up.** The first option is to exert maximum effort to reduce the amount of start-up capital required. The second is for prospective entrepreneurs to make their own contributions or savings. As long as the preconditions mentioned are fulfilled, credit can be provided after checking the financial performance of enterprises and that loan repayments are collected in time, the provision of credit will serve its developmental purpose and is unlikely to entail rent seeking behavior. Thereafter, the task of MSE support is to improve the performance of existing micro financing institutions (MFIs) identify new financial sources and ensure the operational procedures of MFIs support MSEs' development.

**The other main challenge to the competitiveness of MSE products and services is the**

---

<sup>2</sup> As was the case with the Integrated Housing Development Project.

**widespread use of outdated technology and working methods.** Taking Japan as an example, the key difference between Japanese and Ethiopian MSEs is the use of advanced technology and operations in Japan. The first step to overcome the challenges of technology, operational and market competitiveness is to build MSEs' commitment to change and continuous improvement. In the absence of such commitment any provision of enterprise development services to MSEs will be in vain. At the same time as the first step the efforts described should be made to ensure the commitment of MSEs to improving their technology and operations.

The leadership in charge of ULGs should also have strong desire to lift the unemployed and poor youth and women out of poverty in the shortest possible time. In the absence of leadership commitment this will be a challenge. GoE believes that handouts will not pull people out of poverty and an effective approach is to get them engaged in productive activities that give them the chance to eventually help themselves. To this end it is appropriate to engage them in safety net programs as have been introduced for poor farmers in rural areas. Alternatively, letting MSEs increase their revenues, in the absence of their commitment to improve technology and competitiveness, could have worse results - the provision of handouts could provide further opportunity for rent seeking activities. For example, the right of MSEs to generate rent income from natural resources, such as quarry materials and sand, should be terminated once MSE operators have raised the necessary savings for start-up capital. The problem of youth unemployment cannot be solved through rent seeking activities. Rent seeking activities change innocent people into corrupt individuals and must be avoided. From the beginning, clear signals should be given to MSEs that they are expected to use government support effectively - to improve the quality of their products and improve price competitiveness - and if they do the support will not be withdrawn. GoE's MSE guidelines and plans must underline this approach. Enterprises that cannot compete effectively in the market should be left to their own natural course, and should not continue to benefit from government procurement opportunities.

On the other hand, every effort must be made not to exclude those who demonstrate commitment towards improving their businesses, but find it difficult to become competitive in the market. The TVET system will be improved to provide quality skills training and advisory services that improve skills and working methods for adoption by MSEs. TVETs shall become venues for MSEs to continuously access new and improved technologies. By expanding and strengthening the One Stop Shop (OSS) system, MSEs will get opportunities to reduce their transaction costs, including the time they spend to get access to basic business development services.

Ethiopia's TVET system provides a unique opportunity to integrate education and training with development. TVETs are the most important MSE development service providers in the country. They also provide skilled manpower for medium and large enterprises. GoE believes that TVETs are vital institutions for accelerating urban development and has developed an outstanding TVET system based on global best practices. There are some, however, who are still skeptical about the importance of the Ethiopian TVET system.

Whenever the issues of occupational standards and training systems are mentioned, the first thing that comes to the mind is TVET institutions. TVETs, though among the key actors, are by no means the only ones. Naturally the main and practical part of vocational and technical training should be provided at production and service enterprises. Building

large number of TVET institutions, without enabling government and private enterprises to offer opportunities for apprenticeships, will not produce an effectively functioning TVET system. Another observation made about Ethiopia's TVET system is the idea that being enrolled in TVET institutions for a certain period, one year or more for example, will lead to a certificate being granted. However, what matters is neither the time spent within the TVET system nor the certificate to be obtained; rather it is to ensure that the time was adequate for the transfer of skills, and effective competency assessments are made on the acquisition of the skills. Accordingly, once occupations are classified and, depending on the requirements of each learner, the duration is decided (from a few hours to years), **what is important is to make occupational assessments by competent institutions.** Ultimately there is no such thing as diploma or degree but occupational levels (from 1-5). Any occupation such as hairdressing and metal work will be classified under five levels. Curriculum will be developed for each occupation as well as for each of the five levels. Depending on the level of skills to be acquired in TVETs, a person can be Level 5 Hairdresser or Level 3 Metal Worker. The time to learn Level 5 Hairdressing could be shorter than Level 1 Electronics. **The duration of training is determined by the time it takes to learn the skills successfully.** The role of institutions conducting competency assessments should be to carryout skill-based assessments and provide certifications regardless of the learning sources; competency could be obtained informally from parents or formally from TVET institutions. Therefore, **the TVET system should not be based on the certificates obtained for completing a period of training in TVET institutions, but rather on whether concrete skills are learned, which should be integrated with a system of free occupational skills assessments.**

The leadership in charge of ULGs, at the various levels, has limited knowledge and information about the value of TVETs. Parents' long entrenched mindset that their children should go to school, work for certificates so as to get paid jobs, is passed on from generation to generation. Leaders show some of the same attitude of dependency nurtured by the age old religion based teaching institutions that emphasize repetitive learning not creative skills. For these reasons, awareness creation measures are needed in TVET institutions that can learn from the experiences of other educational institutions. Leaders at various levels need to have sufficient awareness and working knowledge to provide effective support and leadership. More importantly, those who take leadership roles in TVET institutions and ULGs need to recognize that TVETs are at the center of urban development processes and must acquire the information and knowledge needed to provide competent leadership. It is only when leaders have this capability that they will be able to mobilize the population and stakeholders towards the desired goals.

Appropriate measures should be taken to protect MSE operators from developing rent seeking attitudes during the formative years of their development: unlike the tale of a women who failed to discipline her child for stealing an egg, who later becomes ashamed when the child was caught stealing an ox. GoE must closely examine MSE development so that the road to rent seeking is permanently closed in order that MSEs may realize their full potential for themselves and for Ethiopia. GoE believes that MSEs are the key agents of the urban development endeavor and should be provided with comprehensive and good quality enterprise development services. Support to be provided to MSEs in the areas of technology and operating systems should be provided as described earlier, with emphasis that the principles described are provided in all areas of support.

**Access to markets is another main constraint faced by MSEs.** The problem is partly related to the inability of MSEs to produce competitive products and services; the main reason for this being product development that is not based on proper market assessment. In addition, MSEs make limited efforts to expand their markets. Marketing problems should be solved by MSEs themselves, mainly by adopting more market oriented attitudes. Support provided by GoE should not be confined to changing the attitude of enterprise operators. Even if MSE operators change their attitudes, market related constraints may persist. **GoE should take measures to promote market linkages between MSEs and purchasers of goods and services.** The construction of production and sales premises is one of the options to be pursued. Organizing and facilitating the **participation of MSEs in trade fairs and exhibitions** is another area of support to improve access to markets. MSEs will be helped to initiate subcontracting relationships within the country and abroad by, among other initiatives, creating an **enabling legal framework and providing promotional support.** Where government purchases from MSEs are concerned, support should only be seen as supplementary to their own marketing efforts, and should not be abused and exposed to rent seeking. Access to enterprise development services given to the development of industrial, particularly manufacturing MSEs, does not imply that MSEs engaged in the service sector are excluded. In fact, MSEs in the service sector constitute the largest number of enterprises compared to those in the manufacturing sector. **The Micro and Small Enterprise Development Policy and Strategy is applicable to all MSEs** and the strategies described can be adapted to enterprises in different sub-sectors.

## 2.2 EXPERIENCES GAINED AND THE CHALLENGES FACED

### Experiences

The rapid economic growth achieved by Ethiopia since 2004 has been the result of its economic and social development programs as well as the measures taken to build good governance. In recognition of the significant role MSEs play in the country's economic and social development, GoE has given much greater attention to MSE development. The MSE Development Policy and Strategy was formulated and implemented as a result. The following results were achieved during the planning period EC 1998-2002 (GC 2005/06-2009/10):

1. A total of 1.5 million jobs were created and about half of the beneficiaries were female. The construction sector provided the largest share of the jobs created.
2. Credit amounting over ETB 4 Billion (USD 200 million) was provided to MSEs by MFIs.
3. A total of 1.2 Million MSE operators took part in different training programs. Business development services (BDS) were provided to 10,000 individuals.
4. A total of 5,000 development workers and other staff were trained and deployed in 825 newly organized One Stop Service Shops that deliver integrated services to MSEs.
5. Market opportunities were created:
  - i. Market access opportunities were provided through MSEs' participation in



- different trade fairs and exhibitions,
  - ii. The Integrated Housing Development Program and other government-initiated projects, created new job opportunities and introduced and developed sub-contracting methods, and
  - iii. Regional governments issued and implemented regulations for the procurement of goods and services by government agencies from MSEs that cost ETB 400-500,000 (USD 20-25,000). This initiative led to benefits in terms of local and foreign business linkages.
6. Production and sales premises: At least 8,000 production and market shelters and 380 houses were built on 34 million square meters of land.
7. Access to technology and improvement of working methods were provided:
- i. About 61,000 enterprises and individuals benefited from technological and manufacturing equipment support,
  - ii. Weaving and other manufacturing machines as well as agricultural tools and equipment, including improved beehives, were distributed, and
  - iii. Several implementation guidelines were developed to address various constraints faced by MSEs.

As a result of the policy support given to MSE development, a large number of new jobs were created during GC 2005/06- 2009/10. This stimulated economic and social activities in urban centers. Useful experiences were gained that were instrumental for the further development of MSEs in GTP I and GTP II.

## The Challenges Faced

### 1. Finance Related Challenges

- i. The limited capacity of MFIs' disbursement and of MSEs to repay loans has constrained expansion of outreach services efficiency and effectiveness.
- ii. The supply of credit is well below that demanded by MSEs because the lending capacity of most of the MFIs was small.
- iii. The mobilization of savings in most MFIs suffers from inadequate focus and limited capacity.
- iv. Critical issues identified in MSEs were: a poor repayment culture, their inappropriate use of credit and lack of experience in using credit to improve competitiveness. In addition, the limited efforts exerted by ULGs to achieve better repayment rates further complicated the problem.
- v. The lack of a system for upfront identification and assessment of credit worthy borrowers and lack of capacity to engage in awareness creation, training and business plan preparation coupled with lack of capacity to access production and market facilities were further constraints in MFIs and other MSE support institutions.
- vi. The distribution of money by different non-governmental organizations, negatively affected the principle of savings and credit, and undermined efforts

aimed at reducing dependency attitudes.

vii. Limited attention and continuity of capacity building efforts for MFIs.

## **2. Issues Related to Production, Marketing and Cluster Development**

- i. Site selection for MSE production and sales facilities built by some ULGs were not guided by urban plans. Many were built using poor building designs on sites that lacked title deed, many did not have access to basic infrastructure and services (water and electricity), had inadequate provision of land and built structures were not designed to industry specific requirements.
- ii. The criteria for organizing enterprises into clusters were not based on their having complementary and mutually beneficial linkages and the length of operation of the enterprises within the cluster. Moreover, there were no clearly defined service charges or payment schemes for the use of cluster space as many of the centers lacked standard cluster management systems.
- iii. Lack of progress towards the realization of the key aims of cluster development, namely technology and market development.

## **3. Challenges Related to the Industry Extension Service**

- i. The industrial extension service was not organized based on needs assessment and prioritization. As a result, the services provided by TVETs did not have a problem solving orientation and made little impact in terms of narrowing the identified skills gaps in MSEs.
- ii. Leadership at different levels of GoE had limited awareness and understanding about the significance of the industrial extension services and was not able to facilitate the implementation process.
- iii. Teachers working in TVETs generally lack the required competencies to deliver effective industrial extension services.
- iv. TVETs are yet to fully exercise their mandate to deliver industrial extension services - their capacity building efforts were limited and service ownership barely in evidence.

## **4. Human Resource Development Issues**

- i. Lack of strongly held confidence and underdeveloped entrepreneurial mindsets among the operators of MSEs, including the presence of strong inclinations towards dependency and rent seeking.
- ii. Pervasive lack of awareness and understanding among teachers working in TVETs about how to enhance entrepreneurial attitudes and build a “hard working” culture among their students.
- iii. MSE Development Agencies established at various levels of government and TVET colleges were unable to forge collaborative working relationships to deliver integrated small enterprise development services.
- iv. Training programs offered by TVETs were not based on needs assessment of marketable skills and a result oriented approach. They often lacked strategic orientation indicating the presence of institutional competency gaps.

## 5. Technology Development and Transfer Related Challenges

- i. Limitations in understanding the scope and relevance of technology transfer among TVET institutions and the prevalence of skill gaps among the professional staff of TVETs engaged in technology development and transfer.
- ii. Little or no readiness among MSEs in adapting new technology and working methods as well as a lack of open mindedness and preparedness for continuous improvement.
- iii. A shift from using technology transfer as the way to address problems of individual MSEs towards using the value chain approach to deliver suitable technology to a group of MSEs still remains one the main challenges facing MSE support providing institutions.
- iv. There are hardly any incentive mechanisms in place to facilitate the development and commercialization of technology based innovative ideas for products or service among the teaching staff of TVETs and other professionals.

## 6. Market and Marketing Issues

- i. The provision of market related support to MSEs has generally focused on procurement by GoE institutions, which may have undermined the prospect of MSEs becoming self-sustaining and competitive in the market.
- ii. To make matters worse, MSEs in most cases were barely able to take advantage of the opportunities provided by government-sponsored programs. The products and services supplied by MSEs were often not competitive in terms of price or quality.
- iii. Although the procurement regulations passed by regional states benefited MSEs, they were inconsistent as they did not follow uniform standards. In fact the procurement regulations were often implemented at the discretion of individual organizations.

## 7. One Stop Shop Service Problems

- i. Lack of clarity and understanding about the mission, operations and management of One Stop Shop Services constrained effectiveness.
- ii. The lack of manpower in terms of leadership, competence and commitment was considerable.
- iii. The role accorded to the political leadership under the MSE package was not adequately understood. In the main MSEs suffered from a lack of focus during implementation of GoE support as MSEs were not regarded as one of ULGs principal functions.

## 2.3 INTERNATIONAL EXPERIENCE

### Learning from Best Practices

1. Good practices from Ethiopia's experience identified to date were compared with those of other countries. The main objective was to assess Ethiopia's MSE strategy

(issued in 1998 GC (1990 EC)), identify the gaps; generate useful ideas that benefit MSEs and draft policies and strategies that contribute to Ethiopia's achievement of sustainable and accelerated development.

2. India and Japan were the two main sources of best practice information. It was possible to share directly the experience of MSE development policy making and policy implementation institutions so that ideas identified could be adapted to the local context. In addition, useful lessons were learned from the experiences of Malaysia, the European Union and South Africa.
3. The experiences of these countries were reviewed with a focus on the following seven thematic areas that address MSE support frameworks and capacity building programs:
  - i. Financial support,
  - ii. Human resource development and MSE development advisory services,
  - iii. Market support,
  - iv. Cluster and incubation center development,
  - v. Technology, product development and diffusion services,
  - vi. Information and communication services, and
  - vii. Capacity building of support institutions.

### **Main Lessons Learned from Best Practices**

The key areas of best practice information reviewed in the selected countries included: countries' level of economic growth and development, their definitions of MSEs, MSEs contribution to economic development, and the policy, strategy, legal frameworks (proclamations and regulations) and guidelines provided. These are summarized as follows:

1. In most countries, government plays a key role in providing leadership and support to MSEs, including a critical leadership role in setting and realizing MSE development objectives.
2. In general, the contributions of micro, small and medium enterprises to GDP and employment were found to be significantly high. In India, for example, the manufacturing and export related contributions of MSEs were 45% and 40%, respectively and MSEs created employment opportunities for 60 million persons. In Japan MSEs contributed 53.3% of the manufacturing output and employed more than 40 million people.
3. The frameworks for policy development and enterprise support in the various countries are based on the principal aims of accelerating the growth and development as well as enhancing the international competitiveness of MSEs. These frameworks are subjected to continuous review and improvement. The implementation of policy frameworks was based on detailed implementation packages and guidelines.
4. Institutions were established for effective implementation of policies and strategies as well as accompanying support packages and their capabilities

continuously improved. Several enterprise support institutions were established in the areas of regulatory functions, finance, market, technology, human resource development and advisory services, quality management and infrastructure development. In addition, support institutions for MSEs, have a strategic focus to work with competent industry extension professionals and private professional consultants.

5. The enterprises have strong industry (sector) –based associations, which play significant roles in negotiating and implementing enterprise support packages to be developed by GoE.
6. In most of the countries there are formal definitions for MSEs, which are characterized by uniform implementation by all organs and framed with legislative support.
7. The various kinds of support provided to MSEs often follow new working methods and approaches, and are also subject to continuous evaluation and improvement.
8. In helping MSEs to benefit from market linkages, special focus is given to design and implementation of sub-contracting and other business models.
9. The design and implementation of enterprise support programs should take into account enterprises' levels of development. In Japan, in particular, human resource and technology development are key areas of focus.

## **2.4 DEFINITIONS: INTERNATIONAL AND ETHIOPIAN EXPERIENCES**

### **The Need for Definition**

Policies and strategies to provide result-oriented and sustainable support to micro and small enterprise development should be based on a uniform national definition of MSEs. It is imperative to ensure that all support programs result in direct benefits to the MSEs targeted. The objective in defining MSEs is based on the following five basic principles:

1. To create a basic framework for the purpose of providing differentiated support to micro and small enterprises.
2. To create a uniform basis for institutions mandated to provide support to micro and small enterprise development.
3. To ensure that data and information to be collated and shared on micro and small enterprises has a common ground.
4. To enable the monitoring and evaluation of the various kinds of support to be provided to MSEs using common criteria.
5. To harmonize the national definition of micro and small enterprises with the international definition.

Notwithstanding the above-mentioned principles, apart from the absence of a commonly agreed international definition for MSEs, different countries adopt their own approaches in formulating and implementing legal definitions.

## International Definitions of Micro and small Enterprise

International definitions of micro and small enterprises use three basic criteria:

1. **Number of full time employed persons** (staff headcount),
2. **Total assets, net assets and paid up capital**, and
3. **Total annual sales turnover.**

These three criteria may be applied either jointly or separately.

In addition to these three basic criteria, some countries and international organizations also use the legal status of enterprises (legal entity) as a supplementary criterion. The most widely practiced approach is the use of the three basic criteria and, depending on the economic conditions of individual countries the weight to be attached to each criterion varies from country to country. In general, on the basis of the review of experiences of other countries, the following key points are identified:

1. Definitions of micro, small and medium enterprises as well as the frameworks for support to be provided to such enterprises are used in all countries;
2. Each country's definition of small, micro and medium enterprises is tailored to its economic condition and overall level of development;
3. In most of the countries, the definitions of small, micro and medium enterprises are uniformly implemented by all institutions and have legal backing;
4. The principal criteria that are applied either separately or in combination to define small, micro and medium enterprises include the size of employment, total assets, net assets and paid up capital with annual sales turnover;
5. Some countries (e.g. China, U.S.A and South Africa) apply different definitions for different types of industry, such as for manufacturing, construction, transport, wholesale/retail trade and services;
6. Most countries follow uniform definitions for all small and medium enterprise sectors (European Union);
7. Some countries (e.g. India, the Philippines and Tanzania) use different definition for different sectors, including for micro enterprises;
8. Some countries (India and Japan) define the sector by classifying into manufacturing and services; and
9. Some countries (European Union).revise the definitions by taking into account the experience of other countries, price inflation and improvements in productivity.

## Definition of MSEs in Ethiopia

**In Ethiopia, two different definitions of micro and small enterprises were adopted, namely:**

- The definition used in the 1997 (EC 2005) micro and small enterprises development strategy; and
- The definition used by the Central Statistics Authority.

## The Definition Provided in the 1997 MSE Strategy

The formulation of the **1997 Micro and Small Enterprise Development Strategy** (EC 2005) took into account the experiences of South Africa and other countries. During that time, the use of a single criterion, namely paid up capital, was preferred as it was thought that there were difficulties in obtaining information on the numbers employed in MSEs as most of the enterprises were operated by family members. As a result, the definition had the following limitations:

1. Given the fact that employment creation is one of the objectives of promoting MSEs, the absence of criteria related to employment creation in the definition meant that it was not possible to use it for comparing changes in employment creation. In addition, from the perspective of the international experience, it was difficult to estimate the amount of capital for the different categories of enterprises.
2. The use of paid up capital as a criteria in the existing definition does not take into account the realities on the ground. Since enterprises are established by paid up capital financed by own contributions and in most cases bank loans, the definition does not give a full picture of enterprises.
3. The existing definition, it being more than 13 years since it was first adopted, is found now to be incompatible with current realities. For instance, significant foreign exchange rate and inflation related changes have taken place since the definition was set. The paid up capital definition of MSEs, which was ETB 20,000 (about USD 2,300 in GC 2005), is incompatible with the current foreign exchange equivalent of about USD 925 (EUR 824). Similarly, the definition of small enterprises that was ETB 500,000 (USD 58,000) is about USD 23,800 (EUR 20,600) under the current exchange rate. Thus, the expected amount of paid up capital in foreign exchange equivalent thirteen years ago is 250% higher in GC 2005 than in GC 2012.
4. While the definition is based on paid up capital, the transition from micro to small and from small to medium were to be measured in terms of total assets.
5. Although small enterprises also include high-tech and consulting enterprises the definition did not include them; this needs to be reconsidered in view of the current significance of the sector.

Thus, it becomes imperative to revise the existing definitions of MSEs, in light of the international experience as well as the significance of the sector in the country's current development endeavor. Table 1 shows the existing definitions of MSEs.

**Table 1. The 1997 Definition of Micro and Small Enterprises in Ethiopia**

Sector	Paid up capital
Micro enterprise	≤ ETB 20,000 (USD 1,200)
Small enterprise	≤ ETB 500,000 (USD 30,000)

## The Central Statistics Agency's Definition

GoE's Central Statistics Agency definition of MSEs is based on the type of technology

adopted and the size of manpower:

1. **Handicraft and cottage industries** in which a single person or family members perform their activities mainly by hand and using non-power driven machineries; and
2. **Small scale manufacturing enterprises** engaging less than 10 persons and using motor driven machinery.

The above mentioned definitions adopted by the Central Statistical Agency have the following limitations:

- Focus on the manufacturing sector (i.e., it does not refer to other sectors); and
- No use of the amount of capital as criteria.

The Central Statistics Agency definition is also different from the one adopted by MoUDH in the 1997 MSE Strategy. In the absence of a standard definition, the Central Statistics Agency did not collect data and conduct surveys of micro, small and medium enterprises. The absence of a uniform definition also makes it difficult to conduct scientific studies to evaluate the impact of the existing strategy as well as the frameworks put in place to provide support to MSEs.

### The Revised Definition of Micro and Small Enterprises

After identifying the limitations of the existing definitions and reviewing international experience, the definition of MSEs is revised. A new set of definitions is provided that takes into consideration: the number of employed workers, total assets and two broad sectoral classifications (industry and service) as well as taking into account inflation and exchange rate related changes that might occur over the next five years.

### The Revised Definition of Micro Enterprises

**Enterprises employing up to 5 persons including the enterprise owners and family members, with total assets of not more than ETB 100,000 (USD 4,630<sup>3</sup>).**

1. **For the industrial sector** (including manufacturing, construction and mining): Enterprises employing a maximum of five persons, including the enterprise owners and family members, with a total asset of not more than ETB 100,000 (USD 4,630); and
2. **For the service sector** (retail trade, transport, hotel, tourism, and information technology and maintenance services): Enterprises employing a maximum of five persons, including the enterprise owners and family members, with a total asset of not more than ETB 50,000 (USD 2,310).

### The Revised Definition of Small Enterprises

1. **For the industrial sector** (manufacturing, construction and mining): This refers to enterprises employing 6-30 persons and with a total asset of from ETB 100,001 up to ETB 1,500,000 (USD 4,630 up to USD 69,500); and

---

<sup>3</sup> USD 1.00 = ETB 21.6000 as at 23 April 2016 (XE Currency Converter)



2. **For the service sector** (retail trade, transport, hotel, tourism, and information technology and maintenance services): This refers to enterprises that are employing 6-30 persons, and with total asset of at least ETB 50,001 and up to ETB 500,000 (USD 2,310 up to USD 23,150).

**Table 2. The Revised Definition of Micro and Small Enterprises**

Level of enterprise	Sector	Head count staff	Total asset ETB	Total asset USD
Micro enterprise	Industry	≤ 5	≤ 100,000	≤ 4,630
	Service	≤5	≤50,000	≤ 2,310
Small enterprise	Industry	6- 30	101,000-1,500,000	4,630 - 69,500
	Service	6-30	50,0001-500,000	2,310 - 23,150

In case of ambiguities regarding the use of total assets or the number of employment, total assets shall serve as the main criteria.

### The Legal establishment of Micro and Small Enterprises

1. It is imperative to ensure the legal status of MSEs so that they are eligible for enterprise development support services.
2. The legal status of the enterprises shall be defined based on their preference (registration) either as per the Commercial Law (Business Licensing and Registration Laws or as per the Cooperative Societies Proclamation).
3. The collection of countrywide data and information on MSEs shall be harmonized taking into account the new definitions adopted for micro and small enterprises and as per the procedures to be established by the Central Statistics Agency and in accordance with the standard categories of business licenses.

## 2.5 AREAS PRIORITIZED FOR GOVERNMENT SUPPORT

When enterprises are established in the industry and service sectors described above they shall obtain a business license and register legally in accordance with the existing Ethiopian Business Licensing Categories. In order to achieve the objectives of the Micro and Small Enterprise Development Policy & Strategy and in line with the Growth and Transformation Plan (2010/11-2014/15), special support shall be given to those enterprises that are engaged in the manufacturing sector and that produce items for export or to substitute imports. Particular attention shall be given to subsectors, activities and enterprises to be established in the manufacturing, construction, trade, services and agricultural sectors that have a propensity to create large scale employment.

**Table 3. The Micro and Small Enterprise Sectors and Sub Sectors**

Manufacturing Sector	Service Sector
i. Textile and garment	i. Rural and small scale transport services
ii. Leather and leather products	ii. Cafeteria and restaurant
iii. Food processing and beverage	iii. Warehousing services
iv. Metal works and engineering	iv. Tourist services

v. Wood works including furniture	v. Packaging services
vi. Traditional handicrafts and jewelries	vi. Management services
vii. Agro processing	vii. Municipal services
viii. Construction materials production	viii. Project engineering services
	ix. Product design and development services
<b>Construction Sector</b>	x. Landscaping, urban greenery,
i. Contracting	xi. Security and cleaning services
ii. Sub-contracting	xii. Maintenance services
iii. Cobble stone works	xiii. Beauty saloons
iv. Sub-contracting for infrastructure construction	xiv. Electronics and software development
	xv. Decoration services (interior?)
<b>Trading</b>	xvi. Internet café
i. Wholesale of local products	xvii. Garage and assembly works
ii. Retail trade of local products	xviii. Urban agriculture
iii. Raw material supply	xix. Modern animal husbandry
	xx. Beekeeping
<b>Mining and Quarrying Sector</b>	xxi. Poultry
i. Local mining works	xxii. Modern afro-forestry
ii. Precious stones	xxiii. Fruits and vegetables production
	xxiv. Modern irrigation
	xxv. Animal feed processing

## 2.6 SUSTAINABLE DEVELOPMENT GOALS

Ethiopia is among the countries that are working towards the achievement of Sustainable Development Goals. These goals include, eradicating hunger and poverty, making primary education accessible to all, empowering women and ensuring gender equality, reducing child mortality, improving maternal health, fighting HIV/AIDS, malaria and other diseases as well as ensuring environmental protection sustainability. The first goal of sustainable development targets is to eradicate abject poverty and hunger by halving the population living on less than a dollar per day and the population suffering from hunger. In this regard that the five year Growth and Transformation Plan has broad aims to create a very large number of job opportunities and ensure fair wealth distribution through, among other measures, expansion of MSEs, small, medium and large industries. The Micro and Small Enterprise Development Policy & Strategy supports all aspects of urban development and housing through job creation and Ethiopia's transformation into an industrialized economy with middle income country status. The Micro and Small Enterprise Development Policy and Strategy can make a substantial contribution to sustainable development goals. The issue of job creation and employment receives due attention in the Sustainable Development Goals and the national and Ministerial GTP II documents and has close linkages with Micro and Small Enterprise Development Policy and Strategy.

## **3 VISION, OBJECTIVES AND POLICY DIRECTIONS**

### **3.1 VISION**

"To see vibrant and competitive micro and small enterprises capable of providing diversified and solid foundations for industrial development."

### **3.2 GENERAL OBJECTIVES**

1. To create extensive employment opportunities to increase income, reduce poverty and enhance equitable distribution of income;
2. To contribute towards competitive and sustainable economic growth thereby creating foundations for industrial development and linkages with rural development; and
3. To create broad-based developmental investors in urban centers.

### **3.3 MICRO AND SMALL ENTERPRISE DEVELOPMENT POLICIES**

#### **3.3.1 General Policy Commitments**

1. From a short term perspective, the development of MSEs guarantees accelerated economic development that will better benefit the masses, principally by promoting savings in the face of serious shortages of investment capital. The medium and long term focus is to make MSEs a major pool of developmental investors, enabling the country to start with meager capital and limited technology and make step by step accumulation of capital and technological advancement, thereby maintaining and accelerating the rapid economic growth.
2. MSEs shall play key roles in reducing the country's unemployment problems, serving as incubators of future industrialists and creating broad-based developmental investors, who will be instrumental in changing the political economy of urban centers. In the area of industry and urban development, GoE therefore accords utmost priority to the development of MSEs.
3. Extensive enterprise startup opportunities shall be created for TVET and university graduates by developing their employable skills, entrepreneurial attitudes and saving culture.
4. In accordance with directions provided in Ethiopia's industrial development strategy, TVET colleges shall have a mandate to provide industrial extension services for the development of skilled human resources and technology.
5. The growth and development of the MSEs shall be closely integrated with that of medium and large industries as well as the agricultural sector.
6. An improved MSE development strategy and enterprise support framework shall be put in place for flexible implementation according to the level of enterprise development.

### **3.3.2 Human Resource Development and Technology Growth**

The development of human resources and adoption of better technologies shall be the main role and responsibility of TVET institutions. The following are TVETs' main responsibilities:

1. Serving as technology centers that facilitate MSEs' development through technology transfer.
2. Serving as key players in building entrepreneurial attitudes in MSE operators, building their technical skills and improving their managerial skills through training and advisory services, and serving as a major source of information and technology.
3. Providing all rounded technological support by identifying products that can be made by MSEs, particularly which can substitute imports, assisting them to manufacture sample products as well as supporting them to commence full scale production.
4. Instilling entrepreneurial mindset among the educated youth and the general youth population by way of encouraging them to start-their own MSEs, which is instrumental for creating industrialists in the country.
5. Engaging in building general entrepreneurial culture through learning endeavors within formal educational institutions as well as through the activities of youth associations and encouraging parents to support the initiative.
6. Building the entrepreneurial attitudes, knowledge and skills of MSE operators so that they can overcome their dependency attitudes and develop in self-confidence towards taking their own initiatives.
7. Making MSEs a means of not only of employment creation but also centers of excellence for promoting technological transfer and modern enterprise management skills

### **3.3.3 MSE Financing Sources and Financing Methods**

1. MSEs shall be encouraged to make their own savings and contribute to their start-up capital.
2. As much as possible those who wish to start their enterprises with the support of their families will be encouraged to save the required startup capital. GoE-sponsored job creation programs shall give priority to such enterprise startups. Additional support will be coordinated from the Federal government, Regional States and ULGs.
3. Institutions that will provide capital goods leasing services and a special scheme for financing the purchase of capital goods shall be established and strengthened.
4. Support shall be provided for business ideas produced in educational institutions or by students in order to further develop them into viable business opportunities through technology education and incubation services. Additional startup capital support shall be provided to TVET or university graduates who can carry forward their ideas to establish MSEs.

5. Regional States and ULGs shall build production and sales premises, with the aim of alleviating shortages in startup capital. Startup MSEs shall be encouraged to locate in these facilities. Those operating outside these premises shall also be encouraged to relocate by facilitating access to production and sales premises at affordable cost.
6. Feasible business proposals from local and foreign sources that are in-line with the technological needs of the country as well as its development policies and strategies shall be facilitated through schemes that facilitate access to finance.
7. GoE sponsored development programs shall be used as supplementary means of alleviating the financial problems faced by MSEs. Integrated support shall be provided to those enterprises to be embraced under programs that include procurement of machinery and access to raw materials.

#### **3.3.4 MSE Production and Market Facilities**

1. Building production and sales premises shall be the major undertakings of ULGs, where cluster development shall be implemented as the principal means for poverty reduction. Facilities and support shall be provided to MSEs at affordable cost, to reduce their production and sales space related constraints, facilitate their access to technology, and improve their access to markets and business finance.
2. For MSEs demonstrating high level of performance and with concrete evidence of their potential transformation into medium enterprises, a special support scheme shall be prepared to ensure their access to working and sales premises as well as credit and markets so that they are able to make significant contributions to Ethiopia's industrial development.
3. Special focus shall be accorded to MSE development to transform the sector as the main pool of the country's future industrialists.

#### **3.3.5 MSE Market Development**

1. A market information system shall be established for existing and new MSEs. Special attention shall be given to export oriented MSEs.
2. MSEs shall be provided with opportunities to get access to markets through different means. Special support shall be provided to those organized as cooperatives or engaged in other forms of joint marketing arrangements.
3. MSEs producing locally and internationally competitive products as well as those engaged in technology transfer related activities shall be promoted in all urban centers.
4. Sub-contracting, in its different forms, shall be promoted to expand market linkages for MSEs.

#### **3.3.6 MSE One Stop Shop Service**

1. A formal job seekers registration system shall be established, which also includes up-to date records of those gain employment.
2. Effective business startup services shall be provided for enterprise project

proposals, within and outside clusters, with their own startup capital contribution and credit. The service shall be delivered to those starting as private enterprises or cooperatives and that have also fulfilled the legal requirements for starting a new business.

3. Continuous competency building training shall be provided to One Stop Shop Service workers, to improve their operational performance.

### **3.3.7 Industry Extension Services**

1. Industrial extension services for MSEs shall be delivered by TVETs.
2. TVETs shall integrate their activities with other MSE support institutions so that the quality and outreach of industry extension services is enhanced to improve the managerial competencies of MSE operators as well as advance the level of technology adopted by MSEs.

### **3.3.8 MSE Support Institutions**

The various MSE support institutions shall be provided with institutional capacity building support with the aim of enabling them to accomplish their mission, which is leading the effort to accelerate MSE development and the formation of broad-based developmental investors and industrialists. To this end:

1. The Federal Micro and Small Enterprise Development Agency (FeMSEDA) shall be restructured. The Agency's main focus shall be building its own capacity and that of MSE agencies to be established by regional states. Similarly, in all regions, capacity building measures shall be undertaken for all institutions that are executing the MSE Development Policy and Strategy.
2. The National Bank of Ethiopia will establish a department dedicated to building the capacity of MFIs. To this end the Bank shall also collaborate with the Association of Ethiopian Micro Finance Institutions.
3. Regional governments shall establish capacity building centers targeting staff working in One Stop Shops. The TVETs that host such centers shall be selected from among those that are relatively strong.
4. In view of the need to deliver integrated enterprise development support, the main executing institutions, particularly MSE promotion agencies to be established at the federal and regional levels, MFIs and TVETs shall integrate their activities by adopting collaborative approaches.
5. Consultative forums for MSE development shall be established at the various levels of government. Membership to the Consultative Forums shall constitute stakeholder institutions providing support to MSEs including MSE themselves who are the main actors. The Forums shall serve as venues for consultative discussions on draft laws, regulations and guidelines and shall also serve as venues to enhance participation in the preparation, implementation and evaluation of MSE development programs and projects.
6. Associations of MSEs shall strengthen collaborative linkages with government projects. Above all, MSEs shall be encouraged to organize themselves to enable them solve their own problems.

### **3.3.9 Creating a Favorable Business Environment**

1. MSE development shall be the principal function of the political leadership and executive organs at different levels of government. Thus the political leadership shall provide rapid responses to solving MSEs' constraints. The provision of enterprise development support shall be based on thorough needs assessments that will also contribute to the creation of favorable business environment.
2. BDS to be provided to MSEs by GoE shall be based on MSEs' needs. The mode of delivery shall be integrated with strategies that help counteract dependency attitudes.
3. The planning and delivery of enterprise development services at different levels shall lead to the nurturing of development oriented attitudes as well as facilitate the formalization of enterprises.





## 4 MSE DEVELOPMENT STRATEGIES

### 4.1 SUPPORT DURING STAGES OF MSE DEVELOPMENT

#### 4.1.1 Background

1. The level of development of MSEs has two major dimensions. The first is **the transition of an enterprise from micro to small and from small to medium enterprise level. The second is the process whereby MSEs maintain and strengthen their competitiveness within their own category of MSE.**  
Development support provided by GoE shall take into account these two transitional processes.
2. **The experience of Malaysia** shows that enterprises have four levels of growth: **startup, growth, expansion and maturity.**
  - i. **At enterprise startup**, the objectives of support are to enhance the access of enterprises to skilled labor, facilitate supply of raw materials and access to infrastructure and build their marketing skills.
  - ii. **At the growth stage**, the objectives of the support are to enable enterprises to obtain certificates of competence, achieve product and service standards, benefit from tax relief and obtain technical support.
  - iii. **At expansion stage**, support shall be provided to enterprises to build their technological capacity, enhance their managerial competencies, develop their own trademarks, marketing networks, and information and communication services as well as get access to venture capital and outsourcing possibilities.
  - iv. **At maturity stage**, enterprises shall be provided with support in building product design capacity, promoting trademarks, industrial expansion and access to external financing.
3. **The provision of enterprise support in Japan has three levels: launching, strengthening and securing stages.**
  - i. **The support provided at the launching stage** is to enable enterprises to withstand startup level challenges. Support includes: 80% of the startup capital with ten years repayment period and integrated enterprise development support comprising training and advisory services will be provided at national, regional and city levels.
  - ii. **At the strengthening level**, the support is more professional as it focuses on building the management competencies of enterprises. A temporary assignment of experts is a typical example for such kind of support.
  - iii. **At the maturity level**, the support has more of a preventive nature as the aim is to enable enterprises to withstand current and future risks that may occur.
4. The international experience described illustrates the presence of enterprise based initiatives (schemes) and that these schemes are targeted at overcoming the challenges enterprises face at different stages of their growth.

5. In comparison to the international experience, **enterprise support schemes in Ethiopia were not packaged taking into account the growth stages of enterprises**. The support was characterized by a blanket approach and its implementation was not well supported by sound data and information management, and was sometimes marred by the absence of standard monitoring and evaluation and therefore a limited ability to learn from experiences. The growth of enterprises is therefore divided into three stages of development by taking into account the international experience and formulating the experiences gained so far by GoE in promoting the development of MSEs over the past few years as well as with a view to avoiding the weaknesses observed and **thereby establish enterprises that achieve sustainable growth**.
6. **The aim of adopting an approach based on three levels of enterprise growth is to enable enterprises to register continuous and sustained growth as well to put in place an integrated and transparent framework of criteria and support.**

Accordingly, **three growth stages, namely startup, growth and maturity are identified.**

#### **4.1.2 Enterprise Support Services at Business Startup**

##### **Definition**

The startup level includes individuals with business startup intentions including graduates of higher educational institutions who are organizing themselves into cooperatives or under other business license and registration laws. **Enterprises at this level are in the process of obtaining a legal entity and are yet to begin producing commodities or services.**

##### **Main Challenges**

1. Enterprises at business startup level are often constrained by **lack of initial capital to start their businesses**.
2. The main method of organizing startup enterprises so far has been **assisting them to organize themselves into cooperative societies**, whereas there were no systems in place that present business startup options that rely on more open market principles and hence the enterprises were given little option to choose the form of business organization they prefer.
3. Most of the enterprise operators **did not have prior experience in basic accounting and business management** and thus they were not able to effectively manage their businesses. This invariably resulted in large scale start up failures and loss of hope, even desperation, on the part of the operators.
4. **Lack of working level entrepreneurial, business management and professional skills** as regards their specific line of business.

#### **4.1.3 Strategies for MSE Startup**

The following support will be provided for enterprises to enable them deal with their startup constraints

1. **Facilitating Access to Startup Capital**

- i. A working mechanism shall be implemented to facilitate **access to startup capital**, for those who have an interest to establish MSEs. As a prerequisite such people shall be encouraged to start their own savings. Those with their own savings shall be given priority to access loans from financial institutions.
- ii. **Parents of the graduates of TVET colleges and universities shall be supported to make contributions** to their children's efforts to save to establish new enterprises.
- iii. Mechanisms shall be put in place to **provide integrated support** to young people who have interest to establish development orientated MSEs so that they are able to accumulate at least part of the initial capital by enabling them to benefit from government projects and programs and by encouraging them to be engaged in compulsory savings.

## 2. **Enabling Enterprises to Have Legal Entity**

- i. MSEs that are in the process of establishment shall be supported to **legally register their businesses** under specific forms of business organization that are of their choice.
- ii. MSEs to be established in all eligible sectors shall be **registered as tax payers** and obtain tax payer identification (TIN) numbers.
- iii. MSEs in the process of establishment shall be **supported to adhere to legal systems and procedures in the conduct of their businesses** as well as to enable them to **obtain business licenses and get registered**.

## 3. **Building Competencies in Business Management, Entrepreneurship and Financial Management**

- i. MSE operators shall be supported to **build their competencies in business management and entrepreneurship**.
- ii. Operators shall be provided with **training in basic financial record keeping and accounting skills**. Model financial record keeping manuals shall be developed, and enterprises shall be supported to adopt them.

## 4. **Delivering Training in Technical Skills**

- i. MSEs in the process of starting their businesses shall be **provided with training** to help them start their business as well as **improve their productivity and product/service quality**.

### 4.1.4 **Enterprise Development Support Services during MSE Growth**

#### **Definition**

The MSE growth stage refers to the situation where an enterprise that is receiving enterprise development support services, **demonstrates its competitiveness in the market in terms of price, quality and productivity as well as offers credible evidence as to its long term profitability**. A successful enterprise at this stage is expected to achieve significant increases in the number of its employed workers and total assets. In addition the enterprise shall have already **established a standard financial record keeping system**.

## Main Challenges

1. **Lack of collateral is one of the main challenges** preventing growth oriented MSEs from achieving their rapid growth potential and becoming competitive in the market. Most enterprises are unable to obtain finance at the right time and of the required amount. **Lack of continuity and absence of financial services** that meet the specific nature of a particular business complicate the problem.
2. **Absence of integrated, continuous and sustained skills and technology support** to growth level MSEs to enable them to improve the productivity as well as the quality and grade of their products.
3. **Difficulties in accessing appropriate production and sales premises** and the **predominance of rent seeking attitude and behavior** as well as **failure to adhere to relevant laws** and regulations governing market competition.

## Suggested Strategies in Dealing with Growth Level Challenges

The following support shall be provided for enterprises at the growth level so as to enable them deal with their main constraints:

1. **Facilitating Financial Support.**
  - i. MSEs at the growth level shall be provided with **adequate and sustainable financial support** that is relevant to the nature of their businesses and enable them to become competitive in the market.
  - ii. **Follow up support** shall be provided to enterprises to ensure appropriate use of loans and boost their credit worthiness.
  - iii. **Assistance shall be provided** to enterprises so that they can prepare **standard, accurate and complete business plans** capable of demonstrating the viability and bankability of their businesses.
2. **Provision of Skills and Technological Support.**
  - i. **Market based skills enhancement and technological support** shall be provided to enterprises.
  - ii. Enterprises shall be **supported to obtain quality standard accreditation certificates for their products** with the purpose of maintaining their market competitiveness on sustainable basis.
  - iii. **Training programs shall be designed and delivered based on training need assessments** and shall be provided to enhance the business and managerial competencies of enterprises.
  - iv. **Product/service quality and productivity management systems (Kaizen)** shall be implemented in enterprises to create conditions for making continuous improvements in both product quality and prices.
  - v. **Market linkages shall be created** for such enterprises and support shall be provided directed at enhancing their marketing capabilities.
3. **Expanding Production and Marketing Premises.**
  - i. **Facilitate access to production and marketing premises** taking into account

the specific characteristics of individual enterprises.

- ii. Ensure that **enterprises shall pay affordable rent** for the use of production and marketing premises.
- iii. **Strengthen the provision of common service facilities** that are not financially and/or technically feasible to establish at enterprise level due to their high initial costs and other factors.

#### 4. **D. Formalization of Enterprises.**

- i. Support enterprises so that they can **operate under the framework of the country's business laws and regulations.**
- ii. Ensure that **enterprises start to pay taxes on a regular basis.**
- iii. **Promote the market competitiveness of enterprises** by supporting them to achieve mandatory national and international standards.

#### 4.1.5 **Enterprise Development Support Services at MSE Maturity**

##### **Definition**

The “maturity stage” of MSEs arrives when **an enterprise receiving support becomes competitive and profitable in the market, makes additional investment to increase its market share,** and meets the definition of and **criteria for transformation into a medium level enterprise.** An enterprise operating as a micro or small enterprise level that **maintains its market competitiveness and profitability** can also be considered to have reached maturity.

##### **Main Challenges at the Maturity Level**

1. **Inability of enterprises to maintain and enhance product quality and market competitiveness.**
2. **Limited awareness on international product quality and processes** (operational management) **standards.**
3. **Limited capacity to introduce new technology** and production machinery in order to penetrate markets and maintain competitiveness.

##### **Suggested Strategies in Dealing with Challenges Faced at the Maturity Level**

1. **Creating competitive enterprises**
  - i. Enterprises shall be **supported to adopt quality and productivity enhancement** systems (Kaizen) on a sustainable basis;
  - ii. **Market promotion support** shall be provided to enterprises;
  - iii. Support shall be provided to enterprises **to become competitive** by being engaged in **new product development activities;** and
  - iv. Enterprises belonging to different sectors shall be **supported to adopt international standards** that pertain to their specific sectors.
2. **Enterprises shall be supported to benefit from capital equipment lease system**

by identifying the types of equipment they would need to be transformed into growth oriented medium enterprises; and

3. **Appropriate support** shall be provided to those enterprises that have acquired certificate of **transition to growth oriented medium enterprises**.

#### 4.1.6 **Support Growth Orientated Medium Enterprises**

An enterprise is considered to be transformed from a small to a medium growth orientated enterprise when, as a result of using support services, it has provided **evidence of achievement of competitiveness in the market in terms of price, quality and supply**.

#### **Main Challenges**

The experience so far shows that many small scale enterprises that have not become medium enterprises were **unable to demonstrate their readiness for the challenges and opportunities related to the next level of growth**. Many of them did not recognize that their businesses need to be transformed, and took few of the actions needed to “do what it takes”. The removal of previously provided incentives and the lack of enterprise support that matched their level of growth were some of the main reasons that have prevented their progress. Notwithstanding the need to conduct in-depth research on the various issues the following main constraints are identified:

1. Small enterprises, particularly those organized as cooperatives, **fear losing the tax relief that would apply following their transition and want to keep their current tax status**.
2. As enterprises transform into the next level, the **benefits of clustering for production and sales cease to have such a significant effect**.
3. The transition **reduces very considerably the possibility to borrowing from MFIs**, while **lack of adequate collateral makes it difficult to borrow** from formal banking institutions.
4. Following the transition of an enterprise to the next level, those **benefits related to non-competitive bidding from government procurement market are terminated**.
5. The transition results in the **discontinuation of human resource development (personnel training) and technology related supports** from TVET institutions.
6. With the transition of enterprises to the next level, they **lose waivers relating to the establishment of complete financial record keeping system**, and their **access to free audit services and responsibility for collecting value added taxes (VAT)**.

#### **Suggested Strategies**

In dealing with the challenges faced by medium enterprises:

1. **Enterprises transforming into growth oriented medium level enterprises shall be supported to move into designated industrial zones or already built production and sales facilities as well as obtain land at affordable lease prices to construct their own production and marketing premises**. Such enterprises shall be **assisted to prepare project feasibility studies** as well as obtain advisory services to obtain

- loans from commercial and development banks.
2. Conditions will be created for **developing sufficient awareness and implementing systems and operational guidelines** that would ensure transparency.
  3. Implementing a system to ensure that enterprises are **registered as tax payers'** from their establishment and commencement of operations. Furthermore, **MSEs shall benefit from tax rebates for a maximum of three years**, regardless of whether or not they have transformed to the medium enterprise level.
  4. The **licensing and registration of the enterprises shall be compulsory** and be strictly enforced at all levels of enterprises. Hence all informal operations (that take place outside the legal framework) shall be ended.
  5. Before leaving the production and marketing facilities, the enterprises shall be **supported to build their own facilities in the industrial zones** in urban centers of all regions, including the chartered cities, or provided with such facilities at **affordable rental payments**.
  6. Loan finance and foreign exchange, which are needed to expand the operations of such enterprises (e.g., their equipment capacity), shall be delivered by creating **linkages with Commercial Bank of Ethiopia and Development Bank of Ethiopia**.
  7. A working system shall be created for medium enterprises to equally **benefit from government procurement and sub-contracting opportunities**.
  8. Enterprises shall be provided with **human resources development and technology related support** through the various industry sector institutes and institutes of technology established within universities.

## 4.2 MSE DEVELOPMENT SUPPORT STRATEGIES

Enterprise development support frameworks are developed to execute the strategic directions outlined in this Micro and Small Enterprise Development Policy and Strategy and create an enabling environment to overcome the implementation challenges identified over the last few years. The various MSE development orientated frameworks shall be implemented **following an integrated approach**, rather than separately. In addition, the implementation shall be **adapted to the specific characteristics of the different sectors as well as the levels of growth achieved** by individual enterprises. Though the various enterprise support frameworks are expected to accelerate the sector's development, they shall also be **regularly reviewed and enriched** by taking lessons from the implementation experience.

### 4.2.1 Objectives and Guiding Principles

#### 4.1.1 Objectives

1. **To focus on those sub sectors that provide opportunities for expansion, and to deliver industrial extension services that are holistic, integrated, relevant, demand-driven and result-oriented.**
2. **To enable MSEs to become competitive** in the market so that they can bring about sustainable MSE development.

3. **To improve the saving culture and loan utilization** performance of enterprise owners and operators, **facilitate loan guarantees, provide loans at affordable interest rates and increase loan outreach through One Stop Shop Services and the branches of MFIs** that are established in cities.
4. To make **TVETs the major centers for expansion of MSEs' adaption, transfer and diffusion of technology** as well as hubs for product development and diffusion.
5. To build **cluster-based production and marketing facilities in urban centers** as focal points for **creation of entrepreneurs who are role models** and **deliver a package of support services** to enterprises during their stay in the centers.
6. To **devise a strategy for strengthening the delivery of industrial extension services** as indicated in the country's industrial development strategy.
7. To promote the establishment of **capacitated and result oriented One Stop Shop Service Centers**.

#### 4.1.2 Guiding Principles

1. MSEs are expected to play a critical role in **generating employment**, serve as **incubators of developmental investors** and the **foundation for industrial development**. All stakeholders will engage with relentless effort for the successful implementation of the strategy.
2. Efforts shall be made to **create market-driven industrial extension services** that promote the creation of model enterprises. This being a matter of principle and the **primary role and responsibility of TVETs**.
3. Unreserved efforts shall be exerted to **build capacity to develop appropriate technologies** that are market driven, based on a value chain approach, and which can be up held as key instruments for economic growth.
4. The delivery of MSE support should **eliminate dependency attitudes**, encourage **enterprise-led organized problem solving initiatives, deliver integrated services** and **stimulate market competition** among MSEs.
5. **One Stop Shop Services shall be clearly identified and delivered** at the desired quality, efficiency and effectiveness.
6. Concerted efforts shall be exerted to ensure that enterprises will **promote their saving culture**, strengthen their own initiatives, **enhance their entrepreneurial skills** and create work attitudes that are free from dependency syndrome.
7. **Effective MSE development as described in the Micro and Small Enterprise Development Policy and Strategy shall be the ultimate responsibility of the political leadership** who will follow a developmental approach that is centered on promoting savings.

#### 4.2.2 Human Resource Development and Technological Improvement

##### Human Resource Development Strategy

##### 1. **Enhancing Attitudinal Changes and Commitment towards Work**

Among the key instruments for overcoming well-entrenched dependency and rent



seeking attitudes and thereby achieving motivation for work and competitiveness is **developing change orientated entrepreneurial and business competitiveness related attitudes and skills as well as managerial competence**. This is not something to be achieved through a single action as it requires continuous efforts directed at achieving and taking reinforced measures towards realizing lasting attitudinal changes. Therefore, the following actions shall be taken:

- i. Using an **organized political movement and building a change army**; support cooperative societies to organize forums for struggle towards **improving MSEs' market position** in terms of both product quality and prices on continuous basis as well as solve their common challenges through **mutual support and facilitate forums** to enable them organize themselves and work with GoE on a complementary basis.
- ii. **Select and strengthen model MSE operators** from among members of cooperative societies so that they can **play a key role in the leadership** of cooperatives, and **creating a critical mass of model MSE operators** as future means of replicating their performances.
- iii. **Using model MSE operators as change agents and creating a change army**; using award ceremonies as a vehicle for building development oriented attitudes; and involving the families of enterprise operators as supporters of the movement.
- iv. **TVET institutions shall develop and deliver new outcome oriented entrepreneurship training programs**, which combine both theoretical and practical aspects, for building the entrepreneurial competencies of MSEs.
- v. **TVET institutions shall develop and deliver Technical skills, business management and marketing training programs** that are appropriate for different enterprise levels. The development of training programs shall be based on training needs assessment.
- vi. **The TVET Agency shall design and deliver different enterprise level training programs** (technical skills, business management and marketing), shall put in place a complete curriculum, incorporating training guides, action manuals, and a monitoring and evaluation system. The training programs shall be planned in advance, and their delivery shall be evaluated against intended outcomes.
- vii. **Studies shall be conducted** on a regular basis to **measure the outcomes and impacts of training programs** provided.

## 2. **Delivering Training Programs aimed at enhancing Technical and Vocational Skills**

It is essential to build the technical and vocational competencies of MSEs through relevant training programs undertaken on a continuous basis. The intended outcomes of the training programs are increased product/service quality and productivity and supply of new products/services based on market demand. Hence the **training programs to be delivered for MSEs by TVETs** shall have the following features:

- i. **Need based skills training** shall be delivered with the aim of achieving

**improvements in productivity and product/service quality;**

- ii. **Market based product development** and process improvement (production and operations) training programs shall be delivered to the enterprises;
- iii. Enterprises engaged in different types services shall be assisted to **undergo occupational competency assessments and obtain certifications;** and
- iv. Enterprises' competitiveness shall be enhanced through training and advisory support that enables them to **adopt international quality management systems (ISO standards).**

## **Technology Development and Diffusion Strategies**

**The development and dissemination of technology is vital for MSEs to increase product quality and productivity,** become competent and competitive in the market and **replace obsolete machinery and equipment with more productive plant** so that they are transformed into medium and large industries. Accordingly, the following technology development and dissemination related supports shall be provided to enterprises in order of priority.

### **1. Technology Development for Micro and Small Enterprises**

**Technology support covers activities for the development and dissemination of appropriate technologies** as well as preparation of technology profiles. These activities shall be implemented through TVET institutions:

- i. The **purpose of technology development is to promote exports and encourage import substitution** in the manufacturing, construction, mining and other sectors and which shall incorporate relevant technological improvements involving operating methods, skills, machinery and equipment.
- ii. Efforts shall be made to **produce locally appropriate technologies and machineries that are currently imported.**
- iii. GoE shall **help MSEs to acquire appropriate technology, machinery and equipment** either on purchase, rental and leasing arrangements;
- iv. Appropriate systems shall be instituted to **promote imitation of appropriate technology,** in quality and quantity, which shall be facilitated through the introduction of incentive mechanisms for TVET colleges and teachers.
- v. An **incentive mechanism** shall be put in place for those MSE operators and enterprises that are **innovating or improving technologies** that are relevant for the development of enterprises at reasonable cost, appropriate quality and right timing by using their creative potentials.
- vi. **TVETs shall provide maintenance services** and supply parts to MSEs in their respective geographic areas.
- vii. **Research based technology and standardization support** shall be provided to accelerate the productivity and growth of MSEs.

### **2. Providing Common Service Facilities**

It is necessary to **provide machinery rental facilities at market prices** for those

MSEs that cannot afford to purchase them outright. **Enterprises eligible to rent machinery are those that operate as input suppliers to medium and large industries, produce import substitute products and engage in the construction industry.** The following shall constitute the service:

- i. **MSEs engaged in the construction** industry shall obtain access to sand, aggregates, raw materials and product testing at affordable prices;
- ii. **MSEs in the manufacturing sector** shall access key services such as product design, prototype production, product finishing, testing and refinement at affordable prices; and
- iii. Systems shall be created to support MSEs by making **TVETs facilities available for rent.**

### Strategy for the Delivery of Industry Extension Services

**Industrial extension services are a mechanism for delivering human resource development and technology support to MSEs.** The delivery of the service shall be carried out as stipulated in GoE's Industrial Development Strategy. Accordingly it shall be **guided by upfront problem identification and needs assessment studies** that serve as a basis for appropriate service design that aims to close MSEs' skills gaps. Industrial extension services shall be undertaken based on thoroughly prepared plans.

The types and scope of industrial extension services to be provided for MSEs are naturally wider – more comprehensive - than those for medium and large enterprises. The services to be provided to MSEs include: organizing and delivering adequate information services as well as training programs on basic business skills, entrepreneurship and business management, technological development and improvement, technology selection and transfer, creating market linkages, productivity enhancement, product/service quality improvement and support for accreditation certificates as well as compiling and disseminating best practices. The service, which is to be organized in TVETs and delivered by professional staff, shall have the following features:

1. Initially (i.e., until full capacity is developed to cover all enterprises), **the service shall target selected enterprises in those sectors that are identified as strategic for achieving economic growth.** Priority shall be given to those enterprises producing items for export or that substitute imports as well as those in the manufacturing and construction sectors. Priority shall also be given to those enterprises organized in clusters.
2. **Industrial extension workers** shall use two main methods for delivery of services: i) the problem identification, needs assessment and action planning approach of the **Business Development Service (BDS)**, and ii) **the Kaizen approach** of continuous quality and productivity improvement.
3. The **competency of industrial extension workers shall be built on a continuous basis.** For this purpose, among the TVETs established in each region those that are performing best shall be **selected as capacity building centers. Outcome (competency) based curriculum shall be designed for the training of extension workers and training of trainers (TOT).** The curriculum shall be prepared at the Federal level.

4. **The Federal TVET Agency shall develop training modules and manuals for MSEs** that take into account their different levels of growth.
5. **The TVET agency in each region shall establish and implement a monitoring and evaluation system for the industrial extension service.** TVETs shall develop a database that provides consolidated information on the number of beneficiary enterprises by sector, observed changes in the enterprises including the enterprises that succeeded to transform into the next stage of enterprise growth as well as those enterprises that failed and the reasons for failure.
6. On the basis of information on imported products and value chains, TVETs shall compile information on local business opportunities and prepare and **disseminate prototype project profiles.**
7. **Regional Micro and Small Enterprise Agencies,** taking into account geographic proximity, **shall assign a list of enterprises to be supported by each TVET institution** so that they can be transformed to the next level of growth. The implementation of these support programs shall be jointly undertaken through a systematic monitoring and support effort.
8. Each TVET institution shall **create a position in the relevant organizational structure that will be responsible for coordinating the industry extension service.** The recruitment and placement of coordinators shall be done giving adequate heed to their commitment to and passion for MSE development as well as their technical and managerial competencies.
9. **The delivery of industrial extension services by the TVETs in each region shall be based on the value chain approach,** aimed at dealing with constraints to be identified in the value chain and be result oriented.
10. **Best performing industrial extension workers and TVET institutions shall be motivated through an incentive mechanism** to be formulated and implemented by Regional TVET agencies.
11. **The budget for the implementation of industrial extension services shall be prepared by Regional TVET agencies and approved by the respective regions.** A cost sharing arrangement shall be established by regional TVET agencies the implementation of which shall commence at an appropriate stage in the implementation process. The cost sharing should be in line with the level of growth of enterprises and preferably confined to the main services that are provided to the enterprises.
12. **Enterprise support services for MSEs shall be designed following thorough studies so as to enable them to possess the desired qualities** and achieve the expected improvements in the quality and price of goods and services.

#### **4.2.3 Market Development and Support Strategies**

**The presence of a sustainable market is a critical factor for the realization of MSEs' development goals.** In the absence of adequate and secure market opportunities, the capacity of enterprises to create jobs and accumulate capital will be compromised. Although identifying markets should be the ultimate responsibility of the enterprises themselves, the following market enhancement orientated support strategies shall be

implemented.

## **Strengthening Subcontracting, Outsourcing, Franchising and Out grower Schemes**

The implementation of various modern market enhancement methods is imperative to realize accelerated development of MSEs.

### **1. Need to Establish a Working Procedure**

**Detail operational guidelines for sub-contracting arrangements with MSEs** shall be developed and implemented. The guidelines shall take into account established procedures for government procurement and aim at streamlining **efforts to enable existing and new enterprises to forge sub-contracting linkages with medium and large enterprises** that participate in government projects.

### **2. Subcontracting**

MSEs engaged in manufacturing and construction sectors shall be supported to enter into subcontracting arrangements with medium and large enterprises. The support to be provided comprises:

- i. **Medium and large manufacturing enterprises shall be supported to access export markets and enter into subcontracting linkages with MSEs** so that the latter can also benefit from the export markets. Similar support shall be provided for manufacturing enterprises the products of which are meant to substitute imports.
- ii. The **Federal and Regional MSE development agencies shall identify and prepare detailed lists of subcontracting opportunities** for MSEs.
- iii. **Medium and large enterprises that have subcontracting linkages with MSEs shall be given priority to obtain loans.** Regional MSE agencies shall verify the existence of subcontracting linkages with MSEs so that medium and large enterprises are eligible for such incentives.
- iv. **Incentives shall be provided for medium and large contractors in the construction sector to encourage them to sub contract part of their work to MSEs.** This shall be done in accordance with government procurement laws. Similarly, opportunities shall be created for local MSEs to enter into subcontracting linkages with foreign contractors. Guidelines shall be prepared for the conditions and procedures of establishing subcontracting arrangements with foreign contractors.
- v. **Integrated support shall include preparation of detailed plans** for MSEs so they can benefit from the subcontracting opportunities created.

FeMSEDA shall prepare and execute detailed guidelines for the subcontracting arrangements described. The guideline shall be prepared in consultation with the relevant stakeholder institutions.

### **3. Outsourcing**

- i. **Opportunities shall be created for MSEs engaged in the manufacturing and service sectors to become suppliers in the GoE procurement market.**
- ii. **MSEs shall obtain integrated and planned support** that will enhance their

participation in the supply of standardized products and services.

- iii. FeMSEDA, in consultation with the relevant stakeholder institutions, shall prepare and implement a **uniform nationwide guideline for implementing the outsourcing model**.

#### 4. **Franchising**

- i. In view of the **limited experience of the franchising model in Ethiopia, appropriate legal frameworks and guidelines shall be prepared** and implemented.
- ii. FeMSEDA, in consultation with the relevant stakeholder institutions, shall develop and implement **incentive mechanisms for medium and large enterprises to allow the use of their trademarks and operating methods in order to establish franchising linkages with MSEs**.

#### 5. **Out-grower Schemes**

- i. **Out grower-based supply chain systems shall be promoted** with a view to creating opportunities for medium and large agro-processing industries to have access to raw materials and semi-finished products produced by other enterprises at cost saving rates instead of producing them on their own.
- ii. **GoE shall support MSEs engaged in out grower arrangements** to supply their products (with value addition) as raw materials to medium and large agro-processing enterprises.

### **Facilitating Access to Raw Materials by Micro and Small Enterprises**

1. **Cluster based MSEs that produce similar products shall be supported to get access to raw materials** of appropriate quality and quantity at affordable prices and on time. The support shall be arranged through supplier contracts that could be signed with medium and large enterprises.
2. **Raw material imports** for the sector shall be handled in a manner that will **contribute to saving foreign exchange**.
3. **GoE shall support the distribution of raw materials** through cooperative societies, cooperative unions, association of MSEs, and public enterprises.

### **Organizing and Developing Marketing Premises**

1. **Marketing facilities that correspond to enterprises' level of growth shall be developed in accordance with the development plans of cities**. Marketing facilities shall also be built for enterprises to be engaged in the distribution of items to be produced by producers' clusters with limited access to onsite market outlets. **Enterprises shall pay rents for using such marketing facilities**. A system shall be developed and implemented to guide the determination of rents.
2. If the enterprises' businesses requires larger land space and enterprises make and sell products that are related to health and safety then standard facilities shall be built.
3. **Urban local governments shall organize permanent market promotion centers**,

including standard showrooms, for the common use of enterprises.

4. Enterprises that supply basic products and services on a daily basis but that cannot be organized under clusters shall be **provided with sales outlets at affordable rent near condominium neighborhoods**. Similarly, standard premises that serve as sales premises shall be built within residential neighborhoods.

### Exhibitions and Bazaars

1. **Local MSE exhibitions and bazaars shall be organized** in urban centers at federal, regional, zonal and Woreda levels. The organization of such exhibitions and bazaars shall be based on the principle of result orientation.
2. **Trade fairs and exhibitions shall serve as vehicles for MSEs** to create market linkages by promoting consumers' awareness and demonstrating that they can produce standard products that substitute imported products.
3. **MSEs and those organizations that provide support to MSEs shall participate in international trade fairs and exhibitions**. The main aims of their participation in such events shall be getting access to export markets and appropriate technologies. Participating enterprises shall be selected based on their level of preparedness to access export markets.
4. Depending on the types of enterprises, **GoE and its partners shall support 75%-100% of the cost of MSEs' participation in international trade fairs and exhibitions**.
5. **FeMSEDA shall facilitate market linkages between foreign buyers and MSEs** that produce exportable products.

### Developing Websites and Business Directories for Micro and Small Enterprises

**Dedicated websites that target MSEs shall play a key role in providing information** about such enterprises where ever they are located. Websites can help enterprises to get access to detailed information on enterprise support services available and how to obtain them. Enterprises can also provide useful information on available market opportunities, current policies and strategies that pertain to the sector's development, profiles of organizations providing support, profiles of enterprises including their products and services, project profiles for potential entrepreneurs, best practices and proven technologies from other countries. The websites, which should be regularly updated, shall have the following features:

1. **A bilingual, Amharic and English**, website shall be developed and operated by the Federal Micro and Small Enterprise Development Agency.
2. **Support will be provided to build MSEs' ICT skills** to enable them use the website successfully.
3. A system shall be established to **assist those MSEs that cannot access the website to obtain the information through telephones** and in person (directly) **from One Stop Shops**.
4. **Regional MSE development agencies shall have their own websites**. The websites shall be linked with the website to be managed by the Federal Micro and Small

Enterprise Development Agency. The One Stop Shops located in the lowest administrative structure (Kebeles or Woredas) shall use the websites to provide market-related and other information. In addition, they shall also assist enterprises on how to access and make use of the available information.

5. **MSE Directories shall be published on an annual basis** at Woreda, urban center, region and federal levels. The directories shall have information on enterprises' products and services as well as their profile.

#### 4.2.4 Financial and Credit Services Support Strategies

##### Financial Education and Building Saving Culture

The financial management and saving-related awareness of most MSEs is generally low and they lack favorable attitudes. The following areas of support shall be provided to help MSEs change their attitudes in these areas and enhance their awareness.

1. **Savings education shall be integrated in curricula** and implemented as one of the main functions of schools and TVETs. A certain amount of savings shall be considered as a precondition when young graduates intend to start their own businesses and borrow from financial institutions. **Appropriate awareness creation mechanisms for promoting savings shall be developed** through MFIs
2. The savings mobilization efforts of MFIs shall go beyond their customers. **MFIs shall mobilize finance from families, community based associations (such as Idirs), and other sources.** However the major focus of their credit services shall be urban centers.
3. **The guiding criteria** to be used by MFIs in making priorities for credit delivery shall be: **evidence of legal registration including tax payer identification numbers; regular saving, maximum utilization of own resources, and potential to sustain long term competitiveness in the market.**

##### The Credit Operation System

###### 1. **Strengthening the Credit Guarantee System**

Credit is a key input for starting and expanding MSEs. MFIs often face the difficulty of providing loans without collateral to new enterprise startups that approach them with only their own savings and limited family collateral support. **MFIs will introduce a new scheme to enable them issue loans to new startups without collateral requirements.**

- i. **The Credit Guarantee Fund shall be established** by Regional Governments. MFIs shall pay premiums as part of the payment for insurance coverage. The scheme shall be designed and implemented with utmost care so as to not disrupt the existing loan provision and repayment system.
- ii. Towards ensuring the sustainable operation of the fund, **borrowers may be requested to pay up to 1% of their loan in the form of credit guarantee insurance premium.**
- iii. The Credit Guarantee shall cover both cash borrowings and machinery lease, while full guarantee shall be provided to new startups.



- iv. To access the credit guarantee scheme, **borrowers must save at least 20% of their requested loan amount.**
- v. **Enterprises producing for export as well as those in the priority sectors shall save at least 15% of their requested loan amount.**
- vi. A system shall be put in place to monitor whether enterprises taking loans use them for the agreed purposes.

## 2. **Priority Areas for Credit Provision**

- i. In view of financial resource limitations, the provision of credit shall give **priority to the following:**
  - **Enterprises producing commodities for the export market;**
  - **Enterprises engaged in producing items that substitute imports and in the construction industry;**
  - **Enterprises organized in clusters and selected as model enterprises to produce goods and provide services; and**
  - **Enterprises that have their own savings and demonstrated their credit worthiness.**
- ii. **All enterprises should meet the criteria in order to get access to loans - and they shall be assisted to fulfil the criteria.**
- iii. Enterprises outside the above list shall not be considered as priority cases.

## **Establishing Systems for Assessing Loan Utilization**

All borrowers, both existing and new, must provide **evidence of their competence and competitiveness in the market** as these determine their capacity to make use of the credit to achieve intended results. **Borrowers shall:**

1. **Prepare and present a business plan** showing the viability and credibility of their businesses.
2. **Establish a financial record keeping system** (in case of new enterprises) or present audited financial reports (in case of existing enterprises).
3. **Provide evidence on good track record in utilizing previous loans** as well as their saving experience and amount of savings.
4. **Enterprises shall access audit services** on a cost sharing arrangement in order to contribute to their efforts towards proving their credit worthiness.
5. **Audit services shall be provided** to such enterprises by GoE as far as is possible.

## **Financial Support Strategies**

1. **MFIs shall prepare distinct loan portfolios for enterprises at different levels of growth**, and establish monitoring and follow up systems to gauge the appropriate and result oriented use of loans. **MFIs shall be the sole providers of saving and credit services to MSEs** as per standards procedures to be established for this purpose and no other forms of credit are to be provided.

2. The credit delivery procedures shall **specify the maximum amount of credit** to be provided by MFIs taking into account the priority sectors and enterprises.
3. **The types of credit guarantee schemes** shall be expanded with the purpose of supporting priority sectors and the level of development of enterprises. The following credit guarantee modalities shall be implemented:
  - i. **Group guarantee;**
  - ii. **City administrations guarantee;**
  - iii. **Tripartite Guarantee;**
  - iv. **Family guarantee;** and
  - v. **Use of business plans and personal assets** as well as other forms of loan guarantees that are appropriate and feasible to local conditions.
4. **Priority sectors and enterprise types shall be offered better loan conditions,** including lower interest rates and full coverage of loan guarantees.
5. Decisions regarding loan maturity shall take into account a grace period and the specific nature of the business. **The loan repayment period shall not exceed 36 months** so as to make funds available to other borrowers.
6. **Determination of Loan Interest Rates**
  - i. **Interest rates shall be lower and affordable to MSEs.** However, in making interest rates lower and affordable, MFIs shall reduce their administrative costs by introducing efficient and modern operational systems.
  - ii. **Enterprises in the growth oriented and priority sectors shall be given affordable interest rates** with a view to minimizing the effects of higher interest rates on their prices of their products/services and their overall competitiveness.
  - iii. In case of enterprises that are not included in the priority sectors, interest rates shall be determined based on local conditions and decisions to be made by MFIs.
7. **Post Loan Follow up Support**

Post loan follow-up support shall be provided to make sure that the borrowed money is used for the intended purpose as well as to provide support to enterprises so that they will be able to overcome constraints in their business activities. In addition, the follow up support is instrumental to ensure regular loan repayments, mobilize savings and collect arrears. The provision of post loan support shall be the main focus area of MFIs and the leadership at different levels of government.

## Production Machineries Supply Strategy

### 1. Capital Goods Savings Program

**The capital goods savings program enables MSEs to overcome capital shortages and obtain loan without collateral.** The program has the following features.

- i. **Enterprises who saved at least 40% of the price of capital goods** in banks

shall obtain loan to cover the remaining balance (60% of the cost). This program shall also cover growth-oriented medium enterprises.

- ii. **The maximum saving period for the beneficiaries of the program is two years, while the loan maturity period shall be three years.**
- iii. **Interest rate on the beneficiaries' savings shall be fixed based on National Bank of Ethiopia's estimation of the annual rates of inflation.** Accordingly, the beneficiaries shall get 5.5% interest on their savings, while they shall pay 7.5% interest rate on the remaining 60% of the capital goods cost. The difference is 2.0% compared to the rate payable on the beneficiaries' savings.

## 2. **The Equipment Lease Program**

The program targets MSEs seeking loans but that are unable to meet the collateral requirements. The program is **designed to help enterprises play their role in fulfilling GoE's five-year Growth and Transformation Plan.** The **machinery lease financing program shall be a collaborative endeavor between the Commercial Bank of Ethiopia and MFIs.** The program facilitates the acquisition of production machineries by MSEs located in urban and rural areas.

## 3. **Implementation of Equipment Lease Programs**

- i. **A Capital Lease Enterprise** shall be established under the Commercial Bank of Ethiopia, and equipment leasing services shall be provided on a wider basis.
- ii. The implementation of the machinery lease program shall be operationalized through the collaboration of MFIs and the Commercial Bank of Ethiopia.
- iii. The National Metals and Engineering Corporation and other private manufacturing companies shall be supported to participate in the program.

### 4.2.5 **MSE Production and Marketing Facilities**

**The aim of establishing production and sales centers (clusters) is to coordinate and support enterprises that are willing to come together in specified areas to produce and sell goods and services.** With the installation of full machinery and equipment, the centers can be upgraded into full-fledged incubation facilities.

**The concentration of users produces a number of benefits including the potential to develop common service facilities, facilitate access to different training programs and better access to technology and advisory services.** The experiences enterprises gain during their stay in production and sales centers enables them to achieve competencies that contribute to their growth and transformation.

#### **The Objective of Production and Market Centers**

**The objectives of the production and marketing centers are to increase MSE startups by developing serviced land at suitable sites, provide buildings and shelter at affordable prices and establish competent cluster management and effective governance (transparency, accountability, etc.) systems.** The ultimate aim of the production and market centers shall be the development of competitive enterprises in the market.

## Site Selection and Development of Production and Market Centers

1. **The sites for production and marketing centers shall be selected based on the physical plan of urban centers** and the facilities shall be built considering the suitability of the site in terms of access to infrastructure and services as per **national design standards to be developed for production and marketing facilities.**
2. The selection of enterprises that will be located in production and marketing centers shall be based on consistent tenant selection criteria. **The organization and management of the centers shall ensure the active participation of the occupants.**
3. The establishment of production and marketing centers **will contribute to reductions in beneficiaries' capital requirements and operational costs.** In addition, it will avoid the need to allocate vacant land for production and service activities that often remain undeveloped leading to inefficient use of land.
4. The construction of the production and marketing centers shall take into account the type and characteristics of enterprises to be housed. The building process shall also **be undertaken with the participation of the beneficiaries.**
5. The construction and organization of built production and marketing facilities shall meet industrial standards that are supportive to technology transfer and access to markets.
6. **The establishment of the production and marketing centers shall be the responsibility of Regional Bureaus of Industry and Urban Development.** The Bureaus shall officially receive site plans for such facilities that are based on the structure plans of cities.

## The Utilization and Management of the Centers

**Those to be housed in such centers shall be enterprises in similar and/or related lines of business as well as model enterprises to be selected on the basis of established criteria.** The enterprises shall be supported (with BDS services) for a limited period of time so that they can upgrade (transform) themselves to the next level. The support shall include the following:

1. **Enterprises to be housed in production and marketing centers shall be those engaged in the priority sectors and model enterprises to be selected based on established criteria.** The occupants shall be supported to organize themselves under legal business forms of their choice: sole proprietorship, private limited company, share company or cooperative society.
2. **Operating spaces shall be allocated according the nature and characteristics of the enterprises as well as their production capacities.** The enterprises shall pay rent at subsidized rates, which shall be progressively removed within three years. Accordingly, rent payment shall be 25%, 50%, 75% and 100% of the rent for the first, second, third and fourth year, respectively.
3. **Enterprises shall make regular savings from their income** and obtain loans adequate to their business needs. Enterprises that manage to save large amounts

shall be given priority.

4. **Enterprises shall access Business Development Services** as well as obtain professional support to improve their products and services.
5. **Industrial extension services** that shall be integrated, problem solving and capable of leading the enterprises to become competitive **shall be provided**.
6. Notwithstanding the commitment to make infrastructure available for the production and marketing centers, the **enterprises to be housed shall be supported to develop common services by themselves as well as fully participate in the management of the centers**.
7. The enterprises shall be encouraged to actively **participate in key areas of the centers' management**, joint procurement of raw materials, acquisition of machinery, identify markets and take part in sub-contracting activities.
8. Enterprises shall be assisted to **develop their capacity to become competitive suppliers** in terms of quality, price and delivery time so that they can benefit from government procurement offers.
9. **GoE shall assign professional staff who will support the day to day operations of the centers**. The key functions of these staff will include provision of support in the use of the facilities available in the centers, management of the centers, monitoring on time payment of rent, assisting enterprises in articulating their needs and facilitating responses to be provided to such needs.
10. **Enterprises that cannot move to such centers shall be assisted to obtain support in their respective location**.

#### **4.2.6 One Stop Shop Service Center Strategies**

**A one stop shop service is a service organized in one location to enable MSEs to acquire legal status and engage in production and service activities, by providing easy access to government services as well as enterprise development support from other institutions in a coordinated, transparent and efficient manner thereby enhancing the enterprises' business performance.**

#### **Objectives of One Stop Shop Service Centers**

**The objectives of such centers are to deliver from one location (center) all services that are necessary for the growth and development of MSEs in a transparent, efficient and result oriented approach, so as to achieve increased formalization of businesses and to facilitate the enterprise growth and transformation process.**

#### **Organization of One Stop Shop Services**

One Stop Shop Services shall be organized and delivered at Woreda, Sub City or city levels depending on local contexts as well as based on the number of enterprises to be served.

Such centers shall have **professional and technical staff that will deliver a number of services that include business licensing and legal registration, information and advisory services, facilitating access to credit, linking enterprises that seek industrial extension services with TVETs, making follow up to clusters and delivering other support services.**

The service centers shall be equipped with operational guidelines, manuals and documents.

The organization of One Stop Shops shall, apart from facilitating enterprises' growth and transformation, serve as a vehicle for materializing the benefits to the society as well as creating competitive markets.

## Services to be provided in One Stop Shop Services

### 1. Services to be Provided to Enhance the Legality of Enterprises

- i. **Registration of job seekers** and keeping record of those employed and/or organized in MSEs;
- ii. **Organizing, registering and licensing enterprises** either under cooperative societies, sole proprietorships, share companies, or private limited companies;
- iii. **Providing a tax payer registration** service;
- iv. **Providing business license** renewal, change and cancellation services; and
- v. **Facilitating enterprises' access to financial** accounting and auditing services.

### 2. Support and Services to be Provided by Government Agencies

- i. **Building, operationalizing and administering production and marketing centers;**
- ii. **Facilitating access to savings and credit services;**
- iii. **Strengthening saving mobilization** and loan repayment activities;
- iv. **Collecting, compiling and disseminating business-related information** to users;
- v. **Making enterprises beneficiaries of government procurement** offers by facilitating their participation in government projects;
- vi. **Organizing exhibitions and bazaars** to promote products and services;
- vii. **Facilitating experience sharing and market linkages** between enterprises; and
- viii. **Providing support to enterprises to access common facility services**, joint procurement and market linkages.

## 5 IMPLEMENTING MSE DEVELOPMENT STRATEGIES

### 5.1 CAPACITY BUILDING FOR IMPLEMENTATION

#### 5.1.1 Building the Capacity of Support Institutions

A comprehensive capacity building strategy is proposed for those organizations that have an important role in the implementation of the MSE development objectives. **Broad based and continuous training courses aimed at achieving desirable changes in attitudes, knowledge and skills will be necessary to:**

- **Facilitate effective execution of GoE's policies and strategies;**
- **Prepare and implement the support frameworks** outlined in the strategy;
- **Acquire knowledge and skills from best practices** to be obtained from other countries;
- **Deliver various kinds of support** that will be required at different levels by adapting them to local conditions; and in turn
- **Design and implement an integrated capacity building program.**

The key institutional actors in the implementation of the strategy are the MSE Development Agencies, TVET institutions, MFIs and the political leadership at the different levels of government.

#### 5.1.2 Capacity Building for TVET Institutions

As the main function of TVETs is enhancing the capacity of MSEs, appropriate training should be provided to the teaching staff and the leadership of TVETs so as to enable them to acquire better awareness about the sector. This is expected to correct the misguided orientation that has been observed by **creating sufficient awareness of GoE's Industrial Development Strategy, its Growth and Transformation Plans (GTP) 2009/10-2014/15 and 2015/16-2019/20 and the developmental direction for MSEs as well as providing training to MSEs and undertaking tasks related to technology transfer.** Training should impart basic competence among the teaching staff and the leadership of TVETs so that they are able to deliver full-fledged industrial extension services.

1. **The Federal TVET Agency shall provide capacity building training for the teaching and administrative staff of TVETs.** The training programs shall be delivered with the aim of providing problem solving support to MSEs. The design and delivery of such capacity building training programs shall be guided by continuous needs assessment and identification of skills gaps.
2. **Inputs that are necessary** to enable TVETs to provide full-fledged and competent services to MSEs **shall be made available by the Federal and Regional TVET agencies.**
3. **Teaching and administrative staff of TVETs shall receive certificates of**

**competence**, whilst TVET institutions shall be supported to obtain international quality management accreditation (ISO certificates).

4. In each region, **one relatively strong TVET institution shall be selected and equipped to deliver awareness creation training on a continuous basis**. This shall be implemented by developing appropriate curricula, trainer's guides and action manuals.
5. **The organizational structures of TVETs shall be streamlined** so that they can provide the required capacity building support. For this purpose **each One Stop Shop shall assign a TVET liaison officer**, while **TVETs shall assign Deputy Directors who will assume the responsibility of coordinating the support**.

### 5.1.3 Capacity Building for MSE Development Agencies

#### The Federal Micro and Small Enterprise Development Agency

1. In line with the vision and goals of the Micro and Small Enterprise Development Policy & Strategy, the **Federal Micro and Small Enterprise Development Agency shall be reorganized and its capacity further enhanced** to enable it to properly discharge its role of coordinating and integrating the activities of Regional MSE Agencies as well as Federal level institutions that provide support to MSEs. To this effect the Agency shall benefit from linkages and collaborations that shall be established with international organizations. A system shall also be created to enable its FeMSEDA's professionals to work at various levels and take onboard lessons from international best practices.
2. **The FeMSEDA shall acquire the right capacity to provide full support to the regional agencies**. Its input requirements, (i.e. human resource, machinery and facilities) shall be fulfilled.
3. **Short and long term training programs** shall be facilitated for senior experts (professionals) and the leadership to enhance their knowledge and skills.
4. **The Center of Competency for the Transformation of Micro and Small Enterprises** shall be upgraded and reorganized taking account of relevant international best practices.

#### Regional Micro and Small Enterprise Development Agencies

1. **Support will be provided to the Regional Micro and Small Enterprise Development Agencies to restructure themselves** with a consistent and effective organizational structure.
2. The Regional Micro and Small Enterprise Development Agencies shall obtain support from the different levels of government so that **they acquire the inputs they require** to provide full-fledged support to MSEs.
3. The **management and administration capacity of production and marketing centers shall be enhanced** by adopting an enabling organizational structure and providing the required knowledge and skills. **The centers shall be equipped with production machinery as well as an appropriate organizational structure**.
4. **Uniform organizational structure, mission and working procedures shall be**



**developed for One Stop Service Shops** established in the various regions.

5. **Training programs shall be organized** to build the knowledge and skills of the senior leadership and professional staff.
6. The **Federal TVET Agency shall design a system for continuing education and training programs for professional staff.**

#### **5.1.4 Capacity Building for MFIs**

MFIs that operate in the various regions have been providing credit to MSEs, but compared with the needs of MSEs, the supply of credit has been insufficient. The following **capacity building measures shall be taken.**

1. The **professional staff of MFIs shall participate in continuous training programs**, aimed at closing attitudinal, knowledge and skills gaps. The **Ethiopian Civil Service University shall design and deliver such training programs.**
2. **Measures shall be taken to reduce the financial constraints of MFIs**, including **improving the MSE operators' and communities' savings culture by engaging in continuous education and training programs** to be organized at different levels so that communities and community based organizations (Idirs) can start to save in the MFIs. In addition, **encouraging borrowers to start savings** in advance shall also contribute to increasing the financial capacity of institutions.
3. **MFIs shall raise their financial capital** by introducing additional sources of income, namely various kinds of service charges including effecting pension payments, cash transfers and tax collection services.
4. **An incentive scheme** shall be introduced to motivate MSEs to save 15% - 20% of their profits in MFIs.
5. **Access to training shall be facilitated for the senior staff of MFIs.** The training curriculum shall be designed in advance with the aim of building their knowledge and skills, as well as upgrading their professional accreditation.
6. **The National Bank of Ethiopia and the Association of Ethiopian MFIs shall jointly develop and implement an operational system for MFIs for delivering services to MSEs.** The National Bank of Ethiopia shall assign strong and dedicated staff for coordinating and building the capacity of MFIs.
7. A subsidiary enterprise, which would **provide machinery and equipment lease services to MSEs, shall be established in collaboration with the Commercial Bank of Ethiopia.**

#### **5.1.5 Capacity Building for Leadership**

Relentless efforts made by leaders at different levels of government are critical for the delivery of integrated and effective support for MSEs. Accordingly, the following **capacity building supports shall be implemented.**

1. **The leadership at different levels of government shall participate in various short term training programs** that shall be designed and implemented by the Federal Micro and Small Enterprise Development Agency.

2. An operational system shall be designed **to enable the leadership to: a) monitor and ensure credit related supports at different enterprise levels are delivered** with maximum level of transparency and accountability, and b) play key roles in the disbursement and collection of loan repayments.
3. **A measurement and evaluation system shall be established** to assess the performance of organizations providing support to MSE support institutions at different levels as well as the level of collaboration and integration among the various organizations.
4. Measures to minimize the turnover of the leaders at different levels of government **will include: capacity building, creation of a more favorable working environment and appropriate human resource development measures** with particular follow up responsibility for MSE development.
5. **Leadership related best practices** at different levels shall be identified, arranged and disseminated.
6. **A Steering Committee shall be formed containing representatives of the main support organizations** executing the MSE Program. The aim of the Steering Committee shall be **to ensure that the support provided to MSEs is delivered in a consistent and integrated manner**. Key stakeholders of the program, which include MSE operators and the main implementation organizations, at different levels, shall also organize **consultative forums on a regular basis**.

## 5.2 IMPLEMENTATION ROLES AND RESPONSIBILITIES

The Micro and Small Enterprise Development Policy and Strategy has a countrywide scope of implementation. The implementation roles at the level of Federal and Regional governments shall be listed and integrated. Accordingly the roles and responsibilities of each implementation actor are outlined below.

### 5.2.1 Federal Organizations

At the Federal level the key institutions responsible for the implementation of the strategy are the **Ministry of Urban Development and Housing**, the **Federal Technical and Vocational Education and Training Agency**, and the **Federal Micro and Small Enterprise Development Agency**. The main mandates of these institutions are capacity building activities including preparing guidelines and instruments for the implementation of the Micro and Small Enterprise Development Policy and Strategy. These include preparing detailed guidelines for capacity building frameworks and implementation guidelines as well as monitoring their execution. The roles and responsibilities of each institution are outlined below.

#### The Ministry of Urban Development and Housing

1. **Support and build the capacity of the Federal Micro and Small Enterprise Development Agency.**
2. **Conduct studies on laws that need improvement and new laws to be developed to facilitate MSE development**, submit to GoE for approval and, when approved, take the lead in their implementation.

3. **Ensure cities and ULGs support the MSE development program**, take ownership of the program and assume responsibility for its implementation, compile and disseminate best practices to be obtained from the different regions as well as support implementation of corrective measures.
4. **Perform capacity building activities.**
5. **Coordinate collaboration and cooperation among institutions** that have roles in the development MSEs.

#### **The Federal Technical and Vocational Education and Training Agency**

1. **Develop frameworks for training and technology development.**
2. **Build the capacity of the teaching and research staff of TVETs.**
3. **Build the capacity of TVETs** in the regions and coordinate their activities in order to achieve effective implementation of the Micro and Small Enterprise Development Policy & Strategy.

#### **The Federal Micro and Small Enterprise Development Agency**

1. **Design enterprise support frameworks** and make improvements, depending on needs that may arise during the course of implementation.
2. **Prepare the long, medium and short term plans** for MSEs as well as monitor and evaluate their implementation.
3. **Collect, compile and disseminate data and information** on MSE development that can contribute to their accelerated development.
4. **Facilitate MSEs' access to audit services.**
5. **Support and build the capacities of Regional Micro and Small Enterprise Development Agencies.**
6. **Engage in both domestic and export market development activities.**
7. **Prepare and execute supporting guidelines** on MSE support frameworks.
8. **Organize annual conferences on MSE development.**
9. **Conduct research** to identify and solve challenges faced by MSEs, compile, disseminate and monitor adaptations of international best practices.

#### **The National Bank of Ethiopia**

1. Prepare and implement **guidelines on disbursement of credit and mobilization of savings.**
2. **Coordinate and integrate the activities of the MFIs.**
3. **Compile and disseminate global best practices** as well as monitor and support their adaptation and implementation
4. **Build the capacity of MFIs.**

## Industry Sector Development Institutes

1. **Provide skills development support** for growth oriented model enterprises
2. **Facilitate market linkages** between small, medium and large enterprises
3. **Design and implement enterprise support** by giving special heed to those enterprises transforming from small to medium level.

### 5.2.2 Regional Organizations

In the Regional States, the key institutions responsible for the implementation of the strategy are the **Bureaus of Industry and Urban Development, Technical and Vocational Education and Training Agencies, Micro and Small Enterprise Development Agencies, TVET colleges** and **MFIs**. The roles and responsibilities of these institutions are outlined below.

#### The Regional Bureau of Industry and Urban Development

1. **Ensure effective implementation of the Micro and Small Enterprise Development Policy & Strategy** and deal with implementation constraints.
2. **Prepare detailed implementation guidelines and monitor the execution process.** The detailed guidelines are anchored to the strategic frameworks (support frameworks) issued at the Federal level, capacity building programs and their associated implementation guidelines.
3. **Develop/build production and marketing centers, undertake cluster development,** acquire site maps of designated spaces identified as suitable for the enterprises, prepare/build and handover to the enterprises based on clear guidelines, monitor and ensure their proper utilization
4. **Carryout market development activities.**
5. **Organize and strengthen One Stop Shop Services.** Improve existing working systems and introduce new ones for the purpose of making the services effective and efficient.
6. **Prepare and implement a stakeholders' participation strategy,** with the aim of achieving collaborative and coordinated implementation of the Micro and Small Enterprise Development Policy and Strategy, as well as facilitate stakeholders' discussions and consultative forums.

#### Technical and Vocational Education Training Agencies/Bureaus

1. **Build the capacity of TVETs to design, model and produce appropriate technologies** and machineries as well as provide relevant training to the sector.
2. **Ensure that the provision of services to enterprises located within clusters** linked with each TVET institution or their geographic proximity is undertaken based on the Micro and Small Enterprise Development Policy and Strategy, compliant with the support frameworks expected from the institution and are also in accordance with the capacity building programs.
3. **Take over the rural technology centers and the adult training centers** located in the region, and transform them into result-oriented and efficient technology

development and dissemination centers by reorganizing and providing leadership to them as well as building their capacity

### TVET Institutions

1. **Organize and deliver comprehensive and result-oriented industrial extension services.**
2. **Identify proven technologies**, disassemble, design, produce and distribute product samples.
3. **Design and deliver in-house training programs**, which are need-based and tailored to enterprises' levels of growth, with relevant content that is capable of making the enterprises competitive in the market.
4. **Support trainees to obtain professional competency certificates.**
5. **Formulate and promote modern management principles and tools** (such as Kaizen) that are capable of improving entrepreneurial, resource saving and competitive attitudes in the workplace, through training and provision of related advisory services.
6. **Provide machinery maintenance and leasing services to MSEs** where they are located, produce spare parts and provide common services such as product design and quality control.

### Micro Finance Institutions

1. **Develop financial products** that take into account the growth stage of MSEs as defined in the strategy.
2. **Establish working systems that can promote a savings culture** among owners and operators of MSEs.
3. **Disburse and collect loans** in accordance with criteria that shall be developed for the different enterprise growth levels.
4. **Formulate best practices** from different sources, within the country and from abroad, generate improved working methods and adopt them.
5. **Record, analyze and report on the credit history of MSEs' financial and audit reports.**

### One Stop Shop Service Centers of Cities

1. **Facilitate access to production and marketing centers**, and support enterprises to harness market opportunities.
2. **Establish and implement result oriented and efficient service delivery systems.**
3. **Devise and implement a system for the formalization and legality of MSEs.**
4. **Facilitate enterprises' access to credit, training and technology improvement services.**

### 5.2.3 Collaborating Institutions

Collaborating institutions, even though they do not have direct implementation responsibility, play significant roles in the development of MSEs because of the support they provide. The role of these institutions is outlined below.

#### Non-Governmental Organizations and Development Partners

1. **Support the capacity building effort of the Federal Micro and Small Enterprise Development Agency** that target the agencies established in the various Regional States.
2. **Support the implementation of capacity building programs targeting TVET agencies** in the Regional States.
3. **Support the capacity building activities of the regional Industry and Urban Development Bureaus and the Regional Micro and Small Enterprise Development Agencies.**
4. **Provide financial support and formulate best practices** for the implementation of MSE support frameworks and capacity building programs.
5. **Provide human resource and financial support.**

#### Research Centers, Higher Education and Training Institutions

1. **Undertake research projects** (in universities and Institutes of Technology) that analyze and identify potential solutions to MSEs' problems.
2. **Conduct research to develop appropriate production machineries** using simple and locally available materials.
3. **Disseminate research results** to various institutions as well as engage in **technology needs assessment studies** (surveys) on MSEs.

### 5.2.4 Federal MSE Development Agency

As has been identified from previous experience, one of the main short comings of MSE development has been **the Federal Micro and Small Enterprise Development Agency's lack of strategic orientation and its low implementation capacity**. Because it is difficult to implement the Micro and Small Enterprise Development Policy and Strategy through the Agency as it currently exists, it is essential to improve the organizational structure, leadership and human resources of the Federal Micro and Small Enterprise Development Agency.

FeMSEDA will be organized into:

- **Three sectors - Implementation Capacity Building, Enterprise Development and Facilitation), and**
- **One center (Centre for the Transformation of Micro and Small Enterprises), and**
- **Will have three Deputy General Directors and a Centre Manager.**

Their respective roles and responsibilities shall be as follows:

## Roles and Responsibilities of the Implementation Capacity Building Sector

1. **Ensure that periodic review and reflection (evaluative training) events are conducted in all Regional States and the two chartered ULGs<sup>4</sup>** using previously prepared discussion papers that shall reflect local contexts and focus on rent seeking attitudes among the leadership at various levels, professionals/workers (employed staff) and enterprise operators in connection with the delivery of support services for MSEs. **Compile a national report on salient problems of MSE development, and the measures taken to solve them.**
2. **Organize capacity building training for the leadership and staff** engaged in the implementation of the Micro and Small Enterprise Development Policy and Strategy in Federal ministries and agencies, Regional States and urban local governments on the basis of a country-wide report to be compiled on identified rent seeking problems and proposed measures. Monitor post training implementation measures.
3. **Organize quarterly joint review and reflection sessions** (evaluative training forums) for the implementing institutions whereby the leadership and professional staff hold discussion on matters related to rent seeking attitudes ways to **organize against and eliminate rent seeking attitudes**. The quarterly forums shall identify key constraints and set directions on the way forward.
4. Ensure that **training programs** that are related to the day to day activities of the enterprises are organized for MSEs **on a continuous basis with the aim of protecting them from being the victim of rent seeking attitudes**. To help achieve this goal, the Federal Micro and Small Enterprise Development Agency shall **generate and share ideas with the regions and monitor their implementation**.
5. FeMSEDA shall put in place a system, based on a study, **to implement the Kaizen management tool in the country's MSE sector** and in all growth oriented sectors.
6. **Ensure that youth, women and neighborhood associations shall serve as additional vehicles to fight against rent seeking attitudes** as well as remove such attitudes from MSE operators and those serving as service providers in the various implementation institutions.
7. **Conduct studies that will help identify and tackle the main challenges** that hold back MSE development as well as the implementation of the Micro and Small Enterprise Development Policy & Strategy.
8. **Conduct training programs on modern management techniques (Kaizen)** so as to build the capacity and enhance the knowledge and skills of Federal and Regional Agencies.
9. **Prepare**, in accordance with the Micro and Small Enterprise Development Policy and Strategy, **the country-wide MSE Development Plan** and **provide performance reports on its implementation** as well as ensure that periodic monitoring and evaluation activities shall be conducted.

---

<sup>4</sup> Addis Ababa City Government and Dire Dawa City Administration

10. **Participate in experience sharing and benchmarking programs** to be organized at an international level with a view to improving attitudes and introducing improved working methods. Based on the insights to be gained, formulate best practices and work towards their dissemination and scaling up.
11. **Monitor and provide appropriate support to the leadership** to perform their role in the provision of training to support providing institutions and enterprises at different levels of program implementation.
12. **Ensure that a complete information technology infrastructure for the sector is built as well as effectively administered.**
13. **Collect countrywide information** related to MSE development, upload current information on the website and **prepare an annual statistics bulletin.**

### **Roles and Responsibilities of the Facilitation Sector**

1. **Monitor the effective implementation of guidelines and manuals for delivering One Stop Shop services**, which include:
  - i. Provision of certificate of legal status,
  - ii. Business licensing and registration,
  - iii. Access to production and marketing centers,
  - iv. Mobilizing savings and credit provision,
  - v. Creating market linkages, and
  - vi. Developing new guidelines and manuals for additional support frameworks to be identified by the Federal Micro and Small Enterprise Development Agency.
2. **Evaluate the performance of the One Stop Shops** in the regions, share the experiences of better performing regions with the other regions and monitor the implementation of good practices disseminated.
3. **Ensure effective implementation of guidelines on the establishment and utilization of production and marketing centers.**
4. **Collect and analyze best practices** collected from support providing institutions, MSE Development Agencies, TVET Agencies, MFIs and model enterprises, and disseminate them employing different means of communication.
5. **Coordinate federal level market linkage related activities** and prepare appropriate frameworks for their operationalization.
6. **Organize timely discussion forums with small enterprises** engaged in the production of exportable products, with a view to resolving their constraints and creating appropriate market linkages.
7. **Organize country level exhibitions** and evaluate their implementation.
8. **Collect basic and current market information** and upload on the website to be available for MSEs and other stakeholders.
9. **Collect and compile best practices** and approaches in terms of enhancing savings culture, and disseminate the information to the various regions and monitor their



applications/adaptations.

10. **Participate in international experience sharing programs** to be organized for the purpose of improving One Stop Shops' services and, based on the insights gained from such visits, formulate best practices and arrange for their dissemination.
11. **Select (on an annual basis) model enterprises** using the countrywide model enterprise selection guideline and **present the list for recognition by the MoUDH.**
12. **Organize national events** for recognizing those enterprises transformed to growth oriented medium enterprise level.
13. **Prepare a countrywide service delivery standard for One Stop Shops,** monitor its implementation and provide feedback for its modification.
14. **Prepare the MSE Development Plan,** monitor its implementation and **prepare performance reports** on a regular basis.

### **Roles and Responsibilities of the Development Sector**

1. **Identify production machinery and equipment** that can be used by growth oriented sectors, send the list to concerned institutions and monitor their implementation.
2. **Work with relevant institutions to ensure that MSEs benefit from effective and efficient utilization of machinery and equipment.**
3. **Ensure that the delivery of MSE development related services by support institutions** (i.e., the delivery of training, credit, technology and advisory services) is integrated with a value chain approach and is based on MSEs' needs.
4. **Collect, store, analyze and disseminate appropriate data and information to relevant users on the growth targeted sectors.**
5. **Prepare jointly with industry sector institutes and corporations development plan for growth targeted sectors.** Ensure that MSEs benefit from the development plan, monitor its implementation and provide feedback.
6. **Prepare in collaboration with stakeholders project profiles for producing exportable products and substituting imported products.**
7. **Lead the preparation of national product standards** for MSEs' products and services. **Promote awareness in MSEs** about product quality standards.
8. **Prepare the MSE Development Plan,** monitor its implementation and **prepare performance reports** on a regular basis.

### **Main Functions of the Centre for the Transformation of Micro and Small Enterprises**

1. **Provide support to enterprises by producing appropriate machinery and equipment,** dyes, molds and jigs to be identified based on studies to be conducted on the needs of MSEs.
2. On the basis of **a needs assessment conduct training of trainers** for instructors of TVETs with a view to closing the skills and knowledge gaps MSEs in the areas of **knitting, pattern making, iron forging, electroplating and weaving.**

3. **Provide technical support for all regions to promote bamboo based technologies**, namely bamboo biomass and using bamboo for building modern houses. The projects shall be prepared at country level by the Federal Micro and Small Enterprise Development Agency for possible replication in the various regions.
4. **Provide capacity building support to the technical staff of TVETs and MSE Technical Support Centers** to be established in the regions through the delivery of machine installation, commissioning and technical advice services.
5. **Provide, at affordable cost, product finishing technical services** such as electroplating that cannot be readily obtained by MSEs.
6. **Provide metal forging furnace services to small and medium enterprises** that are engaged in metalwork and engineering activities as they cannot easily access these facilities which are required to produce manufacturing machines.
7. **Produce on the basis of identified needs manufacturing machines** to improve the product quality and productivity of medium and large export orientated enterprises that have sub-contracting arrangements with MSEs.
8. **Provide machinery and equipment maintenance services** that are beyond the capacity of MSEs and TVET institutions.
9. **Design new products and produce their samples** on the basis of market demand, which are also capable of advancing the market competitiveness of MSEs.
10. **Introduce MSEs to new working methods and processes** that can improve the quality and productivity of their products.
11. **Provide, on the basis of their needs, technical advisory services to MSEs manufacturing products for export.**
12. **Offer procurement related support** by preparing product specifications and providing technical advice for the procurement of machinery and equipment intended for the common services of MSEs located in clusters.
13. **Provide workshop-based technical support to MSEs** to improve their creativity through better design capability so that the **patent rights for their creative works can be recognized and registered by the Ethiopian Science and Technology Commission.**
14. **Substitute imported pottery glazing materials** with locally available materials and disseminate the information to potters.

#### **5.2.5 MSE Council Members**

##### **The Federal Micro and Small Enterprise Development Council**

At the country level, a **Federal Micro and Small Enterprise Development Council shall be established**. The Council shall be chaired by the Minister of the MoUDH. Members of the Council shall be Ministry of Industry, Ministry of Trade, Ministry of Women, Children and Youth Affairs; Federal Technical and Vocational Education Agency, National Bank of Ethiopia, Association of Ethiopian MFIs, Micro and Small Enterprise Sector Associations, Ministry of Science and Technology, Ethiopian Standards Agency, Federal Internal

Revenue and Customs Authority and the Metal and Engineering Corporation. FeMSEDA shall also be a member and secretary of the Council.

### **6.5.2 Regional Council for Micro and Small Enterprise Development**

Regional Micro and Small Enterprise Development Councils shall be established. The Council shall be chaired by the Deputy Regional Administrator. Members of the Regional Councils include: representatives of the Bureau of Industry and Urban Development, Head of the Region's Technical and Vocational Education and Training Agency, Head of the Micro Finance Institution, Head of the Region's Women, Children and Youth Affairs Bureau; representatives of infrastructure delivery institutions, Micro and Small Enterprise Sector Associations and Head of the Region' Micro and Small Enterprise Development Agency, as member and secretary of the Regional Council.

### **Woreda Micro and Small Enterprise Development Council**

Woreda level Micro and Small Enterprise Development Council shall also be established. The Council shall be chaired by the Woreda's Chief Executive Officer/Administrator. Other members of the Woreda Council are Head of the Woreda's Industry and Urban Development Office, Head of the Woreda Technical and Vocational Education and Training Office, Head of the Micro Finance Institution, Head of the Woreda Children and Youth Affairs Office, Micro and Small Enterprise Sector Associations and Head of the Woreda Micro and Small Enterprise Development Office, which will also serve as secretary of the Woreda Council.

### **City Level Micro and Small Enterprise Development Council**

Micro and Small Enterprise Development Councils shall be established at the city level. The Council shall be chaired by the City's Mayor and the members include the Head of the City's Industry and Urban Development Office, representative of the City's Technical and Vocational Education and Training Institution, MFIs, Head of the City's Children and Youth Affairs Office, Representative of the Micro and Small Enterprise Sector Associations and Head of the City's Micro and Small Enterprise Development Office, which are also serves as its secretary.

### **The Main Roles and Responsibilities of the Councils**

**The Councils at all levels shall issue their own detailed operational guidelines**, while they shall perform the following common roles and responsibilities:

1. **Ensure that**, based on the Micro and Small Enterprise Development Policy and Strategy, **plans are prepared, implementation performance reports and recommend solutions** on implementation problems
2. **Provide directions** for removal of duplication of efforts and **issue guidelines** for achieving integrated implementation in the delivery of support services.
3. **Evaluate the performance of support and technology provider institutions** in executing the sector's strategy, based on the institutional level action plans for executing specific enterprise support framework area and capacity building programs.
4. **Evaluate and verify whether the success achieved by MSEs** in terms of their

growth is natural and sustainable by further evaluating and verifying the way the support services are delivered to the achieve results.

5. **Verify that the selection of model enterprises** at different levels was done in accordance with the appropriate criteria, and assess the fairness of the selection process and the effectiveness of the delivery of incentives to the selected model enterprises.
6. **Enable the introduction and implementation of new and improved working methods**, and systems to respond to emerging trends in MSE development processes.
7. **Formulate directions for improving the support and services** to be provided to MSEs.
8. **Deliberate on issues and options for formulating strategies to promote the linkages of the MSEs with medium and large enterprises** so as to realize the potential contributions of MSEs to the economy.
9. **Create favorable conditions to pursue integrated approach** among actors participating in the development of the sector, namely governmental and non-governmental organizations, sectoral associations of private enterprises, international organizations, and higher education institutions.
10. **Appoint a Steering Committee for MSE Development** among the institutions participating in the sector's development.
11. **Generate supplementary ideas that are useful** to the further development of the sector.

## The Sector's Steering Committee: Structure, Roles and Responsibilities

### 1. Structure of the Steering Committee

#### **Metal and Engineering Industry Sector Steering Committee**

- Metal and Engineering Corporation (representative): Chairperson
- Federal Micro and Small Enterprise Development Agency, Metal and Engineering Directorate (Director): Member
- Federal Technical and Vocational Education Agency (Representative): Member
- Ministry of Science and Technology (Representative): Member
- Ethiopian Standards Agency (Representative): Member
- Metal Industry Development Institute (Representative): Member and Secretary

#### **Manufacturing Sector Steering Committee**

- Ministry of Industry (Representative): Chairperson
- Textile and Garment Industry Development Institute (Representative): Member
- Leather Industry Development Institute (Representative): Member

- Ethiopian Standards Agency (Representative): Member
- Federal Micro and Small Enterprise Development Agency, Garment/Textile and Leather Directorate (Director): Member
- Ministry of Science and Technology (Representative): Member
- Federal Technical and Vocational Education Agency (Representative): Member and Secretary.

#### **Construction Sector Steering Committee**

- Ministry of Urban Development and Housing (Representative): Member
- Ministry of Transport (Representative): Member
- Ministry of Water and Energy (Representative): Member
- Ministry of Mines (Representative): Member
- Ethiopian Standards Agency (Representative): Member
- Ethio Telecom (Representative): Member
- Ethiopian Electric Energy Corporation (Representative): Member
- Ethiopian Roads Authority (Representative): Member
- Sugar Corporation (Representative): Member
- Federal Micro and Small Enterprise Development Agency, Construction Directorate (Director): Member and Secretary

#### **Service Sector Steering Committee**

- Ministry of Trade (Representative): Chairperson
- Federal Micro and Small Enterprise Development Agency, One Stop Shop Services Directorate (Director): Member
- Ministry of Women, Children and Youth (Representative): Member
- Ministry of Labor and Social Affairs (Representative): Member
- Federal Technical and Vocational Training and Education Agency (Representative): Member
- Federal Revenue and Customs Authority (Representative): Member
- Ministry of Communication and Information Technology (Representative): Member
- Ministry of Culture and Tourism (Representative): Member and Secretary

#### **Finance Sector Steering Committee**

- National Bank of Ethiopia (Representative): Chairperson
- Federal Micro and Small Enterprise Development Agency, Regional Capacity Building Directorate (Director): Member
- Commercial Bank of Ethiopia (Representative): Member
- Ministry of Trade (Representative): Member

- Ministry of Women, Children and Youth (Representative): Member
- Association of Ethiopian MFIs (Representative): Member and Secretary

## 2. The Roles and Responsibilities of Steering Committees

- **Prepares the MSE Development Plan, evaluates implementation performance** on monthly basis and **provides technical support on implementation constraints.**
- **Provides follow up support for the identification and recognition of model enterprises** in various sectors.
- **Generates and presents to the Council sector specific ideas on appropriate types of support and improving working methods.**
- **Identifies and proposes sector specific market access opportunities** for MSEs and presents to the Council for approval and implementation.
- **Facilitates MSEs' access to specific technical support** by coordination and collaboration with relevant institutions
- **Compiles the performance report** of the different Sectoral Steering Committees **on a quarterly basis** and presents the report to the Council's Secretariat.

## 5.3 IMPLEMENTATION GUIDELINES: AIMS & PRINCIPLES

### One Stop Shop Service Guideline

#### Aims

The aim of One Stop Shop Service is to provide from a single location or center, services that are necessary for the development and growth of MSEs in a transparent, effective and result oriented manner.

#### Principles

1. The services to be delivered to MSEs shall ensure their accessibility.
2. The delivery of services to MSEs shall follow organized, coordinated and cost saving approaches.
3. The staff shall demonstrate high ethical standards and shall be made responsible and accountable for the services they provide.
4. The delivery of services shall be based on the needs of MSEs.
5. The services shall guarantee equal benefits to accrue to female beneficiaries.
6. Beneficiaries shall be transparently informed about GoE services, namely: types of services, to whom, when and how they shall be delivered.

### Industrial Extension Service Guideline

#### Aims

The aim of industrial extension service is to enable MSEs to become competitive in the

market and in so doing improve their income and create large scale employment opportunities.

### **Principles**

1. TVET institutions shall be incubation centers for MSEs creation as well as centers of technology transfer.
2. Industrial extension services shall be guided by market demand, holistic and integrated.
3. The services to be delivered to MSEs shall be characterized by transparency, accountability and honesty.
4. The growth and benefits of enterprises shall be rewarding to everyone.
5. Existing and model enterprises shall receive priority in getting access to industrial extension services.
6. Building technological capacity is the key instrument to achieve economic growth.

### **Guideline for the HRD at Support Institutions**

#### **Aims.**

The aim of the guideline is to ensure the effectiveness of MSEs and their development by the integrated and sustainable development of the human resources of institutions implementing the Micro and Small Enterprise Development Policy and Strategy.

#### **Principles**

1. Efforts shall be made to develop human resources that are integrated, holistic and guided by labor market principles.
2. The actors participating in human resource development shall uphold the principle that the growth of enterprises shall be rewarding to all.
3. Implementation shall be carried out by giving priority to existing and model enterprises.
4. Implementation shall be carried out with a strong conviction that the development of MSEs is the bedrock of industrialization.
5. Implementation shall be driven by recognition that building the capacity of support institutions is the key instrument for the transformation of enterprises
6. Implementation shall observe ethical principles (transparency, accountability, honesty, etc.).

## **Implementation Guideline for Production, Sales and Marketing Centers/ Clusters**

### **Aims**

To enable MSEs engaged in production and service activities to become competitive in the market by facilitating their access to production and marketing clusters (buildings and sheds) that are appropriately located, adequately furnished with the requisite infrastructure, and be rented at affordable cost as well as to ensure that the clusters are managed in a streamlined, transparent and accountable manner.

### **Principles**

1. Clusters shall be developed on the basis of the enterprises' needs and market trends.
2. Cluster buildings shall meet required construction and industrial standards and be conducive to enterprises' operations and free from environmental pollution.
3. The operations of production and marketing clusters shall be carried out in a transparent and accountable manner and ensure beneficiaries' active participation.
4. Production and marketing cluster facilities shall be provided at affordable rent.
5. The allocation of production and marketing clusters shall be handled by giving priority to those enterprises that are engaged in priority sectors and in the process of upgrading into maturity level.
6. Priority shall be given to existing enterprises during implementation.
7. Shall ensure females' equal benefits and active participation.

## **Guideline for Savings and Credit Services for Micro and Small Enterprises**

### **Aims**

To establish a system for the provision of savings led credit services for the promotion of MSE development.

### **Principles**

1. The credit service shall adopt a mode of operation that ensures the leading role of savings and the participation of families.
2. The credit services to be provided by MFIs shall mainly target MSEs.
3. The main source of finance for the MFIs shall be from savings.
4. The credit service shall take into consideration the growth levels of MSEs.
5. The loan recovery rate shall achieve 100% performance.

## **Capital Equipment Lease Guideline**

### **Aims**

To ensure MSEs benefit from equipment lease services by promoting savings thereby reducing their capital shortages and collateral related constraints.



## **Principles**

1. Equipment lease credit services shall be made available for selected enterprise sectors.
2. Equipment lease credit operations shall be implemented in a manner that will minimize the financial burden on MFIs.
3. The equipment lease credit procurement system shall ensure the participation of MSEs.
4. The implementation of equipment lease services is based on lease arrangements that involve payment over time for equipment in such a way that MSEs eventually enjoy full ownership of the equipment, after fulfilling their obligations.
5. The responsibility for collecting repayments for equipment lease and working capital loans shall be with the institution that has arranged the tripartite market linkages.

## **Guideline for the Transformation of Enterprises to the Next Levels**

### **Aims**

To determine the growth levels of MSEs that shall serve as a basis to provide enterprise support services to the enterprises.

### **Principles**

1. The design and delivery of enterprise support services shall be guided by upfront needs assessment.
2. The growth levels of enterprises shall be determined on the basis of clear and transparent criteria and the information shall be disseminated to all actors.
3. The delivery of support services to enterprises shall take into account their level of growth.
4. The delivery of support services shall give priority to those enterprises engaged in the manufacturing sub sector.

## **Market Development and Marketing System Guideline**

### **Aims**

To create favorable conditions for MSEs to become competitive in the market and thereby contribute to the realization of the development of MSEs.

### **Principles**

1. The following principles shall guide the implementation of market development and marketing support to be provided to MSEs.
2. The provision of market support shall eliminate dependency attitudes among enterprises and involve them at the forefront of searching solutions to their own problems.
3. The provision of market support services shall be based on transparent and verifiable criteria and will be provided taking into account enterprise growth levels

and following an integrated approach that enhances MSE competitiveness.

4. Substantial efforts shall be made to access all locally available market opportunities.
5. Quality-driven and price based market competitiveness shall underpin the implementation of market support services.
6. Standard commercial practices and accountability systems shall be integrated in the marketing systems to be established and promoted.
7. The capacity of priority accorded micro enterprises shall be built to enable them become competitive in the market.
8. Priority in providing market linkage supports that tap into GoE project procurement opportunities shall be given to newly established enterprises.

### **Guideline for Formulation and Dissemination of Best Practices of Model Enterprises**

#### **Aims**

To create a system for identifying model MSEs, compile their best practices and disseminate the same to other enterprises and stakeholders.

#### **Principles**

1. The practicality of best practices shall be tested and proven in at least one enterprise before being scaled up.
2. The identification of best practices, which comes before any scaling up effort, shall be rigorously undertaken.
3. The participation of enterprises and support institutions in the selection, compilation and dissemination of best practices shall start from the beginning.
4. The formulation and dissemination of best practices shall take into account the existing level of enterprise growth and technology utilization.
5. There shall be evidence for the proper completion of preparatory activities before commencing any scaling up operations.

### **Financial Auditing Demonstration Manual**

#### **Aims**

By providing appropriate auditing services, enable MSEs to obtain the benefits of modern financial management, including protection of assets and cash from vandalism.

#### **Principles**

1. Financial auditing shall prove its use by improving the performance of MSEs.
2. Financial auditing tasks performed shall be based on accurate income and expenditure information.
3. Financial auditing shall serve as an instrument for promoting the adoption of modern financial management systems among MSEs.
4. Financial auditing shall ensure efficient cash and property administration.

## 6 CONCLUSIONS

**The step by step measures taken by GoE for poverty and unemployment reduction in Ethiopia's urban centers and the progresses made to establish industry as a leading sector in the country's economy are vital in establishing solid foundations for the accelerated and sustainable socio-economic development of the country.** To this end, GoE has implemented various policies and strategies and chief among them is the fundamental direction accorded to the development of MSEs, as outlined in GoE's industrial development strategy.

During the previous planning periods the MSE sector played an important role in poverty reduction and employment creation in urban centers. **MSEs have demonstrated their meaningful contribution to improvements in production and productivity as well as in supply of basic consumer items and other products.**

Notwithstanding the notable progress achieved so far, the experience to date has also identified the existence of stumbling blocks that have prevented MSEs from making greater progress. **The main constraints have been widespread unfavorable attitudes toward manual work, preference to be employed than start one's own business, shortages of capital, skills gaps and lack of markets.** Moreover, **rent seeking and dependency attitudes were stumbling blocks** for efforts aimed at overcoming these constraints.

It is therefore **critical to get rid of rent seeking and dependency attitudes, and replace them with the fundamental development principles and approaches that are outlined in this Micro and Small Enterprise Development Policy and Strategy.** Accordingly it is necessary to achieve the full support and execution of the Micro and Small Enterprise Development Policy and Strategy by MSE development support institutions established at different levels as well as among existing and new enterprises.

The changes in attitudes and implementation approaches envisaged should assist MSEs to make use of their own skills and abilities as well as their access to enterprise support services as well as towards achieving the desired results and their market competitiveness. **The particular role of MSEs as foundations of industrial development in urban centers, including their linkage with medium and large enterprises that contributes to increasing production and productivity growth, their ability to bring development benefits to the population, implant developmental attitudes and provide developmental investors,** further amplifies the significant place MSEs hold in the country's development endeavor. In addition, MSEs' development will contribute to the achievement the Ethiopia's Growth and Transformation Plan. Thus it is imperative **to create awareness of the Micro and Small Enterprise Development Policy and Strategy, implementation packages and guidelines.** The awareness creation effort shall employ different methods and needs to be undertaken on continuous basis.

Such awareness creation activities include, among others, **face to face training and discussion forums** as well as the **use of print and electronic media to address the population at large and the enterprise operators in particular.** Awareness creation measures will **contribute to achieving common understanding among the various stakeholders.** Such actions will **speed up the MSEs' transformational growth;** in

particular their capacity to supply adequate products and services to the local market and replace imported goods as well as contribute to the ongoing effort of increasing the quality and quantity of export products. These actions shall ultimately lead to the full implementation of the Micro and Small Enterprise Development Policy and Strategy.

Thus it becomes **vital to mobilize the MSEs, support providing institutions and the public at large to actively participate in the MSE development process**. It is imperative to **ensure that MSE development benefits accrue to the broader society**. As the development of MSEs is critical to the country's transformation process and its renaissance, it is also necessary to support measures that are **building MSEs' skills, competencies and attitudes** to enable them to achieve results. In this manner MSEs shall be positioned at the forefront of making cities as centers of development.

In the process, **MSEs will prepare themselves to play a leading role in industrial development** and thereby **play their part in Ethiopia joining the ranks of middle income countries**. All stakeholders are expected to exercise their individual and joint responsibilities towards the sustainable development of MSEs, in particular **in getting rid of rent seeking attitudes and practices** affecting MSEs. This is to be achieved through **continuous education and training** as well as **concerted political struggle to replace undesirable attitudes and practices with developmental ones making it the key mission of the Micro and Small Enterprise Development Policy and Strategy**.