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ETHIOPIAN ENTERPRISE DEVELOPMENT

NATIONAL MANUFACTURING SMEs TRANSITION STRATEGY

**Capacity Building of Public Institutions for
Improved Business Enabling Environment (Output 1)**

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Acronyms

- BD- Business Diagnosis
- EED: Ethiopian Enterprise Development
- FESMIPA: Federal Small and Medium Manufacturing Industry Development Authority
- GDP: Gross Domestic Product
- GEM: Global Entrepreneurship Monitor
- GMC: Global Manufacturing Company
- GVCs: Global Value Chains
- HGERA: Home Grown Economic Reform Agenda
- ICT: Information and Communication Technology
- IES: Industrial Extension Services
- IES; Industry Extension Service
- ILO: International Labour Organization
- KPI: Key Performance Indicators
- KPMG: Klynveld Peat Marwick Goerdeler
- MIDSC: Manufacturing Industry Development Steering Committee
- MMSMEs: Ministry of Micro, Small and Medium Enterprises
- MoI: Ministry of Industry
- M-SMEs: Manufacturing Small and Medium-Sized Enterprises
- NES: National Entrepreneurship Strategy
- NSMETS: National SME Transition Strategy
- OECD: Organization for Economic Cooperation and Development
- PESTLE: Political, Economic, Social, Technological, Environmental and Legal

- PSDE: Private Sector Development Programme
- SME: Small and Medium Enterprises
- SWOT: Strengths, Weaknesses, Opportunities and Threats
- TEA: Total Entrepreneurial Activity
- TNA: Training Needs Analysis
- TVETI: Technical, Vocational and Education Training Institute

Executive Summary

The Ethiopia Private Sector Development Programme (PSDE) aims to by creating conditions for improving private sector productivity and competitiveness. The higher-level objective is to improve the economic policy framework and the employment and income situation in the Ethiopian private sector, especially for owners and employees of manufacturing small and medium-sized enterprises (M-SMEs), in terms of sustainable economic development.

The main objective of the M-SME transition strategy is creating framework which increase the share of M-SME in GDP, by ensuring the expansion and strengthening of M-SME enterprises, and support efforts to ensure fair distribution of wealth and resources. Moreover, the strategy ensures the expansion and transition of growth-oriented M-SME and to ensure their contribution to the economy and intensify the base for large enterprises that encourage structural transformation from agriculture led economy to manufacturing.

For successful development and implementation of M-SMEs transition strategy, different methodologies were involved in this process including consultation with stakeholders, business owners, benchmarking, and desk review research in order to have rich analysis and tangible solutions.

Under M-SME transition strategy framework, strategies were grouped under different pillars where each pillar has one or more strategies. For better implementation of the strategies, each strategy proposed has interventions, actions, and timeframe for its implementation.

The M-SME transition strategy takes into consideration of best practices that M-SME transition strategy requires, a crosscutting strategy touching on many areas, such as the ability of government to implement sound macroeconomic policies, capability of stakeholders to develop conducive microeconomic business environments, *inter alia*, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable infrastructure, supportive education, sufficiently healthy and flexibly skilled labour, as well as capable public and private institutions, and the ability of M-SMEs to implement competitive operating practices and business strategies.

The M-SME transition strategy is divided into 7 pillars and one cross cutting issue where each strategy has number of interventions and respective actions with specific timeframe for its implementation as shown in the table below:

CROSS CUTTING ISSUE	MAIN PILLARS	STRATEGIES
ENSURING THE AVAILABILITY OF ADEQUATE FUNDING AND RESOURCES FOR SME TRANSITION STRATEGY IMPLEMENTATION	Promoting Access to Finance and Investment for Manufacturing SMEs	Enhance government support to incentivize manufacturing SME growth and self-reliance through the following interventions Facilitate Access to Finance Facilitate Investment for existing M-SME expansion Introducing digital literacy and access to technology for manufacturing SMEs
	Human Resource capacity development & improve Productivity.	Capacitate support institutions and M-SME to augment the capacity of their staff
	Manufacturing SME Industrial Extension service	Promote manufacturing SME transition by strengthening the existing Manufacturing SMEs
	Development of effective value chain	Improving local value chains and market linkages through horizontal and vertical integration
	Creating Market Linkages for Local and International Markets	Enhancing the Development of Sheds and Market Centres for M-SMEs
	Coordination Mechanism	Elevating stakeholder's commitment, cooperation, and accountability
	Ensure the Inclusiveness of Cross-Cutting Issues	Providing specific support to improve youth, women, and peoples with disabilities

Like any other strategy, there are number of risks and mitigations brought to light in this strategy that EED should contemplate in coordination with other key stakeholders and line ministry for successful implementation of this strategy.

1: Introduction

Ethiopia has a long history of artisan activities that met the needs of its society. As any other society Ethiopian history is, among others, associated with artisan and small-scale private sector activities that supply basic goods and means of production to the society. Although practitioners were segregated society, handicrafts and small-scale industries remained to be producers and suppliers of essential items like clothing, farm equipment, etc., that were vital to the mere existence of the society. Even to date over 90% of Private sector business activities are characterized by micro, small and medium enterprises, implying that they reflect the overall facet of the Ethiopian private sector (Hagos, Yared Haftay 2012).

Small and medium enterprises have an important role in the development of the Ethiopian Economy by way of job creation, innovation, exports, entrepreneurial attitudes, etc. However, the ecosystem of M-SME support mechanism is characterized by a number of policy loopholes and restrictions'

The 20th-century history of Ethiopia is one of profound political changes. It could be observed that the political economy of Ethiopia changed from imperial phase to socialist phase and to sort of capitalistic phase. The facets of the Ethiopian private sector has also been changing along with the three major governance systems. The emergence of an enabling ecosystem, like the construction of a railway line, a stable political system and the resulting stable public sector administration, urbanization and the introduction of tests for foreign-made consumption goods played important role for the creation of modern small-scale private business activities.

There was no strategy for the development of the M-SME sector until 2007 when the first strategy was drafted, which was amended in 2011, which is still defacto operational, since the newly drafted strategy has not been approved by the government.

The Ethiopian Small and Medium enterprise comprise over 90% of business activities, implying that essentially the private sector is synonymies with Micro, Small and Medium enterprises. (Hagos, Yared Haftay 2012)The sector which is a backbone of the private business faces a number of challenges and constraints that could be categorized as structural and operational constraints.

A number of issues can be identified as causations for structural constraints. To start with the strategy of 2011 was comprehensive and targeted start-up, growth and maturity phases of enterprises. But in reality, it resulted in a proliferation of various federal government institutions with little coordination, alignment and accountability for implementing the strategy.

The SME sector is fraught with problems of accessing finance for business start-up and expansion. Causations for this state of affairs range from the underdevelopment of the financial institutions to the unattractiveness of SMEs to formal banks due to perceived loan administration burdens.

The government has been promoting the transition of enterprise from lower scale to higher scale. Enterprise transition guidelines have been developed by EED, (i.e. FSMMPA), and the Ministry of Labour and skills. Both guidelines are similar in terms of transition criteria setting. The current practice of transitioning of enterprises, however, does not answer the questions of What, How and by Whom the transition from lower scale to higher scale of operation should be undertaken.

Cognizant of this fact, EED requested the Private Sector Development in Ethiopia (PSDE) Project funded by the Federal German Government Ministry of Economic Cooperation and Development, which is being implemented by **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH**, to draft this National M-SME Transition Strategy.

The M-SME transition strategy is structured in 10 sections focusing on overall introduction, objectives, methodology, state of manufacturing M-SMEs in Ethiopia, alignment of the strategy with other national policies and strategies, benchmarking for best practices, M-SME growth paradigm, M-SME transition strategy framework, risks and mitigation measures, lastly conclusion and recommendations in that order.

2. Objectives of manufacturing SME transition strategy

Increase the share of manufacturing SME in GDP, by ensuring the expansion and strengthening of M-SME enterprises, and support efforts to **ensure fair distribution of wealth and resources**.

2.2 Specific objectives

- Increase the GDP contribution of manufacturing SME sector.
- Encourage manufacturing SME engaged in export and import substitute products.
- Provide specific support package for growth-oriented competitive manufacturing SMEs based on their level of growth stage.
- Promote stakeholder's collaboration for enhancing joint implementation capacity, resource utilization and service delivery.
- Facilitate the creation of industrial mindset in the society
- Build capacity of manufacturing SME to improve their productivity and competitiveness.

3: Methodology

The Manufacturing SME transition strategy development methodology entailed a document review, focus group discussions. It also entailed a best practice analysis for lessons learned and benchmarking.

Documents Review: The transition strategy development included information and data obtained from secondary sources; different relevant policies, strategies, academic research, ten years development plan, manufacturing SME sector development plan, draft manufacturing development policy and manufacturing SME development roadmap as well as various yearly reports of EED.

Focus Group Discussion: A focus group discussion was held with 61 selected M-SME operators and 21 stakeholders who had strategic influence and important contributions to make for the development of the Manufacturing SME transition strategy. It was used as a primary data collection tool on the current business environment and status of Manufacturing SMEs. The participants in the focus group discussions included owners from agro-processing, textile and garment, leather, and leather products, metal and woodwork, chemicals and construction inputs, as well as federal and Addis Ababa stakeholders including financial institutions like banks and micro finance associations.

Lessons learned from international best practices: The Transition strategy incorporates Institutional best practices to accelerate M-SME development, based on reviewing of best practice from Vietnam, India and Kenya from which lessons were drawn.

4: Characteristics of Manufacturing SMEs

4.1: General overview of M-SME

The term "SMEs" encompasses a broad spectrum of definitions which vary between country and region. Even within countries, definitions may vary or be non-existent. International organizations and financial institutions use their own guidelines for defining an SME. However, almost all definitions are based on some combination of the number of employees, turnover and assets.

As is clear, not only does the definition for SME vary considerably, but the criteria are often broad and therefore encompass a wide variety of firms with very different properties. The traditional view of the differences within the SME category in developing countries is as follows. Micro firms (i.e. businesses which employ ten or less individuals) often exclusively serve the local economy, use basic technologies in the production of their goods and services, and have little in the way of fixed assets. Small businesses may employ up to 50 individuals, and serve the local economy. However, the additional scale increases the likelihood that they are also active at the national level. Turnover and assets are expected to be of the order of US\$100,000. Medium-sized companies may employ up to 300 people and are likely to be focused on serving the national economy. Turnover and assets are expected to be in the region of millions of dollars. These companies will likely use competitive production methods and be equipped to join existing global value chains (GVCs) either by direct exports or by serving large/foreign firms in the domestic market. Moreover, integration into GVCs need not be production based; services based GVCs have been shown to enhance trade and economic growth, as the recent experience of Costa Rica demonstrates (Marín-Odio, 2014).

Although the above view is in line with recent economic modelling of trade (e.g. Melitz, 2003), it is important to note that many companies will not fit into this characterization of micro-, small and medium-sized enterprises. This is partly due to the "levelling effect" of new technologies, and the unique strengths and weaknesses an economy may possess. For instance, online platforms like e-Bay have made it possible for firms administered by less than ten people (ostensibly a micro-SME) to run a global enterprise with an international client base. It is also the case that the existence of GVCs makes it easier for relatively small firms to internationalize, although this does not necessarily imply exporting directly.

Adding to the complexity is the distinction between "formal" and "informal" SMEs. Formal SMEs are usually defined by whether they have been officially registered by tax authorities. While being registered has the "disadvantage" of being subject to taxation, it improves access to finance and access to other services. Nevertheless, most firms in the developing world are informal.

The differences between SMEs serve as an added complication to the design of SME policies. Nevertheless, it is still useful to categorize companies by their size as it can give insights into the structure of an economy. It is the variety exhibited by SMEs which makes the sector both vibrant and productive.

4.2: The SME Contribution to Development

In Ethiopian defined as "Small Manufacturing Enterprise shall mean an enterprise with 11 (eleven) up to 50 (fifty) permanent employees and a total asset worth between Birr 600,001 (six hundred thousand one) and 10,000,000 (ten million) however, if there is ambiguity between human resource and total assets, a total asset shall prevail.

Medium Manufacturing Enterprise shall mean an enterprise with 51 (fifty-one) up to 100 (one hundred) permanent employees and a total asset worth between Birr 10,000,001 (ten million one) and 90,000,000 (ninety million) however, if there is ambiguity between human resource and total assets, a total asset shall prevail" (EED reg. 526/2022).

SMEs, as a group, account for a significant share of economic activity and employment even in developed countries. For example, in the Middle East and North Africa 32% of total employment is due to SMEs with 100 or less employees and 55% in sub-Saharan Africa.

While employment figures are certainly instructive, they do not tell us the "quality" of employment, or the productivity of the work done. The literature suggests that SMEs tend to be less productive than large companies, partly because SMEs tend to be engaged in more labor-intensive sectors and do not benefit from economies of scale (Wymenga et al., 2011). This is especially true in developing countries, where advanced manufacturing techniques may not be used due to insufficient financing,

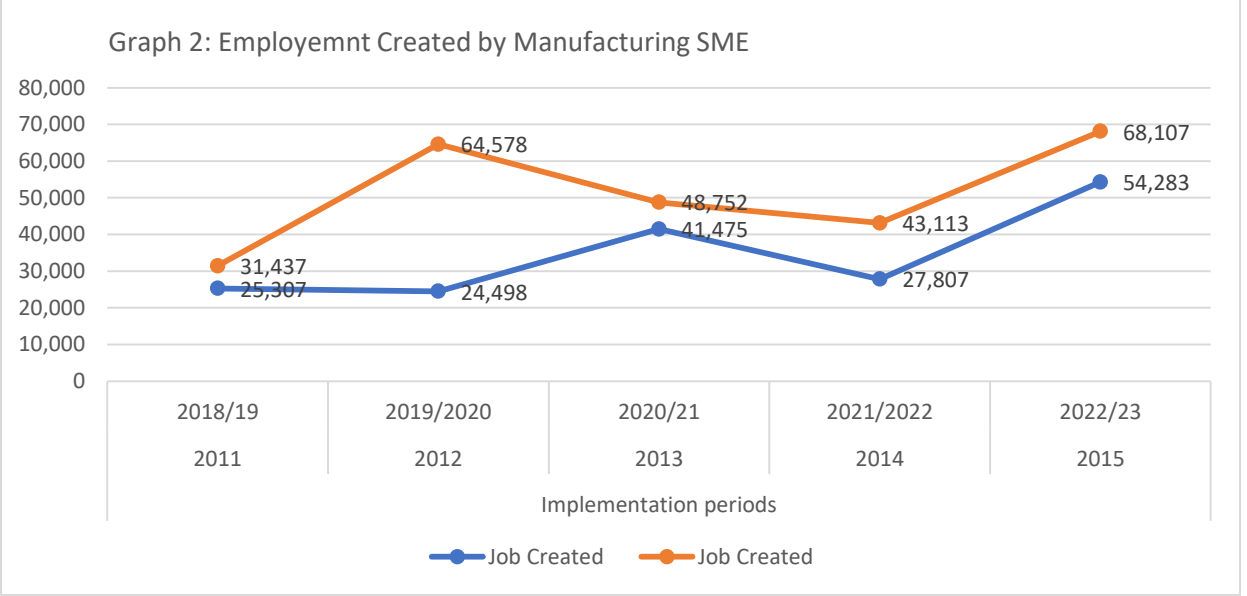
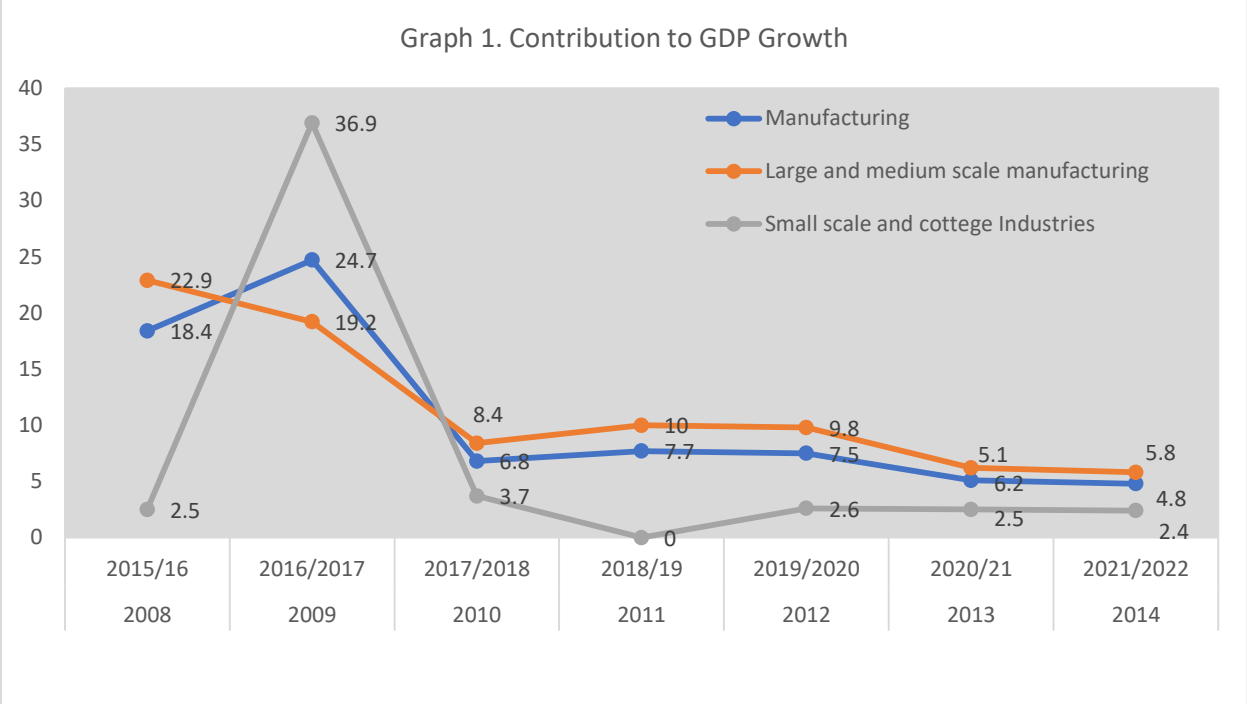
a poor regulatory environment, or other market failures. In most cases, the share of employment is higher than the share of GDP, implying the average productivity of an employee working for an SME is lower than that found for large firms. An exception is the United States where employees working for SMEs appear to be as productive as those working for large firms.

SMEs play a particularly powerful role in employing and empowering women in less developed countries and developing countries. According to the World Development Report 2012, women have made enormous strides in nurturing SMEs, spurring local development and generating employment opportunities. In many developing countries women entrepreneurs are helping their respective governments to establish and develop strong SMEs that contribute to economic growth and poverty reduction. SME transition strategy and promotion helps to encourage autonomy and at the same time strengthens pluralistic and social emancipation processes (Singh et al. 2007). Women entrepreneurs seem to be motivated to start a business to be their own boss, to have job satisfaction, to have economic independence, or to have an opportunity to be engaged in more creative work although financial pressures are often an important factor.

The Global Entrepreneurship Monitor (GEM) measures entrepreneurship via Total Entrepreneurial Activity (TEA). TEA summarizes various entrepreneurial indicators such as the fraction of individuals who have started a business and attitudes towards entrepreneurial activity. The findings indicate that women score highly in sub-Saharan African countries; this is partly due to positive attitudes towards women entrepreneurship, low fear of business failure, and connections with other entrepreneurs. However, the high number of women seeking self-employment may also reflect a lack of employment options for women, and a need for income possibilities.

Data from the Ministry of Planning and Development indicates that the Ethiopian manufacturing sector's contribution to GDP declined from 19.2% and 36.9% in 2016/17 to 5.8% and 2.4% in 2021/22 small scale and medium and large-scale manufacturing respectively across all scale of operations (i.e., large, medium and small-scale industries). On the other hand, the data from EED indicate that the sector continued creating gainful employment in the economy, which in spite of the challenges the sector is facing signifies its important contribution to employment creation, (see Graph 1 and 2 below).

In the opinion of the consultants, 2016/17 yearly performance appears to abnormal, though the reason cannot be analysed.



4.3: Challenges Facing Ethiopian Manufacturing SMEs

The lack of coordination within the government is one of the oldest and most frequently cited problems in government-driven agendas around the world, especially in middle and low-income countries. In Ethiopia, this is further amplified by the state federalist structure. Multiple scholars have tried to assess the impact of the absence of policy coordination on economic development, and extensive evidence shows a negative impact of lack of coordination on achieving economic objectives, including manufacturing SME transition strategy. Moreover, the government structures,

at the federal and regional level has government support problem, lack capacity to fully implement policies and to deliver effective and customer-oriented public services.

In addition, M-SME face challenges of working space, insufficient infrastructure, lack of capacity building, and regulatory framework which doesn't encourage them to transit from one level of stage to next stage.

There are fragmented coordination platforms and structures to coordinate different Regions, Ministries, Agencies, Donors and other Stakeholders engaged in the manufacturing SME transition strategy agenda. Efforts are disjointed and operating sub-optimally, and the level of accountability, monitoring, and follow-up on each potential manufacturing SME sector is relatively weak. This is notably caused by insufficient national target setting and coordination and poor performance management. In addition, the lack of unified and harmonized planning, reporting, monitoring, and evaluation mechanisms on manufacturing SME transition strategy complicates the governance challenge.

The governance and coordination of the manufacturing SME transition strategy agenda are currently led by key role player government institutions, which created numerous difficulties including lack of accountability, coordination, accurate data collection, and efficient resource mobilization and utilization, hindering the government's efforts to create the enabling environment for manufacturing SME transition strategy. The few existing platforms are mostly public and do not include sufficient private sector and development partners, which are instrumental in manufacturing SME transition strategy. Hence, it is critical to creating well-functioning governance and coordination structures/platforms that translate the manufacturing SME governance of the country.

The complex and constantly evolving manufacturing SME ecosystem needs effective governance and reporting mechanisms to deliver policies and ensure their relevance, coherence, and impact. The implementation of the Manufacturing SME transition strategy requires good governance and coordination platforms that support manufacturing SME transition strategy, notably by ensuring functional and efficient structures at the federal and regional levels. Continuous monitoring and evaluation of the capacity building activities' relevance and alignment with the needs of local and regional structures will also be essential to ensure efficient basket of offering service delivery.

Based on the newly developed SME road map, manufacturing SME transition strategy programmes can go a long way towards enhancing the capabilities of the broader SME sector, which needs to be adequately resourced. The Manufacturing SME transition strategy implementation needs processes and resource utilization as well as the operating environment to be substantially improved by focusing on the following:

- Monitoring and reviewing implementation of the Manufacturing SME transition strategy.
- Upgrading the basket of offerings based on manufacturing SMEs needs.

- Enhancing a culture of innovation and productivity and allocating resources to areas where EED, regional bureau and key stakeholders will derive the most impact.

This is so because SMEs are generally known for developing into larger firms later on which in the end have got various impacts on an economy which are both positive and negative (Aldrich and Zimmer, 1986). This therefore form mean that for any SME to be successful strategies must come and they should incorporate increase in competitiveness of SMEs and realization of the goals defined.

Further, these strategies must define the roles of a government including other private and public stakeholders. Such actors are directly and indirectly involved in stimulating SMEs by providing favorable environment for businesses and the legal framework that SMEs adhere to. Some of the strategies that have proven to be successful for SMEs are:

- Improving the business climate through assessment of new rules so as to evaluate impacts, and majorly reduce administrative barriers for their existence.
- Strengthening and improving financial support through easy access to loans and grants; this strategy aims at tackling expensive bank products such as interest rates and how the products can be easily accessed without difficulties.
- Promoting entrepreneurship and SME competitiveness. This can be achieved through the development of necessary institutions to offer the support needed. It can also be done through providing consulting services which aim at issuing out of the necessary information to entrepreneurs.

SMEs are important to any economy. This is because they play a major role in poverty alleviation. In Kenya, for example, SMEs make up to 78% of all establishments of the Kenya Economy with small enterprises making up to 56% and the remaining percentage contributed by the medium enterprises (Chuthamas, et al, 2011). In addition, the percentage of those employed by these enterprises stand at 39.8%. This therefore makes the sense that small and medium enterprises are important when it comes to poverty eradication.

5: Alignment of Transition Strategy with Other National Policies and Strategies

In the last decade, Ethiopia has invested in the development of industrial parks and export-oriented light manufacturing. Evidence indicates that manufacturing is the main engine of structural transformation and sustained growth for developing countries. Considering this, Ethiopia has developed an ambitious industrial policy and invested in the construction of industrial parks, with a model of “plug and play” for foreign investors. These measures have provided some encouraging results in terms of attracting FDI and improvement in exports. However, Ethiopia’s manufacturing

sector is still far from being an engine of economic transformation, as it contributes just under 6% of GDP and its share in employment remains low.

The sector has not grown as per country's growth potential and goals stipulated in GTP I and GTP II. Even though Industrial policy give emphasis to export development and Import-substitution in selected manufacturing Industry, exports grow slowly and erratically; with still around 10% of the export proceeds of the country. There were also widespread below capacity utilization, low level of productivity and competitiveness, fail to replace imported intermediate inputs and goods; exacerbated trade imbalance & foreign exchange scarcity.

As indicated in the Industrial policies and strategies elaborated on the GTP II are well informed by practical experiences of the previous plans. Nevertheless, as the economy makes a transition from an agrarian based economy to a modern economy, economic management tends to be sophisticated, requiring efficient institutions that can handle the new realities. Institutions in lines ranging from handling manufacturing SME to providing support of manufacturing SME require international standard of efficiency. Many cross-cutting and sub-sector specific constraints are identified, and policy instruments already exist but have not been effective because of Lack of information among different stakeholders; not organized in one package and frequently changes; lack of integrated supply chain (forward and back-ward inter and intra linkage), Lack of coordination among the different government institutions and poor government offices' service delivery. This remains to be a challenge in the years to come.

Addressing manufacturing SME constraints and creating viable entrepreneurs requires a well-functioning business ecosystem through the expansion of market access, provision of business development services and building a strong manufacturing SME linkage. Simultaneously, targeted approaches are needed to address SMEs' challenges based on effective diagnosis of needs and the market failures that need to be addressed.

The manufacturing SME transition strategy takes into consideration of best practices that SME transition strategy requires a cross-cutting strategy touching on many areas that make ease of doing business, such as the ability of government to implement sound policies, capability of stakeholders to develop conducive business environments, simplified legal and regulatory frameworks, good governance, sufficiently healthy and flexibly skilled labour as well as capable public and private institutions, and the ability of manufacturing SMEs to implement competitive operating practices and business strategies.

The demand driven manufacturing SME needs based services will be prioritized based on their current growth oriented, competitiveness and their potential to create high value-adding economic complexity in the future implementation to ensure coordinated efforts in contributing SME manufacturing sector development.

5.1 Alignment

The business environment represents an important priority for the Ethiopian economy for the stimulation of private investment and entrepreneurship in manufacturing SME. In line with this, the government has launched an important initiative in early 2019, with an objective to place Ethiopia among the top 100 countries in the Doing Business ranking by 2021. The 2019 Home Grown Economic Reform Agenda launched by the Government of Ethiopia in aims at transforming Ethiopian economy from predominantly low-income agriculture-based economy to industrialized and medium-income by 2030.

The manufacturing sector remains underdeveloped despite recent efforts to stimulate the sector due to inefficient incentive structure, limited backward and forward linkages, and limited incentives for production of import competing activities. The ongoing efforts include several reforms on different indicators included in doing business, starting a business, reducing the days required to create a business and simplification of procedures to create a business, and in access to finance, implementation of movable properties security rights proclamation which helps to enhance productivity and competitiveness of the overall economy, and a gradual transition from public to private sector-led growth. The government recognizing the private sector as the main driver of economic growth and building capacity of public institutions, which are directly or indirectly responsible for private sector development.

The Ethiopian government has put in place support to Small and Medium Enterprise through the adoption of the Micro and Small Enterprise Development Policy & Strategy of 2011.

The strategy sets out the terms under which the government provides support to small and medium entrepreneurs in six areas of support: (i) skill training; (ii) marketing support; (iii) access to finance; (iv) Production support; (v) One stop shop center support supply and (vi) access to work premises.

However, the government's support (including that provided through the youth revolving fund) has produced little effect: less than an estimated 3% of the supported SMEs graduate to become the next-larger-size enterprise. Four broad challenges undermine the support provided to SMEs: (i) poor policy design, (ii) inadequate skill training, (ii) lack of targeted financial support, and (v) poor market linkages. SMEs face a high cost of doing business, lack of access to market and lack of network across value chain actors. SMEs in need of finance in Ethiopia rely almost exclusively on collateral-based funding provided by the banking sector and equity investments from social networks. Less than one third of SMEs (between 5 and 99 employees) acquire bank loans at all. SMEs are much more likely to be rejected for loans and less likely to have a loan, line of credit, or overdraft facility, than are larger businesses. Ethiopia's lenders lack business models adapted to SMEs, and more broadly lack an "SME finance culture (JCC, 2019)"

SMEs face a high cost of doing business, lack of access to market, lack of network across value chain actors, and strong constraints in accessing finance. SMEs in need of finance in Ethiopia rely almost exclusively on collateral-based funding provided by the banking sector and equity investments from social networks. Less than one third of SMEs (between 5 and 99 employees) acquire bank loans at all. SMEs are much more likely to be rejected for loans and less likely to have a loan, line of credit, or overdraft facility, than are larger businesses

5.2: Home-Grown Economic Reform Agenda

As indicated on Home Grown Economic Reform Agenda (HGERA) the manufacturing sector must be revisited and overhaul the incentive structure of the industrial policy; Prioritize the development of manufacturing sectors with strong local content such as agro-processing and leather products; Strengthen the backward linkage of emerging manufacturing value chains through encouraging domestic production of primary and intermediate industrial inputs; Promote import competing industries, leveraging on large domestic market size and Develop industrial relations framework to achieve fair pay and minimize disruptions of the sector. The strategy also undertakes those major issues in developing and supports its implementation (HGERA,2019).

5.3: National Manufacturing Industrial Policy

The national industrial policy is under revision to guide the country's transformation towards a manufacturing led economy. The policy aims to exploit the country's potential in the manufacturing sector, along with measures to promote diversification of the sector towards the development of complex industrial bases. It aims to strengthen the role of the private sector and gives due emphasis to building domestic manufacturing base as well as attracting FDI.

5.4: National Manufacturing SME Development Roadmap

The Ethiopian Enterprise Development (EED) supports the development and growth of Small and Medium sized Manufacturing Enterprises and reports to Minister of Industry. Recently EED developed the Ethiopian Manufacturing SME Development Roadmap, further referred to as SME transition strategy that describes EED's mandate, role and plans for its contribution to creating an enabling environment for manufacturing SMEs in Ethiopia. Consequently, the Manufacturing SME Transition Strategy is closely aligned with the SME Roadmap.

5.5: National Entrepreneurship Strategy

A national entrepreneurship strategy (NES) (2020-2025) was launched. The NES aims to promote the creation of entrepreneurial opportunities for all and the development of innovative and competitive entrepreneurs across economic sectors. Its key objectives include 1) optimizing the regulatory framework, 2) enhancing entrepreneurship education and skills development,3) facilitating technology exchange and innovation and 4) improving access to finance. The strategy

underscores the prominent role of start-ups and micro, small and medium enterprises (MSMEs) in the development of the country's economic growth, diversification, and resilience.

5.6: Ten Year Development Plan (2021-2030)

In order to bring about structural transformation of the economy, the share of the agricultural sector in GDP is projected to decrease from 32.6% in 2019/20 to 22% in 2029/30. The share of industry, on the other hand, is projected to rise from 29% to 35.9% and that of the service sector would increase from 39.5% to 42.1%. Within the industry sector, the share of manufacturing is projected to grow from 6.9% to 17.2% (MOPD, 2019) To achieve this contribution there must be an encouraging legal framework to support manufacturing sector which is the M-SME transition strategy is one.

The SME Development Roadmap contains a plan as well for strengthening EED, so that it can fulfil its roles as national coordinator of manufacturing SME transition strategy, knowledge and training institute, and initiator of a range of activities, aimed at improving the business climate for the manufacturing SMEs in Ethiopia. Furthermore, the Roadmap describes what EED will do and when, to reach its objectives, informed by EED's mandate, vision, mission, and Key Performance Indicators (KPIs)/targets that shows transitioned small and medium-scale manufacturing enterprises from 2,000 in 2019/20 to 5,000 SMEs in 2029/2030.

The Manufacturing SME transition strategy is aimed at creating an enabling environment for growth-oriented manufacturing SMEs, so that they can either grow from small sized enterprises to medium-sized enterprises, or respectively from medium-sized enterprises to large enterprises.

A transitioned M-SME is defined in the SME transition strategy as a manufacturing SME that became more competitive in market price, provides better quality products & productivity and improved its on-time delivery and fulfils the criteria (medium enterprise in case of transitioning from small to medium, respectively large enterprise in case of transitioning from medium to large enterprise), by using demand driven business support provided, that resulted in transition to the next stage.

6: Benchmarking for Best Practice

For better development of this strategy, one approach used to cross check the best course the government should take is benchmarking it with three countries (India, Kenya, and Vietnam) which have emerged well in harnessing the M-SMEs support in order to identify high standards of excellence for products, services, or processes. To create the path for improvement on Ethiopian side to meet such standards. Benchmarking is an ultimate approach to learn how others have done and to analyze how their approaches could help improve standards (Dr Vassilis Kelessidis,2000). Among many best practices identified in the above mentioned three countries, these are the most applicable to Ethiopian context.

- Access to government services

- Policy, Regulatory & Business Environment
- Youth Entrepreneurship
- Financing and investment in SMEs
- Exports promotion:
- Product Development
- E- commerce
- Quality Standards & Certification
- Infrastructure

Box 1: Vietnam Practices for SMEs Transition

Vietnam has been on radar as the most success story due to economic transformation from poor to middle income since 1986. SMEs in Vietnam account for 13% of GDP and 29% of employment in the country. Although agriculture has been the backbone of Vietnam for many decades, manufacturing SMEs have transformed the economy of the country (World Bank, 2019). Some of the best practices in Vietnam under the SMEs support are:

Technology: One of the policies in Vietnam is about helping SMEs acquire right technology and educating them on new trends to boost their production. The government also established tax incentives for establishment of incubators to support SMEs which has made it possible for the SMEs to have reliable support for technology and for easy import of right tools and machinery. This is one of the best practices Ethiopia can take into consideration for its manufacturing SMEs transition strategy.

Youth Entrepreneurship: The Vietnamese government has established a program for the youth which focuses on START UPS where new business will be supported by their innovation, the program also links these youths with business owners/entrepreneurs to coach them on business practices. This could be a great model to apply considering the level of youth in Ethiopian population and unemployment rate across the country.

Financing and investment in SMEs: Vietnam has built an important financial support system for manufacturing SMEs, including the development of Public Credit Guarantee Schemes and the establishment of multiple financial institutions that focus on SMEs. These institutions served SMEs through special loan requirements and innovative products. While there are old practices of people to people loaning, the government has made it possible for the SMEs to acquire skills and knowledge that leads to accessing loans. There are also some tax-free incentives which ease the hardship of SMEs to grow and expand their businesses.

Exports Promotion: One of the engine of SMEs transformation in Vietnam is the fact that Government has invested a of resources to boost exports to other countries and created market entry for foreign investor who seek to establish plants of their manufacturing in the country. Vietnam has targeted Europe, North America and some Asia countries for their exports and this has contributed much into Vietnam's economy (World Bank, 2019). This has led the boost in quality and standards of Vietnamese products and has led to a great confidence in Vietnamese products.

Infrastructure: Vietnam has established the program to support SMEs access business premises in form of

rent subsidies for SMEs who are in the industrial zones or any other dedicated areas like high technological areas, cluster-based area which promotes timely productions and easy access to adequate resources. The government of Vietnam has also invested in the road construction which has boosted the transportation within the country and facilitated timely access to farms and distribution channels (World Bank 2019)

Box 2: India MSE Economic contribution:

India being the most populated country in the world, the market is already a big opportunity for the country. SMEs account for 29.2% of the country's GDP, have the highest number of manufacturing SMEs among and account for 40% of GDP and employ at least 40% of the workforce which translates into 80 million employees across the country. The establishment of Ministry in charge of Micro Small and Medium Enterprises Ministry (MMSME) in 2020 has changed the criteria of how SMEs are defined or classified, and resources were placed under the ministry which managed 7 specific agencies supporting Micro, Small and Medium Enterprises (MMSMEs). Due to the number of investments the country has unveiled to SMEs, the growth rate of MSMEs from one level to another has been a recent trend globally. India ranks 63rd among 190 countries globally compared to Ethiopia which is on 159(World Bank ,2022). With this, there are significant practices Ethiopian government should learn from India on easing the process of doing business in the country.

Access to Government Services: One of the best practices from India is the decentralization of the services in support of SMEs, creation of manufacturing industry at each government level helped SMEs to access number of services at their fingertips. Due to conducive environment, India has become a destination for foreign companies investing into tech sector due to low cost of labor and become a most fueling factor of innovation and access to resources for many SMEs.

Access to Markets- Indian government has aggressively invested in creating market linkages with different countries within developed countries and other regions and leverage the use of available technological infrastructure to support innovation, quality, and standards. One of the programs established by the government is a market linkages program to allow its MSMEs to tap into international markets across the globe (MMSME, 2023).

Policy, Regulatory & Business Environment: Through the creation of the new ministry in charge of MSMEs, Indian SMEs have benefited conducive business environment and easy access to supports available from the government. The creation of sector specific support has made it possible for Indian SMEs to expand their business and realized stability and consistence in the financial management. The Financial regulatory system in India has also helped to reshape the operations of the SMEs where access to finance and digital transactions has been attributed to the success of conducive regulatory framework (KPMG 2019).

Government Investment: Indian government has established a special ministry for MSMEs. Various programs are operated by the Ministry of MSME to help MSMEs with financing, technical assistance and upgrades, infrastructure development, skill development and training, boosting competitiveness, and market access. Even if many clusters arose independently, their formation & growth has benefitted greatly from the active role played

by government institutions and direct involvement of regional governments(MMSME, 2023).

E- commerce: India has introduced the e-service for SMEs to better address delays in services including the public procurement management. India is home to the largest tech savvy and continue to expand and innovate the way business can embrace technology which has made it possible for inclusion of SMEs in public procurement process (KPMG 2019).

Box 3: Example of Kenya Good Practices for SMEs Transition Strategy

Kenya has the highest number of manufacturing SMEs among Sub Sahara Africa and counts for 40% of GDP and employs at least 90% of the workforce. The government of Kenya set the agenda 2030 in relation to SDGs program to transform Kenyan economy from agriculture to manufacturing. The agenda 2030 helped Kenya to address specific issues that were hindering the Manufacturing SMEs and government investment more resources in rebuilding the system support including the service delivery and ease of doing business. According to World Bank report on ease of doing business (WB, 2019) Kenya was ranked 61 on ease of doing business compared to 159 for Ethiopia. It is in this regards that Kenya as country through Kenya Export Promotion and Branding Agency (KEPROBA) continues to improve the conditions SMEs are working (KEPROBA, 2019).

Product Development: One of the best practices from Kenya is the diversity in product development and Kenya has built an important approach to support SMEs in clusters instead of general support and has given priorities to sectors based on their export performance.

Access to Markets- Kenyan government has aggressively invested in creating market linkages with different countries within East African community and other regions and leverage the uses of Mombasa port for export. Kenya has also created market linkages program to allow its SMEs tap into international markets with free visa for a good number of countries, it has also opened its doors to all African nations to enter Kenya on free visa which boosted foreign investment.

Policy, Regulatory & Business Environment: through the new delivery unit at the ministry, Kenyan SMEs have benefited special support from the government to follow them closely. The Kenya government has also grouped SMEs in different clusters by sector and established a specific operations framework for each cluster with more support and collaboration with private sector in the country including financial sector creating specific product based on sector and disadvantaged groups like women and youth.

Access to Affordable Finance: through different microfinance, SMEs were able to access loans through cooperatives and financial support system for manufacturing SMEs. These institutions served SMEs through special loan requirements and innovative products. One example of an innovative product is the online payment called Mobile Money(M-PESA), which is designed to assist firms to improve their

managerial capacities and their levels of productivity. Currently the banks are able to issue loans based on M-PESA financial statement of each business. It is therefore important to note that M-SMEs in Ethiopia can learn from this practice and together with private sector and government support, Mobile banking can fuel proper financial management for the M-SMEs

Government Investment: *One of the investments the government initiated is providing tax breaks and subsidies and by offering cooperatives specialized loans and support. Even if many clusters arose independently, their formation & growth has benefitted greatly from the active role played by regional governments like East African Community (EAC), Common Market for East and Southern Africa COMESA and now the Africa Continental Free Trade Area (AfCFTA).*

Quality Standards & Certification: *Number of SMEs invested in certification and quality standard which has helped them to reduce the importation of similar products. The government also invested into these SMEs through TVTs and incubators which has supported the SMEs.*

7: Manufacturing SME Growth Paradigm

7.1 The Transition Paradigm

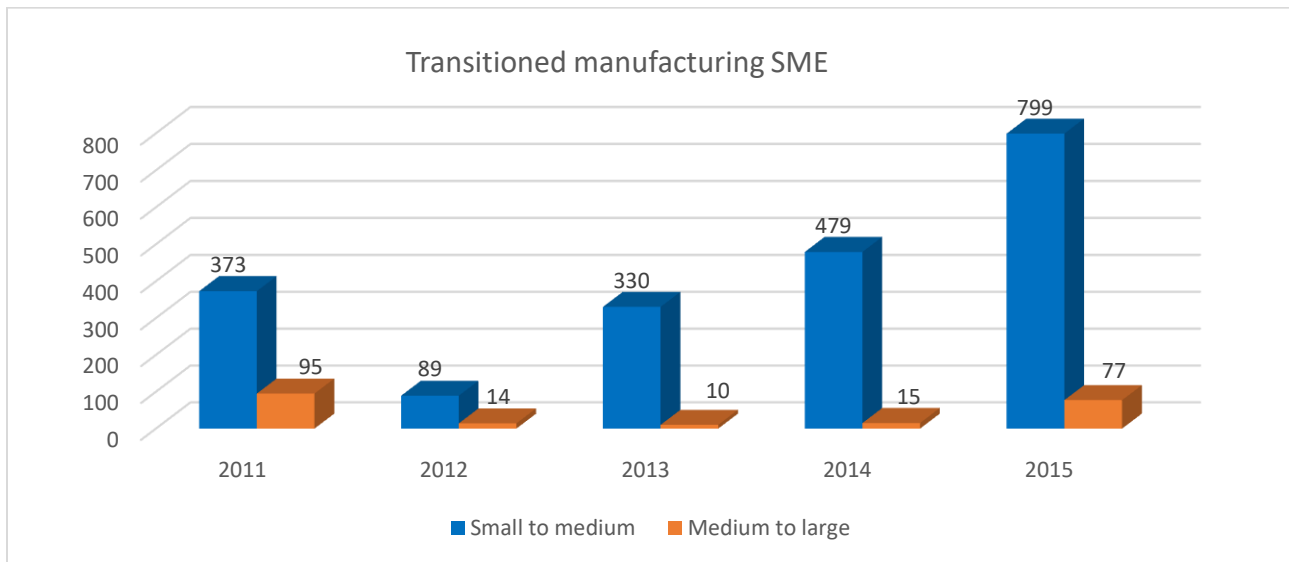
Small and medium-scale enterprises (SMEs) play an important role in all economies, advanced or otherwise. As already mentioned, in every country, SMEs are the basis for the enterprise pyramid as they outnumber large enterprises, accounting for 99% of all enterprises. More importantly for a developing and agrarian economy like Ethiopia, SMEs play an important role in income generation, poverty reduction, and laying a fertile ground for creating and nurturing a diversified and competitive industrial class. Thus, it is no wonder that SMEs are being promoted through the design of diversified promotional measures in all countries of the world. This is also true for Ethiopia.

Based on this rationale the Ethiopian BDS provision has been focusing on general SMEs promotion. The provision of BDS to SMEs, has on the positive side provided equitable support to enterprises. On the other hand, however, it requires a larger volume of human, material and financial resources, and creates a tendency to entrench a dependence culture among the enterprises that the Ethiopian government is looking to provide growth, innovation, entrepreneurial acumen, etc. so as to drive the transition from agriculture-led to industrial-led economic growth.

Also, it would be important to realize that all SMEs do not have equal or similar capabilities for growth. While there is no data as to the rate of transition of SMEs, even in the current supply-sided and induced transition drive, international experiences indicate that growth-oriented enterprises account for 3-6% of the business population (e.g., OECD, High Growth Enterprises: what governments can do to make a difference, 2010).

Available information indicates that the number of transitioned SMEs rather modest (see the following graphs). In short, these will be the tasks and opportunities as well as the challenges the Ethiopian SME ecosystem actors, like EED have been facing and will be facing in the coming years.

Graph 3: Transitioned SMEs



Source: EED annual reports, 2019-2023

The number of growth-oriented SMEs is thus relatively small but offers significant growth potential in terms of employment, turnover, tax revenue, profitability, export/import substitution, etc. Consequently, if public support is to assist the specific target group of **manufacturing SMEs that are growth/export/import substitution oriented**, it is evident that generic, supply-driven business development services are not likely to be useful. It is demand-driven, customized, focused, value-adding business services that are likely to be helpful. In this context, the challenge is to identify growth-oriented manufacturing SMEs among the pull of general manufacturing SMEs and provide them with targeted and need/demand-based interventions.

7.2: Identification of Growth-Oriented Manufacturing SMEs

7.2.1: Defining Growth/Export/Import Substitution Orientation

The state and importance of SMEs have already been summarized in this document. In order to avoid the dissipation of scarce public funding and/or ensure effective targeting, it is worth setting out a basis for selecting eligible grow/export/import substitution-oriented Manufacturing SMEs, as well as export potential ones.

7.2.2: Growth-Oriented Manufacturing SME

The current policy on growth orientation actually concerns “growth/ priority sectors” (see MSME Strategy under consideration by the government; Section 3.2)*. **However, a growth sector and a growth-oriented firm within a particular sector are two entirely different issues.** A 2015 survey of firms (Survey of Urban Micro and Small Enterprises in Ethiopia, 2015, funded by CIDA) distinguished “survivalist” entrepreneurs who choose to diversify their income rather than capital accumulation and vertical growth from “growth-orientated” firms, as mainly reflected in the tendency to hire more workers. It thus defines growth orientation based on whether companies plan to continue and expand in the future or not. The survey found that 15% of MSEs would like to continue and expand their current business and that:

For our purposes, “planning to grow a business in the future” is not a sufficient criterion, not least because the target group is very different (MSEs) from the survey’s (micro). To identify growth-oriented manufacturing SMEs, it is recommended to apply the criteria for selecting such enterprise, i.e.,

- Employment growth of 10% during the previous consecutive 3 years;
- Sales revenue growth of 20% during the previous consecutive 3 years.

7.2.3: Export-Oriented SME

The issue of export orientation/readiness is also important to determine. The following criteria could be applied, though it implies combining data with professional judgment:

- If the SME is already exporting, the % of export sales during the previous 3 years;
- Whether the SME has a product(s) with potential to export;
- Whether the SME is export ready (i.e., exhibits some of the following characteristics: commitment (resources), management (capacities), marketing (strategy), product (niches, quality), production (volumes, standards) and finance (resources). Please also use the export readiness checklist on f “EED Services Packaging” developed recently (EED service package 2023).

7.2.4: Import Substitution-Oriented SME

The issue of import substitution potential is important to determine. Import substitution basically refers to replacing foreign imports with domestic production, thus reducing foreign dependency on industrial products. Such SMEs target import substitution products like consumer products, household and personal goods, plastic and electrical goods, garment and textile products, leather products, food and beverage production, spare parts and equipment, etc. typically by using either labor- intensive or intermediate technology. It would be important to apply the criteria set out by the import substitute being developed by MOI

7.3: Support Need Assessment /Business Diagnostic

This section briefly introduces the concept of business diagnostics in the context of SME transition strategy, since it is important to build a sound understanding of business diagnostics as a tool to identify support needs. The concept is also accompanied by proposed diagnosis template that is easy to undertake and analysis the type of support needed for manufacturing SMEs, i.e., growth oriented, export oriented and import substitution-oriented manufacturing SMEs.

7.3.1: Definition

The starting point is the acknowledgement that the term “Business Diagnostic” can mean different things to different people, so it is important to define what is meant by the term.

A Business Diagnostic, refers to a framework for identifying, analyzing and interpreting data to identify possible needs and priorities, and ideally also to fill those needs and priorities of the firm at hand. Defined in this way, the key to Business Diagnostics is a focus on people, marketing, finance, as well as business processes.

7.3.2: Business Diagnostics Model

The aim of the exercise is mostly to assist growth-oriented manufacturing SMEs (including import substitution and export potential) to develop further through the provision of customized business services. Subsequently, this was extended to less sophisticated tools for start-ups and established firms with a focus on SMEs.

This implies that a key aim, especially in the case of the manufacturing SMEs that are growth/export potential, is to enhance the management competencies and business systems/procedures within the targeted SMEs. In this context, Business Diagnostics play a critical role in assessing individual SMEs’ needs and priorities at different stages of development. This can then be converted into customized packages for business support which can be delivered through the existing business service providers and/or Industrial Extension Services (IES) like EED and regional as well as zonal and woreda support providers, including universities, technical institutes, private sector, etc., depending on the specific inputs needed.

To use an analogy, medical diagnosis is about identifying a health problem by systematically analyzing the background, symptoms, and signs of illnesses, evaluating the test results and then investigating the probable causes of those illnesses. Business Diagnosis works in a similar manner to a medical diagnosis. Business Diagnostics is undertaken either after symptoms emerge, as a check-up to identify business problems before they get out of hand or to pin-point business opportunities and identify ways of maximizing them.

A survey of MSEs (Survey of Urban Micro and Small Enterprises in Ethiopia, STEP, 2015) found that close to half of the MSEs (46%) identified that services which could help the MSEs determine their strengths and weaknesses are currently missing, as well as a host of potential services such as marketing, business budgeting, and cost minimization assistance. The identification of business strength and weakness is the defining feature of Business Diagnostics, as illustrated in the Box below.

Box 4: Uses of Business Diagnostics (BD)

- Checking **effectiveness** of strategies and processes: firms usually have strategies and processes to guide activities. BD helps evaluate their effectiveness and see what is working, what is not and what to improve.
- Understanding business **performance**: BD helps business owners/managers obtain a better understanding of the operation and performance of the firm. To become more effective, they must understand their performance.
- Identifying **strengths and weaknesses**: BD helps identify firm's weaknesses and strengths, thus enabling a possible course of action to be determined and implemented.
- Identifying **threats**: all firms face external or internal threats. Identifying them before they develop into serious problems is necessary to keep the business performing optimally.
- Identifying **opportunities**: BD helps businesses to identify new opportunities and the way to maximise these, including import substitution / exploring export markets.
- Developing business **goals**: after assessing the current situation, firms can create goals that help them to grow. Goals after diagnoses are more achievable as they are based on the real, rather than perceived conditions.
- Identifying **skill gaps**: BD can assess the potential of employees and needs of the business, allowing planning of training and career management.
- Identifying **workforce matters**: BD can be important in creating teams comprising members who complement each other, thus promoting growth and productivity.
- Improving staff **motivation and engagement**: BD can help identify what motivates employees and how to best improve employee engagement, thus spurring performance and productivity, etc.

International experience does not recommend a standard Business Diagnostic tool for the simple reason that the intention of such tools is highly diverse. In the case of Ethiopia, the aim is to create different Business Diagnostic templates, two of which (start-ups and established firms) are simpler and predicated on the nature of the IES system and the packages of services that are available to manufacturing SMEs in the country. By contrast, the two advanced BD templates focus on Ethiopian

SMEs in growth or export potential or import substitution, which are very particular target groups whose business processes, needs and priorities are much more sophisticated. Consequently, it is not feasible to develop a standard BD tool for all scenarios. It is a matter of selecting the right tool for the specific job at hand, resulting in the four different templates annexed in this report.

Moreover, for a Business Diagnostics tool to be demand/ need-oriented, it must be sufficiently broad and flexible to enable the particular problem(s) faced by a specific manufacturing SME to be identified and for solutions to be determined. This, in turn, requires conceptualization of the Business Diagnostic model to be applied, especially in the case of the growth oriented (including export potential and import substitution) business diagnostic tool.

Businesses have two broad sets of needs as input for its management, marketing and production processes, aimed at maximizing market share and profitability:

- Management competencies such the capacity to define a business and design its strategy, as well as to plan the strategy and specify the resources to make it happen;
- Resources include the information and know-how resource, the human resource, the physical assets and financial resource, and the networks and relationships resource.

An SME manager/owner, working with a business adviser, can identify what the business needs through a business diagnostic intervention, as illustrated in the two main templates (growth and export) presented in this report.

7.3.3: Business Diagnosis Process

An enterprise needs assessment (360 degree) can be achieved in two steps:

- Through a diagnostic of an existing business / enterprise. This links firm “symptoms” to strategy, marketing and production problems, and identifies root causes (i.e. shortcomings in management competence or in kinds of resources the business is using);
- Through the design of a strategy and the identification of the resources needed to make the strategy happen for a new or improved business within the enterprise.

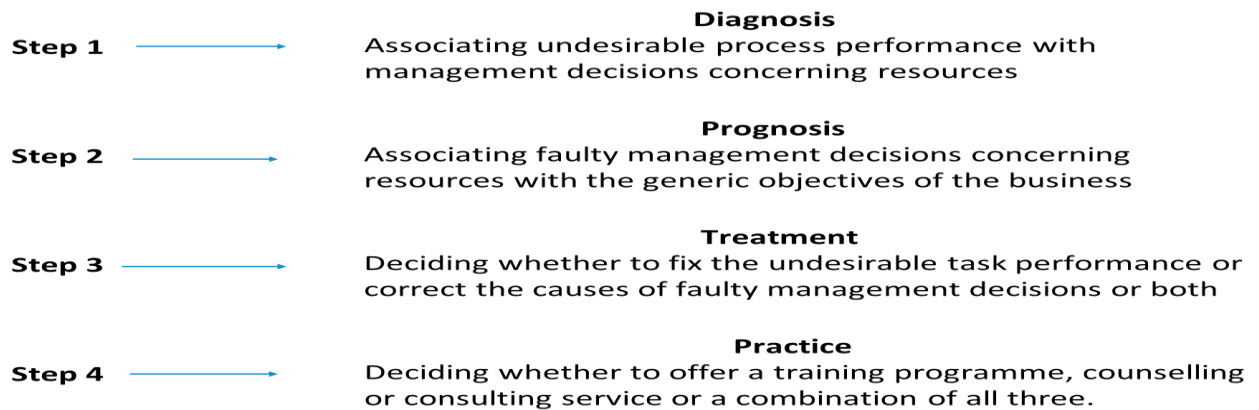
Basically, the SME manager/owner and the business consultant perform BD to **identify what the business needs are** and **to propose solutions** to the firm.

Through BD, the business adviser first seeks to identify **symptoms** and then to create causal linkages to identify the problem. A symptom is a deviation from the expected norm and so an indication of an underlying problem. Symptoms point to the under-performance of business processes or the lack of achievement of business objectives (e.g., reduction in market share, lack of profitability, lack of export, etc.). A problem is what is causing the symptoms to emerge, such as deficient management

decisions (i.e., resource planning, execution and monitoring decisions) which may create deviations from the expected performance levels.

Conducting a business diagnostic is the process of applying a model in order to establish causal links. This is a **multi-stage process** starting with **diagnosis, prognosis, treatment and practice**, as shown in the Diagram below.

Figure 1: Business Diagnostic Process



Source: ITC (2014) *A Guide to Diagnose a Business and its Management*, p.12

- **Diagnosis is associating unsatisfactory performance of business processes with poor managerial decisions:** developing a checklist is fairly straightforward and can reveal relevant information. However, the accuracy of the diagnosis depends on the business adviser’s knowledge of the business model and ability to ask questions, observe reality, interpret the findings and make a correct link between the performance levels of the business processes and the managerial decisions that originated the identified results. The well-informed business adviser will use judgement and insight based on interviews with the SME manager/owner to detect what areas of management the problem most likely lies in. This process is not as simple as it at first appears, as there are rarely only one or two undesirable results or symptoms and business processes often overlap. The business adviser can examine each diagnostic statement for each operational process that is ‘underperforming’ to reveal one or more inadequate resource decisions (e.g., in planning, executing, and/or controlling of a specific resource);
- **Prognosis is basically linking the management problems to the marketing objectives:** once a business diagnosis is made the business adviser determines what is likely to occur if the current circumstances continue as they are. This is where the business adviser links the current situation to one or more of the identified management problems, which will hinder the achievement of the production objectives and result in failure to reach the firm objectives.

- **Treatment is a decision about whether to address the problem, fix the symptom or both:** three options face business advisers, which requires applying professional judgement to make the most appropriate decision: solve the problem, treat the symptom or a combination of both. The first leads to taking resource decisions to improve the capability of the managers to make informed and rational decisions (i.e., training). The second leads to remedying the situation (i.e., consulting). The third leads to remedying the situation by doing it with the manager/owner, helping them understand how the problem came about and how to prevent it from recurring in the future (i.e., counselling).
- **Practice concerns about the choice of the type of intervention** (training, consulting, counselling, or a combination of all three). Typically training programmes are more conducive for tackling and solving managerial problems. Consulting services are most helpful to treat the symptoms, thereby correcting the underperformance of operational processes. These are not mutually exclusive and the business/IES adviser will need to make a professional decision about how to proceed.

7.3.4: Business Diagnosis for IES

In the context of Ethiopia, the preceding work results in various types of business diagnostic that would be carried out for firms at different stages of development:

1. Growth oriented firms (also covering import substitution firms): a generic 360-degree Business Diagnostic, including procedure for discussing and agreeing a package of IES services customised to the specific needs of the enterprises.
2. Export oriented firms: a specific Export oriented Business Diagnostic, including procedure for discussing and agreeing a package of IES services customised to the specific needs of the enterprises.
3. Established firms: an intermediate Business Diagnostic to discuss and agree more sophisticated packages of standard IES to be delivered once the firm has survived and reached to point of being well established.
4. Start-up firms: a basic Business Diagnostic to discuss and agree the package of standard IES to be delivered once the firm is created.

8: SME Transition Strategy Framework

8.1 Introduction

While EED is entrusted with the responsibility of implementing the Manufacturing SME transition strategy, EED cannot do this alone. Other government agencies, private sector and development partners, all need to work together, so that Manufacturing SME transition strategy and objectives can be achieved.

Development challenges are complex and are typically caused by many factors and layers that are embedded deeply in the way society functions. By articulating the causes of a development challenge, making assumptions explicit on how the proposed strategy is expected to yield results, and testing these assumptions against evidence including what has worked well, or not, in the past—the theory of change helps ensure a sound logic for achieving change. The process of agreeing on a theory of change establishes different views and assumptions among programme planners, beneficiaries, donors, programme staff, etc. It can foster consensus and motivate stakeholders by involving them early in the planning process and by showing them how their work contributes to long-term manufacturing SME impact. It can help others to understand and support as well as strengthen collaboration with other organizations that aim to contribute to the same outcomes, leading to stronger or new partnerships and better complementarity and coordination.

A theory of change is a method that explains how a transition strategy intervention, or set of interventions, is expected to lead to specific development change, drawing on a causal analysis based on available evidence. It helps to identify solutions to effectively address the causes of problems that hinder progress and guide decisions on which approach should be taken, considering manufacturing SMEs comparative advantages, effectiveness, feasibility, and uncertainties that are part of any change process. It also helps to identify the underlying assumptions and risks that will be vital to understand and revisit throughout the process to ensure the approach will contribute to the desired change.

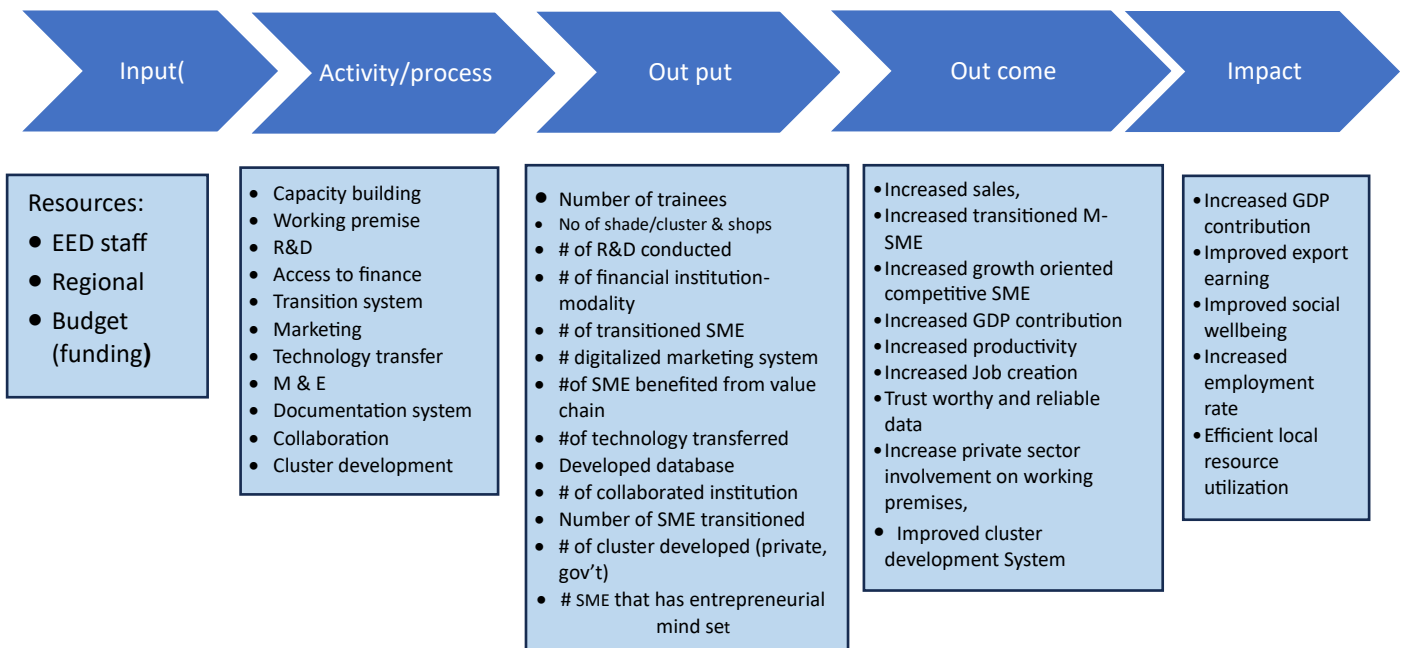


Figure 2: Theory of Change

8.2: Assumptions

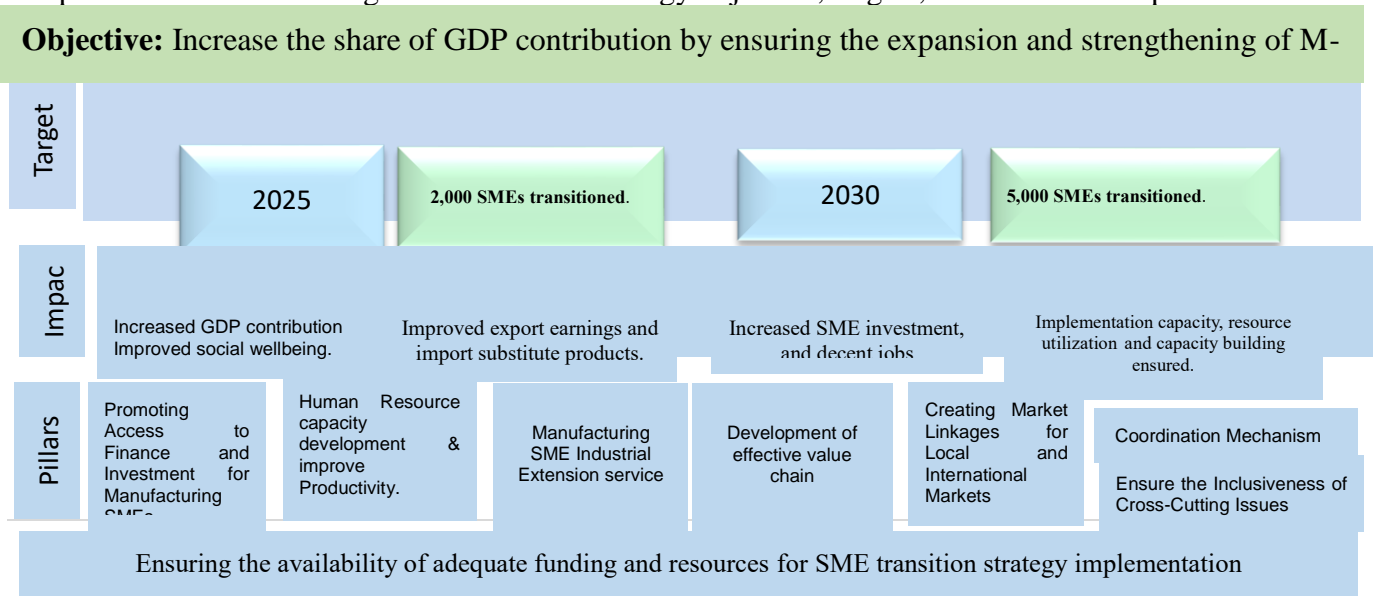
In developing the manufacturing SME transition strategy, the following assumptions were made.

- Inclusive economic, social, and political participation will take place, without discrimination (ethnic, religious, demographic, and gender);
- The national private sector will play a leading role in the economy of the country in general and M-SMEs in particular;
- SMEs will play a significant role in the production of import substitutes and export manufactured products.
- Enter and Intra manufacturing enterprise linkages will be fostered to create a locally diversified and internationally competitive manufacturing SME sector that contributes to job creation, manufactured value additions, and manufactured GDP as well as the creation of a vibrant entrepreneurial class in the manufacturing sector.
- This transition strategy will hasten the expansion of small and medium-sized manufacturing enterprises.
- There is an encouraged active participation of stakeholders.

8.3: Elements of the Transition Strategy

To create competitive and productive M-SME in Ethiopia, the transition Strategy enhances the provision of the government supports. The strategy is structured in 7 main pillars and one cross-cutting strategic pillar. The graph 4 below shows the details of the pillars.

Graph 4: The Manufacturing SME transition strategy objective, targets, and intervention pillars



Source: consultant computation, Oct,2023

8.3.1: Promoting Access to Finance and Investment for Manufacturing SMEs

Manufacturing SMEs face a high cost of doing business and lack of access to market, lack of network across value chain actors, and a generally restrictive/burdensome regulatory environment. The tenuousness of their business models and their perceived risk as borrowers add to their inability to fulfil the excessive collateral requirements of financial institutions. This makes access to finance difficult for manufacturing SMEs. Without credit guarantee schemes, banks and MFIs prefer not to provide loans to manufacturing SMEs. The loans that might be available are often too short-term to meet their needs and too expensive to service. In terms of manufacturing SMEs' access to finance, the unavailability of credit is a major limiting factor to growth manufacturing SMEs represent the missing middle. Manufacturing SMEs' finance in Ethiopia relies almost exclusively on collateral-based funding provided by the banking sector and equity investments from the social network.

Less than one-third of Manufacturing SMEs (between 5 and 99 employees) acquire bank loans at all. Manufacturing SMEs are much more likely to be rejected for loans and less likely to have a loan, line of credit, or overdraft facility, than are larger businesses. Manufacturing SMEs are also more likely to avoid loan applications all together due to high collateral requirements. A World Bank study indicates the existence of a 'missing middle' - small firms face more capital constraints than microenterprises, left mainly unserved in the crack between commercial banks and microfinance institutions. According to the same study, the share of manufacturing SME loans to the overall lending portfolio in Ethiopia is only 7%, which is very low compared to other developing countries (16%). Moreover, compared to other booming emerging markets in Africa, such as Kenya and Ghana, private equity and capital markets are practically non-existent in Ethiopia.

Banks in Ethiopia are wary of lending to manufacturing SMEs due to low repayment rates, and currently offer very few specific financial products that target the needs of manufacturing SMEs. Banks face several challenges in lending to manufacturing SMEs. Lenders in Ethiopia have liquidity problems and must contend with an asymmetry of information due to the lack of a credit rating office; manufacturing SMEs tend to lack a track record (due to poor financial records and unpredictable cash flows) that would help a potential lender to assess their credit worthiness. Furthermore, many manufacturing SME leaders have poor financial and management skills and lack of expertise in producing financial statements. The cost of lending is high (due to expensive customer acquisition, costly distribution networks, and small transaction sizes), and lenders must tolerate higher levels of risk due to the poor credit information system.

Ethiopia's lenders' lack business models adapted to manufacturing SMEs, and more broadly lack an "SME finance culture." The business models of financial institutions are mostly inadequate to serve manufacturing SMEs. Most lenders lack dedicated and specialized manufacturing SME units or departments within their organizational structures, and loan appraisal techniques are still mostly

based on traditional relationship lending rather than on transactional technologies, such as credit scoring.

To reduce the asymmetry of information between supply and demand of finance, the National Bank of Ethiopia (NBE) has been implementing a credit reference bureau, however, the bureau’s ability to facilitate extension of credit to underserved segments, such as manufacturing SMEs, remains constrained. In addition, Micro-finance institutions are unable/unwilling to provide large loans to manufacturing SMEs due to their financial capability and restrictions by NBE to maintain 95% repayment rates.

Expanding access to finance for small and medium enterprises through support to financial institutions and supporting enterprises interested in accessing investment opportunities and projects. It will also work with private capital partners to support creative blended finance opportunities and solutions, e.g., moveable asset financing, etc. Banks should be obliged to provide a certain percentage of loans to manufacturing SMEs.

Pillar 1: Promoting Access to Finance and Investment for Manufacturing SMEs			
Strategy 1: Enhance government support to incentivize manufacturing SME growth and self-reliance through the following interventions			
Interventions	Actions	Timeframe	Stakeholders
Prioritize support to growth-oriented manufacturing SMEs rather than survivalist enterprises, notably through the promotion of competitiveness	<ul style="list-style-type: none"> • Mobilize financial institutions ready to work with SMEs and lobby to revision their legal framework. • Develop support package 	2023-2030 2023-2024	DBE, CBE, MOF
Shift from a “mass support modality” supply driven approach, to specific support-need & gap-based modality, in a consensual partnership approach	Establish support package for growth-oriented M-SMEs based on growth level.	2023-2024	NGO, Business consultant, government body
Support self- reliance M-SME	Include self-reliance M-SMEs in support package. Awareness creation at all levels	2023-2024 2023-2030	UNIDO, MOF, SME Financial Institutions, etc
Strategy 2: Facilitate Access to Finance			
Interventions	Actions	Timeframe	Stakeholders
Implement a Partial Credit Guarantee (PCG) scheme thereby reducing collateral requirements.	Create awareness on credit guarantee scheme for M-MSEs	2024	EED, MOLs,

Encourage capital market companies to diversify sources of capital goods financing for manufacturing SMEs and provide financial services to manufacturing SMEs using innovative tools	Create awareness on different sources of financing to M-MSEs Collaborate with capital market companies	2024-2030	NBE
Provide adequate financial products for SMEs that are export-oriented and Import-substitution oriented	-Introduction of SMME loan windows in all financial institutions - Lobby for the establishment of MSME bank	2024	
Strategy 3: Facilitate Investment for existing M-SME expansion			
Interventions	Actions	Timeframe	
Encourage manufacturing SME investment in growth-oriented import-substitution and export- led activities	Awareness Campaign Include incentives for growth-oriented M-SMEs in investment promotion support package	2023-2030 2023-2024	
Enhance collaborations with stakeholders	Co-work and sign MOU with stakeholders	2023-2030	
Incentivise local investor to invest in the manufacturing sectors.	<ul style="list-style-type: none"> • Design incentive mechanisms and present to relevant body • Undertake public awareness programme. • Implement incentive mechanisms in collaboration with other stakeholders 	2024-2025 2024-2030	
Strategy 4: Introducing Digital Literacy and access to technology for manufacturing SMEs			
Interventions	Actions	Timeframe	
Encourage M-SMEs to benefit from available public or private grants for innovative entrepreneurs.	Lobby for setting-up common criteria by financial institutions to provide diversified financial products. Capacity building of SMEs to	2024	

	encourage them to undertake R&D activities		
Promote access to markets for manufacturing SMEs, including through public procurement opportunities and international bids	Promote the introduction of favourable condition for public procurements	2024-2025	
Provide research-based incentives for growth-oriented manufacturing SMEs to increase their competitiveness	Conduct researches	2024-2030	
Promote technology copying, diffusion and collaboration between sectoral research institutes and manufacturing SMEs, notably by providing analytical and technical consultations	Develop a training/guide tool on digitalization	2025	
Promote local products to improve import substitution, linking manufacturing SMEs with technology suppliers to improve quality of products and lower production costs.	Create a collaborative arrangement to institutionalize standardization & quality management in the country	2025	

8.3.2: Develop Human Capital & Improve Employee Engagement

Skills development policies and strategies are central to Ethiopia’s growth and transformation vision of becoming a low middle-income economy by 2025. The Ethiopian government has made strides on accelerating economic growth on the journey towards the country’s renaissance. To this end, the National Capacity Building Program and the Growth and Transformative plans, built on past experiences and challenges, gave special attention to the potential of TVETs, colleges, universities, and research institutions to produce a trained workforce, responsive to the demands of the growing economy. While the primary role of higher education institutions is ensuring the quality and relevance of knowledge transfer, TVET institutions have been reoriented to focus as well on supporting small and medium-scale enterprises through training, business development counselling, and capacitating technology transfer.

Well-qualified and productive human capital is one of the most critical factors for sustainable economic growth. Evidence shows that investment in developing human capital in Ethiopia would support economic growth significantly. Hence, prioritizing resources that enhance human capital is a vital strategy to initiate long-term growth performance. Addressing problems of inadequacy in the training system, resolving the needs of the labour market, producing a well-qualified labour force, and reducing bottlenecks in accessing information would enhance employability, promote employment, and create jobs.

What Ethiopia has learned from international evidence is that incentivizing the industry and business sectors to engage and invest in skills development, has shifted outlooks to value and prioritize digital, entrepreneurship and soft skills, and experiential learning, over traditional content-led knowledge transfer. Non-traditional skill competencies in communication, ability to handle conflicts, intercultural competency; understanding value chains; customer orientation, interdisciplinary teamwork, to name a few, are desirable for employment and creating jobs. Additionally, skill competencies in adaptability to new situations, thinking in systems, handling complexity, analytical thinking, creativity, forward-thinking, and thinking in scenarios have flooded course selections and requirements for middle to high skill workers and entrepreneurs.

Pillar 2: Human resource capacity development and improve productivity			
Strategy 1: Capacitate support institutions and M-SME to augment the capacity of their staff			
Interventions	Actions	Timeframe	Stakeholders
Provide training for relevant support institutions and manufacturing SMEs	Create coalition with skill training institutions	2024-2030	EDI, TVT
Implement flexible skilling (re-skilling and up-skilling) schemes to certify the sectors experts with adequate managerial and technical skills to support manufacturing SMEs	Create a benchmarking tool to assess the skill gaps within manufacturing SMEs. Introduce legal framework for certification of experts	2024-2030 2025	TVT, University, Manufacturing institutes, ESA, Ethiopia conformity assessment enterprise,
Promote manufacturing centre of excellence at federal and regional level	Upgrade the workshop facility and technical staff of EED and regional/city administration polytechnic colleges to be centre of excellence for M-SME development.	2025-2030	University, polytechnic colleges, Ethi coffee & tea authority, Eth agricultural authority

8.3.3: Provision of Manufacturing SMEs Industrial Extension Services

Manufacturing SMEs can grow from Small to Medium and from Medium to Large Enterprises. This process is called Manufacturing SME Transition. Growth of a manufacturing SME can happen because of the enterprise competitiveness in market price, quality of its products, promotion, and on-time delivery. Manufacturing SME transition from one stage to the next level is the base for large manufacturing industries and benefits the local economy, by producing import substitute products and quality export standards to save and earn in hard currencies.

A transitioned manufacturing enterprise should be a financially viable manufacturing SME that fulfils a real community need, delivers social benefits and has beneficial, or at least neutral, environmental impacts. Note that 'viable' means at least meets its costs.

The current support mechanism for manufacturing SME transition is insufficiently consistent and effective, to help their transition which needs additional interventions.

Pillar 3: Provision of Manufacturing SME Industrial Extension Services			
Strategy 1: Promote manufacturing SME transition by strengthening the existing Manufacturing SMEs			
Interventions	Actions	Timeframe	Stakeholder
Create a collaboration arrangement between EED and MOLS and other stakeholders facilitate the transition of micro to small manufacturing establishment	Develop a system of a joint support to micro enterprises.	2024-2025	MOLS, regional labor and skill, EED
Work in cooperation with stakeholders (public sector, private sector, financial institutions, civil society, knowledge institutions development partners, etc.) strengthen existing manufacturing SMEs with growth potential;	Develop a system of collaboration of IES provision mechanisms with MOI and regional stakeholders Establish regular consultation and cross fertilization of experience with stakeholders.	2024- 2025 2024-2030	TVET, MIDI, ETIDC, EED MOI, MOLS, EDI
Develop national Industrial Extension Service/IES strategy in collaboration with relevant stakeholders	Establish Implementation plan for the strategy Develop tools and guidelines for the implementation of IES	2024-2025	MOI, MOLS

8.3.4: Developing Local Value Chain

Developing local value chain is key to establishing sustainable and competitive market relationship among M-SMEs for better participation in global market. Value chain development is fundamentally about strengthening market relationships so that businesses work better together to compete more effectively in the global market and to provides a step-by step guide to intervention design for achieving competitiveness that benefits the main actors.

First, a proper mapping is needed to understand the context of the M-SMEs value chain and to establish clusters with collaboration with regions for better promotion of market linkages for both local and foreign market.

By integrating local value chain in M-SMEs transition strategy, it will help them to: 1) increase the efficiency of its internal operation; 2) develop inter-firm linkages that reduce transaction costs; and 3) upgrade the standards and introduce new product lines for both local and international markets. By enabling extensive collaborative ties between the firms will facilitate number of things including sharing knowledge, technologies, and inputs; develop greater responsiveness to global demands and attain greater export levels because of collective efficiency and improving competitiveness which can only be strengthened by a proper local value chain.

Pillar 4: Development of effective value chain			
Strategy 1: Improving local value chains and market linkages through horizontal and vertical integration			
Interventions	Actions	Timeframe	Stakeholders
Map the local value chain in collaboration with regions and other stakeholders	• Undertake value chain mapping jointly with other stakeholders.	2024-2025	Regional bureaus, CSS, DBE, EIIDE, SME associations
	• Continuous update of national manufacturing SME data base	2024-2030	
	• Capacitate EED and relevant stakeholders to properly utilize the database.	2025	
Establish sectoral clusters for manufacturing SMEs and encourage networking and horizontal and vertical integration	<ul style="list-style-type: none"> • Design system for establishment • Prepare guidelines for its implementation 	2025-2026	Regional bureaus, MOI, MIDI, IPDC, Associations,
Promote market linkages	• Design system for market		IPDC, EIC, MIDI, MOI

with domestic and foreign investors, including in industrial parks	linkage • Prepare guidelines for implementation of market linkage	2024-2025	
Create machines capabilities for fabrication of machines, equipment and spare parts	<ul style="list-style-type: none"> • Mapping of local fabricators/manufacturers • Design system for establishing linkage among manufacturers and SME • Design incentive mechanisms for manufacturers • Prepare working guidelines to implement the linkages 	2024-2025	MIDI, Association of micro finance, manufacturer

8.3.5: Creating Market Linkages for Local and International Markets

Linkages are channels through which manufacturing SMEs influence each other in the supply chain for economic performance. Linkages between manufacturing SMEs and large companies are crucial to the success of a market economy. Manufacturing SMEs are involved in forward linkages with customers for improving market outlets, through value addition in sales services while the backward linkages with suppliers create new market opportunities for manufacturing SMEs when large companies purchase components, materials, and services locally. Such linkages range from arm’s-length market transactions to deep, long-term inter-firm relationships. In addition, linkages with technology partners may initiate common projects with indigenous manufacturing SME partners, including joint ventures, licensing and strategic alliances which are a potential source of technology and know-how for local enterprises. Effective supply chain management has become central to manufacturing SME competitiveness.

At the same time, linkages alone are not conclusive evidence that spill overs have occurred, or that local manufacturing SMEs have benefited. In other words, overcoming the obstacles to linkages between large and small enterprises becomes a particular developmental priority.

Pillar 5: Creating Market Linkages for Local and International markets			
Strategy 1: Enhancing the Development of Sheds and Market Centres for M-SMEs			
Interventions	Actions	Timeframe	Stakeholders

Develop alternative working premises mechanisms.	• Prepare Standard design.	2024	EED IPDC, Regional IPDC, EEU, Regions, Ethio telecom
	• Prepare cluster and market centre administration manuals.	2024	
	• Update manuals & guidelines of shades, clusters, and market centres	2025	
	• Adopt and scale-up local and international best experiences.	2025	
	• Design new modalities of shade and market centres	2026	
	• Design environmentally friendly shades	2027	
Build capacity on cluster development, operation and management for regional leaders, experts, and stakeholders.	<ul style="list-style-type: none"> • Organize training program for development and management of SME clusters. • Organize study tour to learn from best practices 	2025	ECA, ESA, Ministry of foreign affaire
Build capacity of M-SMEs on product development and market driven linkages	<ul style="list-style-type: none"> • Organize training program on product development. • Organize study tour to of M-SMEs to learn from best practices 	2025	ECA, ESA, Ministry of foreign affaire

8.3.6: Create effective coordination Mechanism.

Lack of coordination among government institutions is one of the most frequently discussed problems in government programs worldwide, especially in low- and middle-income countries. Many researchers assessed the impact of lack of policy coordination on economic development, and there is much evidence showing the negative impact of lack of coordination on the achievement of economic goals, including the development of small and medium-sized manufacturing enterprises.

There are platforms and structures like private- public joint forum to coordinate the different regions, ministries, agencies, donors, and stakeholders involved in the implementation of M-SME strategy. These platforms could be a good mechanism to foster coordination among federal and regional stakeholders.

Pillar 6: Create effective coordination mechanism			
Strategy 1: Elevating stakeholder's commitment, cooperation, and accountability			
Interventions	Actions	Timeframe	Stakeholders

Set-up coordination mechanisms	<ul style="list-style-type: none"> • Identify stakeholders at federal and regional level • Design effective coordination mechanism • Create periodic consultation forum 	2024 2024-2030	<ul style="list-style-type: none"> • MOI, EED, • Federal and Regional technical committee • EED, MOI
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8.3.7: Ensuring the Inclusiveness of Cross-Cutting Issues

Several population groups are facing structural challenges in starting a business and fully developing their economic potential. Women and youth face structural challenges when entering the manufacturing SME arena and tend to have more issues in accessing inputs and finance.

A huge proportion of those employed, are working as self-employed, which tends to correlate with low levels of skills, and lack of formal job opportunities. Even if, self-employment workers demonstrate an entrepreneurial mind set, evidence suggests that self-employment in Ethiopia tends to be the last resort rather than a choice.

Graduate unemployment is an economic and human capital loss, as it implies that investment in training graduates, does not yield a proportional return, and may create the potential ground for social and political unrest. On the other hand, youths systematically face higher barriers to entering the manufacturing SME sector than their adult peers and are more likely to hold low-quality jobs, especially in rural areas. Moreover, women tend to systematically have a lower chance of participation ratios in the manufacturing SME sector than their male peers and to be more represented in vulnerable employment.

Pillar 7: Ensure the Inclusiveness of Cross-Cutting Issues			
Strategy1: Providing specific support to improve youth, women and peoples with disabilities			
Interventions	Actions	Timeframe	Stakeholders
Mainstream the women, youth and peoples with disability in all M-SMEs supporting packages and programs	<ul style="list-style-type: none"> • Include cross cutting issue in support package • Awareness creation at all level • Provide capacity building • Design follow-up mechanisms for the implementation of cross cutting issues 	2024-2030	<ul style="list-style-type: none"> • Ministry of women and social affairs/MOWSA • Disability association, • NGO, WEDP, • MOWSA

Develop a support package for youth owned manufacturing SME	<ul style="list-style-type: none"> • Design & implement support mechanism that encourages youth owned M-SME • Develop a collaboration mechanism with stakeholders that engaged on youth owned M-SME. 	2024-2030	
Implement affirmative actions for people with disabilities	<ul style="list-style-type: none"> • Provide especial attention for people with disability in all service provision for M-SME 	2024-2030	
Encourage women entrepreneurs to strengthen their manufacturing enterprises	<ul style="list-style-type: none"> • Provide awareness creation & organize special trainings for women entrepreneurs in all activities • Design & implement support mechanism that encourages women owned M-SME • Develop a collaboration mechanism with stakeholders that engaged on women owned M-SME 	2024-2030	<ul style="list-style-type: none"> • Ministry of women and social affairs/MOWSA • Women Associations • NGO, WEDP,
Development of M&E mechanism	<ul style="list-style-type: none"> • Develop transition strategy M&E implementation tools • Conduct continuous M&E activities at all levels 	2024 2024-2030	

9: Risks and Mitigation Measures

Clear sense of the transition strategy, it helps to reduce/prevent or prepare for upcoming risks by empowering team to find solutions before these issues interrupt important initiatives.

- **Low performance-** risk occurs when manufacturing SME transition strategy doesn't perform as initially expected. If EED and regional bureau/city administration can't always identify the root cause of low performance, risks may lead to low performance and look for ways to prevent those risks.

Mitigate low performance: Anticipating potential performance risks early on the implementation process in the real time and plan SME transition thoroughly and promote open communication between regions and cities.

- **High costs** - Cost risk occurs when SME Transition goes over the budget initially set. Cost risk can occur because of unrealistic or lack of detailed budgeting in the SME transition planning phase.
Mitigate high costs: estimate each element of transition strategy plan accurately and stick closely to budget allocated based on scope and schedule.
- **Delay time/Time risk** is also known as SME transition delayed time that SME takes to transition from one level to another. This is a common risk that SME transitioning takes complete all required tasks which also translate into overrun cost.
Mitigate a time delay: create a transition schedule using timeline into work dependencies between work and time adapted to SME transition based on their lifecycle how long it takes and ensuring availability of adequate funding/resources for the implementation of the strategy.
- **Operational changes-** involves changes in institution or government structure or team processes, like an unexpected shift in team roles, changes in management, or new processes that affects SME transition. These situations create disturbances which need adjustments in workflows and may impact SME transition.
Mitigate operational change: Sometime change of institution operation can't be predicted or prevented all operational risks, when shift or process change is coming, facilitate implementation of transition strategy because SME are base for manufacturing Industry.
- **Lack of cooperation;** miscommunication of stakeholders and lack of willingness of stakeholders to cooperate on SME transition strategy implementation may fall behind implementation transition strategy deadlines, or disappointing SME transition outcomes.
Mitigate lack of cooperation: When designing and implementing of SME transition strategy, there needs stakeholder participation and strengthen cooperation & check every time the cooperation of stakeholders to ensure transition is in place.

10: Conclusion and Recommendation

10.1: Conclusion

Based on strategies proposed above, it is possible that the implementation may not seem smooth due to number of reasons that may affect the process like commitment from stakeholders, capacity at EED and regions/city administration, financial resources available at each institution involved. A clear implementation plan is essential so that all executing parties are on the same page, applying the same methodology and using the same set of benchmarks. It is also important to ensure that EED and regions/city administration holds the ownership, accountability for this strategy regardless of other players including the line ministries to insure smooth collaboration among stakeholders and beneficiaries.

The implementation team should be aware and knowledgeable that the control and implementation phase of the Manufacturing SME Transition Strategy is very important to that all pillars and strategies are achieved in the proposed timeframe.

It is important that all parties involved agree on the monthly check in for better collaboration and monitoring of the implementation of this strategy.

10.2: Recommendations

For better coordination and implementation of proposed strategies the following activities will have to take place:

Monthly implementation meetings of clusters and task force on agreed specific day of each month.

- ❖ Quarterly monitoring of KPI results against targets for impact and effectiveness.
- ❖ Taking necessary actions and needful adjustment, where strategies do not yield desired results.
- ❖ Implement transition strategy according to KPIs and manufacturing SME transition strategy objectives with involvement of all identified stakeholders.
- ❖ Install a sustainable system on obtaining customers feedbacks for proper implementation and mitigations for unexpected risks.
- ❖ Mobilize necessary funding for the implementation of the strategy and appoint right human resources to spearhead this strategy.
- ❖ Set up an adequate monitoring and implementation mechanism to ensure the proper implementation of the transition strategy.
- ❖ Create a coordination and progress of implementation monitoring system with all stakeholders at federal and regional level.

Annex

Annex-I Diagnostic Template

Attached in Excel File

Annex-II Summary Manufacturing SME Focus Group Discussion

A) Manufacturing SMEs Participants from different sectors of Addis Ababa:(Male 15 Female 7 total 22)

Date: August 04, 2023

No.	Challenges Faced	Manufacturing SME Sector & Level of the Enterprise	Challenges raised during discussion	Proposed Recommendation
1	Working premises	✓ Garment/Textile Enterprise/ (Transitioned from medium to higher this year)	<ul style="list-style-type: none"> Small working space, not enough for allocating machineries and cannot occupy more employees when transitioning from one level to another. 	<ul style="list-style-type: none"> Try to match the available shades for manufacturing SME sector which is going to be provided to.
		✓ Wooden home facilities manufacturer (Transitioned from small to medium)	<ul style="list-style-type: none"> The working space allocated to them is not suitable for loading and unloading inputs & products. 	<ul style="list-style-type: none"> Try to provide available working space for transitioned manufacturing SME based on their level.
		✓ Wooden & metal manufacturer (Transitioned from small to medium)	<ul style="list-style-type: none"> Besides having problems for working spaces, lack of display (showroom) for their products. 	<ul style="list-style-type: none"> Try to avile convenient working space for transportation routs
		✓ All Enterprise	<ul style="list-style-type: none"> Forced to leave the working space (shades) given to them when they graduate & transition into next stage 	<ul style="list-style-type: none"> Try to provide working space for expansion
		✓ All Enterprise	<ul style="list-style-type: none"> Problem of short-term agreement (5 years working space agreement) of shades is small (when they finish the transition period). 	<ul style="list-style-type: none"> Try to improve the bureaucracy getting working space
		✓ Detergents manufacturing enterprise (transitioned from small to medium)	<ul style="list-style-type: none"> There is no promising option for the next level of transition to get gov't support. 	☐
		✓ Dry food processing sweets manufacturing enterprise (transitioned from small to medium)	<ul style="list-style-type: none"> Higher leasing price and too bureaucratic to get working space 	☐
		✓ Agro-processing (Coffee roasting) enterprise (transitioned from small to medium)		☐
2	Insufficient infrastructure	Manufacturing SME (agro-processing, textile, metal and wood manufacturing)	Limited power supply and accessibility problem	upgrading existing ones and also other infrastructures problems.
			<ul style="list-style-type: none"> Unreliable electricity due to frequent power outages and problems to access the electric grid for new industries 	<ul style="list-style-type: none"> to solve the problem of Limitation of power, there is the need of customizing of the machineries.
			<ul style="list-style-type: none"> problem of water supply on shade, 	☐
			<ul style="list-style-type: none"> Non convenient of roads to Shade (deliver input and transport products) 	
3	Limited access to finance	Manufacturing SME (agro-processing, textile, metal and wood manufacturing)	<ul style="list-style-type: none"> For requesting loans financial institutes request higher collateral 	Provide loan by looking their working status and machinery on hand
			<ul style="list-style-type: none"> lack of access to finance and higher interest cost, 	produce local machineries in cooperation with machinery lease company

			<ul style="list-style-type: none"> insufficient machinery lease, and higher leasing cost high Bureaucracy DBE 	
4	Insufficient supply of adequate and quality inputs	✓ Machinery manufacturing enterprise	<ul style="list-style-type: none"> There is spare parts shortage and problem, for the products they manufacture. There will be a design change due to insufficient and an available spare part 	<ul style="list-style-type: none"> Establishing whole seller that supply raw materials/inputs for manufacturing SME
5	Market Linkage	✓ Wooden home facilities manufacturer (Transitioned from small to medium)	lack of coordinated market linkages	<ul style="list-style-type: none"> It would add value to their work efficiency if the government could create different market links for the products they provide within the local markets as a start
		✓ Machinery manufacturing enterprise	Existence of middle men within the market	<ul style="list-style-type: none"> The government to open opportunities for SMEs to compete & provide their products for the services the government or other institutes require.
				design market linkage strategy that directly links the producer and customer
		✓ Machinery manufacturing enterprise	lack of well-trained employees in the government institution and SME operators	✓ Training is provided to the employees by the different responsible institutes, such as Metals Industry Development Institute gives training to employees engaged in machinery related works.
		✓ Agro-processing (Coffee roasting) (transitioned from small to medium)	lack of information to enter export market	
7	Capacity Building	✓ Garment/Textile Enterprise/	Too much bureaucracy and nepotism in service delivery	<ul style="list-style-type: none"> To create awareness within the customers that the local product does have the same quality and can be competitive as of the imported products. (procedure)
		(Transitioned from medium to higher this year)	unawareness of procedures and guidelines of public employees	<ul style="list-style-type: none"> To create awareness within people the valuable existence & working capacity of SME within the different industries.
		✓ Enterprise that use fiber technology to manufacture moving toilets especially for people/persons with disabilities.		<ul style="list-style-type: none"> vocational and technical institutes can train equipped manpower with different theoretical and practical technics.
		<input type="checkbox"/>		<ul style="list-style-type: none"> Implementing bodies must equip themselves to provide technical support regarding the BDS, Industry extension, evaluation of project proposals, e.t.c...
		✓ Enterprise that use fiber technology to manufacture moving toilets especially for people/persons with disabilities.	lack of Skilled Man power in Fiber Technology	<input type="checkbox"/>
			<ul style="list-style-type: none"> lack of qualified training on standardized packaging and labeling 	<ul style="list-style-type: none"> improve export procedures especially custom, and tax regulations
8	Export challenges	Coffee roasting enterprise (transitioned from small to medium)	<ul style="list-style-type: none"> insufficient working space which affects quality of products 	improve custom regulation and create awareness for the employee
9	Legal framework		Unaligned policies and guidelines	<ul style="list-style-type: none"> After the transition period is over; it is better if government support continues.
			No support package listed for transitioned larger enterprises	<ul style="list-style-type: none"> Develop different guidelines and provide different government support for different kind of manufacturing SME based on their demand
		Machinery manufacturing enterprise	the procurement proclamation is not supporting manufacturing enterprises	

		There is no support framework for innovative machinery producing enterprises	provision of tax-free imported machines for copy or replication,
		Low level of legal purchasing with receipts	Allow import of revert machine engineering from free of tax

B) Manufacturing SMEs Participants from different sectors of Oromia: Male 17 Female 4 Total 21 Participants:

No.	Challenges Faced	Manufacturing SME Sector & Level of the Enterprise	Challenges raised during discussion	Proposed Recommendation
1	Working premises	Garment/Textile Enterprise/ (Transitioned from medium to higher this year)	<ul style="list-style-type: none"> Small working space, not enough for allocating machineries and cannot occupy more employees when transitioning from one level to another. 	<ul style="list-style-type: none"> Try to match the available shades for manufacturing SME sector which is going to be provided to.
		✓ Wooden home facilities manufacturer (Transitioned from small to medium)	<ul style="list-style-type: none"> The working space allocated to them is not suitable for loading and unloading inputs & products. 	<ul style="list-style-type: none"> Try to provide available working space for transitioned manufacturing SME based on their level.
		✓ Wooden & metal manufacturer (Transitioned from small to medium)	<ul style="list-style-type: none"> Besides having problems for working spaces, lack of display (showroom) for their products. 	<ul style="list-style-type: none"> Try to provide convenient working space for transportation routs / Providing permission of display places for their products?
		✓ Paper recycling enterprise	<ul style="list-style-type: none"> Forced to leave the working space (shades) given to them when they graduate & transition into next stage 	<ul style="list-style-type: none"> Try to provide working space for expansion or making favorable condition before forced to leave the existing shades.
		✓ Machinery fabrication manufacturing enterprise	<ul style="list-style-type: none"> Problem of short-term agreement (5 years working space agreement) of shades is small (when they finish the transition period). 	<ul style="list-style-type: none"> Try to improve the bureaucracy getting working space /
		✓ Detergents manufacturing enterprise (transitioned from small to medium)	<ul style="list-style-type: none"> There is no promising option for the next level of transition to get gov't support. 	designing types of support in each level of enterprise development
		✓ Dry food processing sweets manufacturing enterprise (transitioned from small to medium)	<ul style="list-style-type: none"> Higher leasing price and too bureaucratic to get working space 	Government special land lease regulation for small and medium manufacturing.
2	Insufficient infrastructure	Manufacturing SME (agro-processing, textile, metal and wood manufacturing)	Limited power supply and accessibility problem	upgrading existing ones and also other infrastructures problems.
			<ul style="list-style-type: none"> Unreliable electricity due to frequent power outages and problems to access the electric grid for new industries problem of water supply on shade, 	<ul style="list-style-type: none"> to solve the problem of Limitation of power, there is the need of customizing of the machineries.
3	Limited access to finance	Manufacturing SME (agro-processing, textile, metal and wood manufacturing)	<ul style="list-style-type: none"> For requesting loans financial institutes request higher collateral 	Provide loan by looking their working status and machinery on hand
			<ul style="list-style-type: none"> lack of access to finance and higher interest cost, insufficient machinery lease, and higher leasing cost 	produce local machineries in cooperation with machinery lease company
			<ul style="list-style-type: none"> Conceal of their capital to transit from one growth level to the next level due to forced leave of their working place. 	providing clear support system in each level of enterprise development.
4	Insufficient supply of adequate and quality inputs	✓ Machinery manufacturing enterprise	<ul style="list-style-type: none"> There is spare parts shortage and problem, for the products they manufacture. 	<ul style="list-style-type: none"> Establishing whole seller that supply raw materials/inputs for manufacturing SME
			<ul style="list-style-type: none"> There will be a design change due to insufficient and an available spare part 	establishing a system of spar part provision for Machinery manufacturing enterprise
5	Market Linkage	✓ Wooden home facilities manufacturer (Transitioned from small to medium)	lack of coordinated market linkages	<ul style="list-style-type: none"> It would add value to their work efficiency if the government could create different market links for the products they provide within the local markets as a start.
		✓ Machinery manufacturing enterprise	Existence of middle men within the market	<ul style="list-style-type: none"> The government to open opportunities for SMEs to compete & provide their products for the services the government or other institutes require.
				design market linkage strategy that directly links the producer and customer
		✓ Machinery manufacturing enterprise	lack of well-trained employees in the government institution and SME operators	<ul style="list-style-type: none"> Training are provided to the employees by the different responsible institutes, such as Metals Industry Development Institute gives training to employees engaged in machinery related works.

7	Capacity Building	Ornament producing enterprise	Too much bureaucracy and nepotism in service delivery	<ul style="list-style-type: none"> To create awareness within the customers that the local product do have the same quality and can be competitive as of the imported products. (procedure)
		Black Wood manufacturing enterprise	unawareness of procedures and guidelines of public employees	<ul style="list-style-type: none"> To create awareness within people the valuable existence & working capacity of SME within the different industries.
		Detergent manufacturing		<ul style="list-style-type: none"> Vocational and technical institutes can train equipped manpower with different theoretical and practical technics.
		Gypsum & finishing works enterprise		<ul style="list-style-type: none"> Implementing bodies must equip themselves to provide technical support regarding the BDS, Industry extension, evaluation of project proposals, e.t.c...
			<ul style="list-style-type: none"> lack of qualified training on standardized packaging and labeling insufficient working space which affects quality of products 	<ul style="list-style-type: none"> improve export procedures especially custom, and tax regulations
8	Export challenges	Coffee roasting enterprise (small-medium)	<ul style="list-style-type: none"> insufficient working space which affects quality of products 	improve custom regulation and create awareness for the employee
9	Legal framework		Unaligned policies and guidelines	<ul style="list-style-type: none"> After the transition period is over; it is better if government support continues. Clear guideline should be delivered after manufacturing enterprises transitioned to higher level.
			No support package listed for transitioned larger enterprises	<ul style="list-style-type: none"> Develop different guidelines and provide different government support for different kind of manufacturing SME based on their demand and sectorial nature

C) Manufacturing SMEs Participants from different sectors of Sidama: Male 11 Female 9 Total 20

No.	Challenges Faced	Manufacturing SME Sector	By 2023 level of transition from	Challenges raised during discussion	Proposed Recommendation
1	Working premises	Garment/Textile Enterprise/	Medium to large	Small working space, not enough for allocating machineries and cannot occupy more employees when transitioning from one level to another. Even the existing working places are not enough to accommodate production capacity and workers at hand.	<ul style="list-style-type: none"> Try to match the available shades for manufacturing SME sector which is going to be provided to. Arranging working places for Garment/Textile Enterprise/ by taking in to consideration their sectorial growing capacity.
		Wooden & metal manufacturer	Small to Medium	<ul style="list-style-type: none"> Besides having problems for working spaces, lack of display (showroom) for their products. 	<ul style="list-style-type: none"> Try to provide convenient working space for transportation routes /provide shades with fulfilled infrastructures to alleviate the burden of enterprises and it makes them productive/
		Paper recycling enterprise		<ul style="list-style-type: none"> Forced to leave the working space (shades) given to them when they graduate & transition into next stage 	<ul style="list-style-type: none"> Try to provide working space for expansion or provide permission for maintenance shades; they are forced to leave out from shade and clusters better to create mental awareness, if possible, better to arrange with other concerned bodies.
		Machinery fabrication manufacturing enterprise		<ul style="list-style-type: none"> Problem of short-term agreement (5 years working space agreement) of shades is small (when they finish the transition period). 	<ul style="list-style-type: none"> Try to improve the bureaucracy getting working space/ giving special attention for Machinery fabrication manufacturing enterprise especially provision of working places,
				Lack of attention for innovative works	There should be special attention and treatment for those who are engaged on innovation works
		Detergents manufacturing enterprise/and for all enterprises	Small to Medium	<ul style="list-style-type: none"> There is no promising option for the next level of transition to get gov't support. 	Defining what kind support is given Detergents manufacturing enterprise with in each level of growth.
		Dry food processing sweets manufacturing enterprise	Small to Medium	Maintenance problem of shades/working space	If enough space is provided transitioned enterprise can higher large number of employee / for each level of growth
Agro-processing (Coffee roasting) enterprise	Small to Medium	<ul style="list-style-type: none"> Higher leasing price and too bureaucratic to get working space 	There must be some support package and options of working space or developed land		

		Enterprise that use fiber technology to manufacture moving toilets especially for people/persons with disabilities.		No support for transitioned large enterprise	if they get proper developed land, SME has capacity to build shade or government have to provide land, and enterprises should have to be build their shades to alleviate the burden of government and as well as enterprises.
2	Insufficient infrastructure	Manufacturing SME (agro-processing, textile, metal and wood manufacturing)		No working place means no access to finance at all	upgrading existing ones and also other infrastructures problems.
				Limited power supply and accessibility problem	to solve the problem of Limitation of power, there is the need of customizing of the machineries.
				Unreliable electricity due to frequent interruption of power and problems to access the electric grid for new industries	
3	Limited access to finance	Manufacturing SME (agro-processing, textile, metal and wood, leather and leather product	Small to Medium	problem of water supply on shade,	Provide loan by looking their working status and machinery on hand
			Medium to large	· There is no source of finance especially for micro and small enterprise	produce local machineries in cooperation with machinery lease company.
				· Lack of access to finance and higher interest,	facilitates procurement proclamation to be revised. Financial regulation in relation to high interest rate should be considered by national bank of Ethiopia.
				Currently there is no enough micro finance who provide loan, Omo microfinance transited to bank	Consider working place for loan collateral
4	Insufficient supply of quality inputs and raw material	Machinery manufacturing enterprise Textile and garment	Small to Medium	· Insufficient machinery lease, and higher leasing cost	Establishing whole seller that supply raw materials/inputs for manufacturing SME
				· There is spare parts shortage and problem, for the products they manufacture.	There needs a support on raw materials supply and innovative technology
				lack of raw material and long supply chain	there must be resource linkage, and incentive package for this Draft and implement support mechanisms for SME that use local inputs
5	Market Linkage	Wooden home facilities manufacturer	Small to Medium	There will be a design change due to insufficient and an available spare part	It would add value to their work efficiency if the government could create different market links for the products they provide within the local markets as a start.
				lack of coordinated market linkages	The government to open opportunities for SMEs to compete & provide their products for the services the government or other institutes require.
		Machinery manufacturing enterprise		Existence of middle men within the market	design market linkage strategy that directly links the producer and customer
				lack of quality control institutions	Training are provided to the employees by the different responsible institutes, such as Metals Industry Development Institute gives training to employees engaged in machinery related works.
7	Capacity Building	Garment/Textile Enterprise/	Medium to large	lack of well-trained employees in the government institution and SME operators	Create awareness for customers that use local product do have the same quality and can be competitive as of the imported products. (procedure)
		Plastic fabrication	Small to Medium	Too much bureaucracy and nepotism in service delivery	· To create awareness within people the valuable existence & working capacity of SME within the different industries.
				unawareness of procedures and guidelines of public employees about services they provide	· Vocational and technical institutes can train equipped manpower with different theoretical and practical technics
				lack of well-trained employees in fashion and design	
				Absence of Providing training based on the growth level and export promotion	
				lack of TVT teachers to provide training	· Implementing bodies must equip themselves to provide technical support regarding the BDS, Industry extension, evaluation of project proposals, e.t.c...

				There exists lack of capacity of the sector leaders to lead the manufacturing sector.	Improve export procedures especially custom, and tax regulations / capacity building mechanism should have to give attention to manage or lead the growing manufacturing sector./
8	Export challenges	Coffee roasting enterprise	Small to Medium	Lack of qualified training on standardized packaging and labeling	Improve custom regulation and create awareness for the employee
9	Legal framework	wood and metal work	Small to Medium	Insufficient working space which affects quality of products	· After the transition period is over; it is better if government support continues.
				Unaligned policies and guidelines, the guidelines are not applicable during implementation	· Develop different guidelines and provide different government support for different kind of manufacturing SME based on their demand
		Textile	Small to Medium	there is a limitation in Procurement proclamation on government purchase	facilitates procurement proclamation to be revised
				There must be a support package based on SME level of transition	
10	Government support problem	Detergents manufacturing enterprise	Small to Medium	No support package listed for transitioned larger enterprises	Prepare support mechanized for those who engage by themselves and create job without government support
		Wood and Metal works		Government support is provided only for government organized one which does not consider the privately working enterprise	Prepare tax relief mechanisms for SME that produce unique product, and give infancies for patented products
				No support mechanism for innovative growth-oriented SME	
11	Lack of attention for R&D and technology	Agro-processing	Medium to large	Lack of support mechanism for innovation and technology	Encourage R&D to create innovative products
				No support for R&D	Designing system of mechanism for R&D with in enterprise.
				To get technology, it needs huge money	Creating awareness about finance lease machinery for enterprises.
12	Lack of Good governance	Agro-processing	small to medium	Coordination problem	There must be a greater coordination between federal and regional institution
				for any government support lower-level gov't structure asks bribe.	Avoiding stake holder task duplication and well-regulated assignment power and authority is precision.
				timely shifting of leader lags the services	Corruption controlling mechanism should be applicable to serve enterprises.
				There exists nepotism in shade delivery	

Annex-III Summary of Manufacturing SME Federal Stakeholder Consultation

Participants: Male 18 Female 3 total 21

Date: 25/08/2023; First Consult, Addis Ababa

No.	Major challenges	Challenges raised during Consultation	Proposed Recommendation
1	Working space problem	<p>Difficult to lend machinery(no space to place the machinery)</p> <p>Shade management problem- (some are rented by SME itself for another party, some are empty with out work)</p> <p>When SME leave their shade, there is a problem of moving their machinery</p>	<p>Work in collaboration with city administration and other stakeholders like MOLS by loan from DBE and turn the loan later on.</p> <p>Try to avile convenient working space for transportation and moving machinery</p> <p>There must be a collaboration of stakeholders to facilitate working spaces with DBE in loan modality and regions and City administrations.</p>

		<p>lack of attitude - the community needs working space only from the government and no legal support to work in their compound/</p> <p>Working spaces are far from the market(to get raw material and labor)</p> <p>Lack of support package for innovative and growth-oriented SME support</p>	<p>Encourage family business in their compound and design a support mechanisms for motivated individuals to become competitive SME</p> <p>Encourage cluster development which is one of the source for access to loan- used as collateral for machinery lease and operational loan.</p> <p>If possible cluster development will be in the center of the city and high rise buildings</p>
2	Insufficient infrastructure	<p>Power supply interruption and accessibility problem</p> <p>Lack of working space related to access to finance</p> <p>Unreliable electricity and power interapution is cause for unproductivity</p>	<p>Power interapution which affect the production capacity of SME who borrowed machinery=> projects are in difficult to return their loan due to low production.</p> <p>There must be a coordination mechanisms to facilitate working premises and power interruption.</p>
3	Limited access to finance	<p>There is a difference between collateral evaluation manual and market value/price</p> <p>There is no especial support mechanisms for innovative and machine fabrication SMEs</p> <p>There is no funding modality</p> <p>Currently there is no differentiation on loan provision for SME</p>	<p>CBE revise the collateral manual in respective of market value of SME asset</p> <p>produce local machinaries in cooperation with machinery lease company</p> <p>No collateral is required for machinery lease by DBE, but needs support on lease finance.</p> <p>Working place is not used only for working space, but also for loan collateral</p> <p>Provide special technical skills trainings for competitive SME</p> <p>NBE must regulate the private bank on the loan application of SME working capital loan(5% dedicated loan for SME), weather the regulation is applies properly or not.</p> <p>Provide manufacturing SME in especial loan window and digital financing modality/solution for loan supply, design guarantee fund, and revolving fund for manufacturing SME as an option.</p> <p>work in collaboration with city administration and other stakeholders like MOLS by loan from DBE and turn the loan later on.</p> <p>Design mechanism to apply online access to loan (eg. Kenya-provide online loan in the morning and turn back in the afternoon) and strengthen credit reference bureaux.</p>
4	Lack of inputs and raw material	<p>No support mechanism for modify/remodeling of machinery</p> <p>There is no coordinating body for raw material supply like EGLED</p> <p>Coordination problems in input supply</p>	<p>There must be a support mechanism for remodeling or duplication of machinery(like what china do- buy one machine and imitate to remodel and produce for market)</p> <p>Manufacturing SME have to organized themselves to get raw material and inputs</p> <p>Draft and implement support mechanisms for SME that use local inputs and inceintive package for input supply</p>
5	Linkage	<p>lack of coordination and linkages</p>	<p>There must be SME backward and forward linkage with industries in IPDC and technology support - for SME special zone and medium enterprise- forward and backward linkage in raw material and technology support.</p> <p>Design market linkage strategy that directly links the producer and customer</p>
6	Lack of	<p>lack of well trained employees that lead SME</p>	<p>Create capacity for the public employee that work on SME to deliver quality services</p>

	Capacity Building	<p>lack of industry extension services</p> <p>Problem of SME attitudinal change/problem related to entrepreneurial mindset of SME</p> <p>lack of awareness by the public on SME product</p> <p>Involve universities to participate on providing market based trainings.</p>	<p>Provide continuous industry extension services in collaboration with key role player</p> <p>Provide enterpreural mindset training for SME to become competitive rather than thinking spoon feeding</p> <p>Design and provide a continouse on job training on how manufacturing SME run their projects.</p> <p>Development Bank of Ethiopia(DBE) provide capacity building training for SME</p> <p>Provide training based on the growth level of SME which engaged on import substitute and export promotion</p>
		<p>There exists lack of capacity of the sector leaders</p>	<p>implementing bodies must equip themselves to provide technical support regarding the BDS, Industry extension, evaluation of project proposals, e.t.c...</p>
7	Legal framework	<p>Similar taxation system apply for all SME and large firms/ companies,</p> <p>No regulation for re-evaluation of machinary- due to depreciation</p>	<p>provide encouraging tax system for manufacturing SME</p> <p>Work in collaboration with concerned body to reevaluate SME machinary.</p> <p>Develop a support package that encourage SME transition based on their growth stage</p>
8	Government support problem	<p>Government support is provided only for government organized one which does not consider the privately working enterprise</p> <p>No support mechanism for innovative growth-oriented SME</p>	<p>Develop a support mechanizem for those who engage by themselves in manufacturing sector with out government support</p> <p>Prepare tax relief mechanisms for growth oriented manufacturing SME</p> <p>Provide government support for manufacturing SME based on their activities not as a whole</p>
9	Lack of Coordination of public institutions and stakeholder	<p>We did not prepare the strategy together, being the activities are done together.</p> <p>lack of different stakeholders collaboration in loan repayment by SME</p> <p>There is no collaboration between regions and private banks to deliver loan</p>	<p>Cocreation and codesign of the strategy and plan together to implement on SME</p> <p>The transition strategy must incorporate all actors role and responsibility in manufacturing SME transition</p> <p>There must a coordinating body including doners to provide centralized support system</p> <p>Collaboration of stakeholders help to provide effective support to enhance the productivity of SME(with EED, MOLS, MOI, doners and other)</p> <p>Design the coordination mechanism to lead doners to be effective in the SME sector</p> <p>Encourage the linkage between SME themselves, and need to establish SME federation to facilitate inputs and market linkage for their products.</p>
10	Manufacturing SME transition Selection criteria	<p>Unaligned and uncoordinated financial provision (banks and donors have no data to to avail finance)</p> <p>MSME transition were done without fulfilling the transition criteria</p> <p>There is no reliable data for SME</p> <p>Cash on hand and cash on bank will not much during auditing for transition</p>	<p>There must be data platform and national ID to differentiate the benefited SME and align the support given by different stakeholders</p> <p>Transition must be conducted by applying the SME transition criteria strictly.</p> <p>There must be a well-functioning selection criteria for transition of manufacturing SMEs</p> <p>There must be a data registering tools and data base for SME</p> <p>Develop a support mechanism for manufacturing SME to deliver the services based on their level of transition.</p> <p>Develop a support package for manufacturing SME (push and pull factor) before SME leaving their working premises.</p>

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