

PART 1: ASSESSMENT OF ETHIOPIAN MSME POLICIES AND INSTITUTIONS

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Assessment of Ethiopian MSME Policies and Institutions:

Part 1

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List of Acronyms

BDS	Business Development Services
DBE	Development Bank of Ethiopia
CCIIDI	Chemical and Construction Inputs Industry Development Institute
DFID	Department for International Development – U.K.
EC	European Commission
EDC	Entrepreneurship Development Centre
EIDI	Ethiopian Industrial Inputs Development Enterprise
EJCC	Ethiopian Job Creation Commission
EU	The European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FeSMEDA	Federal Micro and Small Enterprises Development Agency
FeSMMIPA	Federal Small and Medium Manufacturing Industries Promotion Authority
FeUJCFSA	Federal Urban Job Creation and Food Security Agency
FeTVETA	Federal Technical and Vocational Education Agency
FBPIDI	Food, Beverage and Pharmaceutical Industry Development Institute
GIZ	Gesellschaft für Internationale Zusammenarbeit GmbH
GoE	Government of Ethiopia
GTP II	Second Growth and Transformation Plan II
JOBS SI	Special Initiative on Training and Job Creation
IPDC	Industrial Parks Development Corporation
IAIP	Integrated Agro-Industrial Park
IES	Industrial Extension Services
IP	Industrial Park
JICA	Japan International Cooperation Agency
LIDI	Leather Industry Development Institute
MFI	Micro Finance Institution
MIDI	Metal Industry Development Institute
MoALR	Ministry of Agriculture and Livestock Resources

MoUDC	Ministry of Urban Development and Construction
MoF	Ministry of Finance
MoTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NBE	National Bank of Ethiopia
ReMSEDA	Regional Micro and Small Enterprises Development Agency
ReSMMIPA	Regional Small and Medium Manufacturing Industries Promotion Authority
ReUJCFSA	Regional Urban Job Creation and Food Security Agency
ReTVETA	Regional Technical and Vocational Education Agency
RTC	Rural Transformation Centre
SME	Small and Medium Enterprises
SMEFP	Small and Medium Enterprises Finance Program
SNNP	Southern Nations and Nationalities People
TIDI	Textile Industry Development Institute
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WEDP	Women Entrepreneurship Development Project

1.0 Introduction

1.1 Focus of work

Dr Ricardo Pinto has been commissioned by the Special Initiative on Training and Job Creation, launched under the brand Invest for Jobs by the Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by GIZ and Sequa, to undertake an assessment of the Federal Democratic Republic of Ethiopia's Micro, Small and Medium-sized Enterprise (MSME) policies and institutions. This focus is not accidental since policies and institutions are two of the main levers that governments use to influence the development of the MSME sector:

- *MSME policy*: a policy is a set of ideas or plans that is used as a basis for making decisions, which is adopted or pursued by an individual, government, party, business, etc. In the context of MSMEs, the policies include such issues as the strategies, plans and programmes that exist to influence the development of the sector;
- *MSME institutions*: an institution is an organisation or establishment founded for a specific purpose, such as implementing aspects of MSME policy, as defined above at national/federal, regional and local level.

Consequently, the creation of an enabling policy and institutional environment is critical to effective MSME development. However, a third related aspect is also of importance and is analysed in this report, since it connects with the policies and institutions, namely the *MSME programmes* that are actually implemented by the MSME system in order to achieve the objectives of the MSME policy.

This assessment is unique. The Ethiopian MSME policy and institutional landscape is extremely wide and diverse, with the consequence that this is the first attempt to create an overview across the entire ecosystem, rather taking a sub-set of issues or focus on a particular policy or institution.

As a consequence, and because of the nature of the methodology, the emphasis of the report is on “breadth” (summarising the range of the policies,

institutions and programmes) rather the “depth” (detailed analysis of each policy, programme and institution), though attention is paid to key policies (such as the MSE Strategy) and institutions (e.g. role of the Ministry of Trade and Industry). Indeed, such an overview of the MSME policy and institutional ecosystem is precisely what is lacking and needed for the Government of Ethiopia (GoE) to be able to reflect on the MSME development status quo and what, if anything, needs to be done, should it decide that reform is needed.

The ultimate aim of this Assessment of Ethiopian MSME Policies and Institutions is to make use of the analysis presented herein to make policy recommendations for the future development of the system for MSME support. The focus is, therefore, wider than the role and responsibilities of the Ministry of Trade and Industry (MoTI), which is the institution that requested this analysis. MoTI is one of the various federal level institutions in the MSME ecosystem, albeit a key one.

The report has several parts, including assessments of the policies, the institutions and the programmes, followed by the presentation of a set of recommendations for MSME reform.

This report is also part 1 of 2 reports. A second study is being prepared, namely a benchmarking analysis of MSME policy and institutions in order to highlight the Ethiopian baseline situation in comparison with a set of three other countries. Together, the assessment (this report: part 1) and the benchmarking analysis (next report: part 2) are designed to deliver to the Government of Ethiopia a set of recommendations for reform of the MSME ecosystem in the country.

The Special Initiative on Training and Job Creation aims to create up to 100,000 jobs and 30,000 apprenticeships and to improve working conditions in the African partner countries, including Ethiopia

1.2 Methodology

The methodology for the assessment of the Ethiopian MSME policies and institutions involved the following:

- Desk research of available policy and other documents: July-August 2019;
- Field mission to Ethiopia to meet with the key MSME policy and institutional players: 26-31 August 2019 (see Annex 1);
- Report writing phase: September 2019;
- Presentation of the recommendations to key MSME stakeholders: November 2019 (plan);
- Revision and finalisation of the assessment and benchmarking: December 2019 (plan).

This assessment needs to be put in context. The policy and institutional environment in Ethiopia is complex, fragmented and constantly evolving. On the basis of a one-week field mission, the emphasis has inevitably been on breath of scope rather than depth of analysis

and this is reflected in the nature of this report. In such a context, a degree of misunderstanding and indeed error is not only possible but likely. Nevertheless, the author maintains that the analysis and recommendations presented are valid and necessary for the Government of Ethiopia to consider and use in order to streamline its MSME ecosystem.

1.3 Acknowledgements

I would like to express my gratitude to the following for their contribution to the study: Thomas Ritter (Team Leader, Special Initiative, strategic oversight), Tessa Schneider (Special Initiative, background research and logistics) and Solomon Wole (short term expert, information gaps and feedback on the draft report). I would also like to express my gratitude to all the individuals that offered their time and views, as per Annex 1.

Any misunderstandings, omissions, errors, etc. remain my responsibility.

2.0 MSME-Related Policies

2.1 Introduction

A policy can be defined as a set of ideas or plans that is used as a basis for making decisions, which is adopted or pursued by, in this case, the Government of Ethiopia (GoE). The particular policy of interest in this assessment concerns that affecting the Micro, Small and Medium-sized Enterprises (MSMEs) in the country. Policies cover such issues as the strategies, plans and programmes / projects that are designed by the GoE to influence the MSME sector.

Based on analysis by institutions such as the Organisation for Cooperation and Development (OECD – SME Policy Index), UN Conference on Trade and Development (UNCTAD) and others, a sound MSME policy normally covers issues such as whether an up-to-date and coherent strategy exists, whether there is a structured action plan and other elements in place, such as a budget, an implementation agency, inter-ministerial coordination, public private dialogue, monitoring and evaluation, reporting and similar.

The MSME policy (and institutions – see next Chapter) needs to be assessed first and foremost at the national/federal level, however, especially in the case of large and diverse countries such as Ethiopia, it also needs to be assessed at the regional/local level.

In this chapter, an overview is presented of the main policy instruments that exist that directly or indirectly influence the MSME sector at federal, regional and local level, leading to a set of policy conclusions.

Box 1: Enterprise Terminology

This report refers to small businesses using three variants, which reflect their specific use in the country:

- MSMEs: Micro, Small and Medium-sized Enterprises;
- MSEs: Micro and Small-sized Enterprises;
- SMEs: Small and Medium-sized Enterprises.

2.2 Key National Policies / Strategies / Plans

The overarching objective of the GoE is to create jobs and transition from being an agricultural-based economy to becoming an industrialised nation, through a focus on certain priority manufacturing sectors which have the potential to generate jobs and future competitiveness.

In this context, the most relevant Ethiopian economic and MSME policies comprise the following, though several others also exist and are discussed briefly below:

- Growth and Transformational Plan;
- Industrial Development Strategic Plan;
- Technical and Vocational Education Training Sector Growth and Transformation Plan;
- Micro and Small Enterprise Development Strategy;
- Entrepreneurship Strategy.

2.2.1 Growth and Transformational Plan (GTP II)

The overarching objective of the second Growth and Transformation Plan (GTP II) is the realisation of Ethiopia's vision to become a lower middle-income country by 2025. GTP II aims to achieve an annual average real GDP growth rate of 11% within a stable macro-economic environment while, at the same time, pursuing aggressive measures for rapid industrialisation and structural transformation.

In order to achieve the GTP II's objectives, the following pillar strategies are being pursued:

- Sustain rapid, broad-based and equitable economic growth and development;
- Increase productive capacity and efficiency to reach the economy's productive possibility frontier through rapidly improving quality, productivity and competitiveness of productive sectors (agriculture and manufacturing);

- Enhance the transformation of the domestic private sector to enable it to become a capable development force;
- Build the capacity of the domestic construction industry, bridge critical infrastructure gaps with a focus on ensuring quality provision of infrastructure services;
- Proactively manage the rapid urbanisation to unlock its potential for sustained rapid growth and structural transformation of the economy;
- Accelerate human development and technological capacity building and ensure its sustainability;
- Continue to build democratic and developmental good governance through enhancing implementation capacity of public institutions and actively engaging the citizens;
- Promote women and youth empowerment, ensure effective participation in the development and democratisation process and enable them to equitably benefit from development;
- Building a climate resilient green economy.

The GTP II acknowledges the importance of private sector development. It also stresses the explicit role to be played by the MSME sector:

“Promoting private sector development is key to accelerate inclusive economic growth underpinned by job creation, export promotion and technology transfer... the other subsector, which has been given emphasis, is the Micro and Small Enterprises Development. These enterprises are critical in generating employment, serve as schools for entrepreneurship, broaden the base for value adding domestic private sector. Actions will be taken to enhance their productivity, technology learning and growth. Micro, small, and medium enterprises will be supported to transform to the next level of industry in accordance with their level of development. To realize the above practical and effective, integrated and organized activities will be undertaken in terms of increasing domestic production, job creation and skill development, governmental support and facilitation, provision of extension services, and modern information management system.” (p.29-30)

The GTP II reinforces the need to support MSEs (based on the MSE Development Strategy – see below), the development of entrepreneurial competence (see below), strengthening the TVET system, etc. The ultimate aim of GTP II is to graduate 62,500

firms from MSEs and graduate 10,000 enterprises from small to medium industry. The Technical Vocational Educational Training institutions (TVETs) are to be strengthened, Entrepreneurship Centres of Excellence are to be established in 35 universities and training on entrepreneurship is to be delivered to 100,000 potential entrepreneurs in the industrial sector.

2.2.2 Industrial Development Strategic Plan (2013-2025)

The vision of the Industrial Development Strategic Plan (IDSP) is to build: *“... an industrial sector with the highest manufacturing capability in Africa, which is diversified, globally competitive, environmentally-friendly, and capable of significantly improving the living standards of the Ethiopian people by the year 2025.”*

Two main goals require a focus on the SME sector, if they are to be achieved by 2025:

- Increase the share of the industrial sector from 13% to 27% of GDP;
- Increase the share of manufacturing sector from 4% to 17% of GDP.

The IDSP seeks to create a stable macro-economic environment for investment by transforming the financial sector, improving governance and establishing an efficient judicial system. This initiative focuses on supporting priority sectors based on their capacity to create employment opportunities. Small and Medium-sized Enterprises (SMEs) are specifically identified as the engine of this industrial development strategy and thus also the engine of industrial growth.

The IDSP includes three supplementary reports (2014), namely the Industrial Development Roadmap (Volume 1), Ethiopian Industry Development Strategic Plan 2013-2025 (Volume 2) and Institutional Setup for Ethiopian Industrial Development 2013-2025 (Volume 3), which highlight performance and targets specifically in relation to manufacturing SMEs.

2.2.3 TVET Sector Growth and Transformation Plan (2015-2020/5)

The goal of the Growth and Transformation Plan (GTP) of the Technical and Vocational Education Training (TVET) Sector is to: *“Produce a workforce with occupational competences demanded at the market, with inspirational interest to adapt to work*

and keen to create jobs, willing to move economic growth forward and able to transfer appropriate technology to micro and small enterprises and eradicate poverty from the country and contribute to social and economic development.” (2015)

The strategies aim to make TVET institutions the centres of technology transfer, providing industrial extension support to MSEs to enable them to become competent in the market, provide TVET trainings based on the demand of the world of work, etc.

Since the Industrial Extension Services (IES – Business Development Services with a focus on industry) fall within the TVET system, the GTP of the TVET Sector sets out 19 key targets concerning IES by 2020 (GTP-II) and by 2025 (GTP-III), which form the basis for the activities performed by the Federal TVET Agency (FeTVETA - see next Chapter), the federal institution tasked with overseeing the implementation of the IES system.

2.2.4 Micro and Small Enterprise Development Strategy (2011)

Until 25 years ago, the Ethiopian economy was staled and the private sector was, to all intents and purposes, non-existent. There were also no state policies to support the MSME sector, although the former Handicraft and Small Scale Development Agency (HASIDA) was responsible for supporting handicrafts and small scale industries, and especially the development of cooperatives along Socialist lines, with branch offices in major towns and provinces across the country.

Since then, the GoE has recognised the role of the MSME sector, especially in the context of stimulating employment, the pre-eminent economic concern. Today, there are various policy frameworks which connect with MSME development, the key one being the Micro and Small Enterprise (MSE) Development Strategy. The GoE formulated the first MSE Development Strategy in 1997, including establishing institutions to implement it. The current MSE Strategy was revised in 2011 in order to address some of the perceived weaknesses, such as lack of plan, resources, monitoring and evaluation, coordination, etc.

The vision of the current MSE Development Strategy is: *“to create a competitive and convenient base for industrial development”* and its objectives are to:

- Support equitable development, improve incomes and reduce poverty through creating job opportunities;

- Expand the development of MSEs in urban areas by creating developmental investors;
- Facilitate economic growth and lay the foundation for industrial development by supporting the development of a viable MSE sector.
- The directions for MSE development are:
 - Rapid development by saving capital and developing a sustainable and fast growth cycle by strengthening technology and capability;
 - SMEs have key roles to solve urban unemployment and play important potential functions in supplying intermediate inputs and labour to the manufacturing sector;
 - Provide self-employment opportunities to university and TVET graduates by developing young people’s skills and innovation;
 - Realise human capital and technological development via TVET colleges/institutions delivery of Industrial Extension Services;
 - Integrate the MSE sector with agriculture, as well as medium and high-level industry;
 - Formulate a need-based support framework, depending on local conditions.

The revised strategy sought to coordinate and develop MSEs specifically for the purpose of supporting employment creation as a means to reduce poverty. It included various other elements, such as focusing on manufacturing enterprises that export / substitute imports, while also prioritising labour-intensive manufacturing, construction, trade and agricultural sub-sectors with the potential to create major job opportunities.

The SME strategy defined the different stages of enterprise growth and the type of government support required for each stage, as follows:

- Start-up: organisation into groups, licensing (as association or private company), business plan, working premises and start operations;
- Growth: effective use of inputs, competitiveness (price, quality and supply), sustained profitability, increase in assets and manpower, use of book-keeping system, etc.;
- Maturity: enterprises make additional investment and meet the conditions for graduating to the next higher level.

The key areas for policy intervention included human capital and technology development policy (focus on the TVET system), industrial extension services (IES) through TVET Centres (see R Pinto Industrial Extension Services Review, 2016), access to finance (financial literacy, micro finance, guarantees, etc.), access to capital and working premises (affordable premises, etc.), market development (outsourcing, franchising, markets, bazaars, etc.), one-stop service policy (e.g. registration, licensing, access to finance, etc.), support providers policy and favourable business environment policy.

In terms of implementation, the federal government formulates enterprise policies through the Ministry of Urban Development and Construction (MoUDC). This made sense at the time, since the emphasis was on job creation through the establishment of groups / partnerships of 3-15 individuals and the MoUDC was previously heavily engaged in large scale public works, such as housing construction. The MoUDC maintains its remit in terms of regional, city and local development but the nature of MSME development has moved on since the original MSE Development Strategy was drafted in 1997 and revised in 2011. This means that the original logic of awarding policy responsibility to the MoUDC is not necessarily still valid today.

The MoUDC drafts and implements MSE-related policies and regulations but it is also mandated to provide services directly, including advisory services, information provision and training to MSEs. The emphasis on the MoUDC is theoretically micro and small enterprises (MSEs) but in reality its focus is almost exclusively on urban youth (18-29) employment generation. In other words, its emphasis is on supporting survivalist entrepreneurial activity in the urban areas. While recognising that this is a critical aspect of an economic policy focused on job creation, nevertheless, this raises the question of who exactly has policy responsibility for MSMEs in its widest sense, other than what is covered by MoTI (SMEs in the manufacturing priority sectors – see below) and Ministry of Agriculture and Livestock Resources (MoALR - rural job creation – see below).

The nature and focus of the MSE Development Strategy led directly to the creation of various MSE development institutions at federal, regional and local level. The former Federal Micro and Small Enterprise Development Agency (FeMSEDA) has been superseded by two other institutions (i.e. the Federal Small and Medium Manufacturing Industries Promotion Authority and the Federal Urban Job Creation and Food Security Agency), both of which are discussed in the next chapter, as well as the Federal TVET Agency (IES / TVET institutions). These are critical MSME players, as are Micro Finance Institutions (MFI) among others.

The MSME institutions at the national and regional / level focus on the actual delivery of support programmes (i.e. access to finance, construction of premises, marketing support, extension services, technology transfer and training). For the unemployed youth, programmes focus on job opportunities to help them generate savings to start an MSE and assistance to start a business provided by the One Stop Service Centres (OSSs).

The MSE Development Strategy was revised in 2011. However, several recent policy developments (new strategies, programmes, action plans, etc.) have been adopted since then and the institutional base has changed dramatically. As discussed earlier, FeMSEDA was replaced by FeSMMIPA and FeUJCFSA. Moreover, the overarching policy framework is constantly evolving and gaps and overlaps become more evident over time.

It is far from clear that the current MSE Strategy is fit-for-purpose in today's reality.

In addition, a series of policy gaps are evident with respect to the current MSE Development Strategy:

- The MSE Strategy was created in 1997 and updated in 2011 yet the MoUDC continues to pursue a policy which has been superseded;
- Over time, the emphasis on micro and small enterprises has become more nuanced, with a much greater understanding that medium-sized enterprises are crucial for generation of jobs, competitiveness, innovation, exports, etc., as reflected in the new policy emphasis on manufacturing SMEs in priority industrial sectors. However, this new-found emphasis is highly restrictive, as it has an almost exclusive focus on manufacturing in a few predefined priority sectors, raising questions about the level of support for the rest of the medium-sized firms;
- Good practice suggests that elements of good practice in MSME policy are currently absent:
 - MSME policy is normally the responsibility of one national body and a coherent strategy;
 - A strategy should contain a vision, strategic objectives, policy and institutional analysis, regional and local analysis, involves consultation, public private dialogue, monitoring, reporting and evaluation, inter-ministerial / agency coordination, donor coordination, etc.

- An action plan should contain activities, tasks, responsibilities, deadlines, resources, key performance indicators, etc.

2.2.5 National Entrepreneurship Strategy

The National Entrepreneurship Strategy (NES) is based on the fact that Ethiopia has one of the lowest entrepreneurial activity rates in sub-Saharan African countries, with about 12% of the adult population in the process of establishing a new business or were already running businesses, compared with the regional average of 28%. In addition, only 8% of them run businesses in Ethiopia, compared with the sub-Saharan African average of 15% (GEM, 2012).

Consequently, the NES focuses on the following strategic objectives:

- Optimising the regulatory framework;
- Enhancing entrepreneurship education and skills development;
- Facilitating technology exchange and innovation;
- Improving access to finance;
- Promoting awareness and networking.

The document identifies its key target groups as being individual entrepreneurs (women and youth, environmental sustainability, rural-urban linkages are underlying themes) and covers the entire cycle from start-up to growth and expansion to maturity and exit.

The NES is led by MoTI which is curious since this ministry only has a limited role in relation to MSMEs, namely the priority manufacturing sector MSEs. Yet entrepreneurship is a much wider process covering, among other crucial issues, educational (kindergarten to university and life-long-learning) and cultural matters. However, it is evident that MoTI is a more suitable policy lead for entrepreneurship matters than the two other possible ministries, namely the MoUDC and the Ministry of Agriculture and Livestock Resources (MoALR).

2.2.6 Other Policy Documents

The policy environment is increasingly crowded in Ethiopia. This reflects the proliferation of new strategies and programmes, together with the fact the MSME policy is cross-cutting in nature. A number

of other relevant strategies / policy documents are worth highlighting:

- **Urban Development Strategy (2013):** MSEs are central to urban poverty reduction, key for rural-urban linkage and serve as a basis for the incubation of industrialists. This strategy, operated by the MoUDC, entrusts a key mandate to city administrations to support the MSE development through the creation of One-Stop-Shop Service Centres (OSSs) in city administrations to address the key challenges facing MSEs at the kebele level (except in Addis Ababa, - woreda level);
- **Rural Job Creation Strategy (2017):** the objective of the strategy is to ensure that rural job seekers/unemployed and underemployed citizens are engaged in productive, decent, inclusive and sustainable jobs and benefit from the job opportunity creation, thereby contributing to the growth and transformation of the country. The strategy is coordinated by the Ministry of Agriculture and Livestock Resources (MoALR) and has the following pillars: Entrepreneurship/ Self-Employment; Wage Employment, Labour markets; National Rural Employment Guarantee Scheme / Productive Public Workfare Programme and Livelihood Diversification;
- **Education Sector Development Programme V 2016-2020:** TVET is one of the priority components of the current Education Sector Development Plan, which aims to generate a demand-driven workforce that is competent, motivated, adaptable and innovative. The education sector plan focuses on addressing the four main challenges in Ethiopia's education system: increasing access, ensuring equity, improving quality and improving management;
- **Investment Proclamation 769/2012:** was amended in 2014 to encourage Foreign Direct Investment (FDI) through enhanced incentives such as tax holidays and opening-up of some sectors of the economy that were previously reserved for domestic investors. It also has provisions for the establishment of Industrial Parks, including Agro-Processing Parks, while seeking to improve the overall ease of doing business;
- **Science, Technology and Innovations Policy (2012):** aims to create a national framework for the selection, adaptation and utilisation of appropriate foreign technology, as well as the establishment of a National Innovation

System. Several policy issues are important, including technology transfer, human resources development, research, financing and incentive schemes and University / research institute / TVET institution linkage with industries, science and technology information systems and Intellectual Property system;

- **Climate Resilient Green Economy Strategy (2011)** aims at sustainable economic and social development since awareness and engagement in the Green Economy remains low among MSEs. It notes the need for technical and business management training, awareness raising of sustainable / green business practices, preparation of Environmental Impact Analysis, etc.

2.3 Regional and Local Policies

2.3.1 Regional policies

There are nine regional states and two chartered cities in Ethiopia, the latter being Addis Ababa and Dire Dawa. The regions are determined on the basis of ethnicity and language, which inevitably means that the regions vary greatly in size and population. For example, the Harari region is smaller in area and population than either of the chartered cities and the Oromia region is extremely large, as illustrated below.

The regional governments are responsible for implementing economic and social development policies. Each region has a Regional Council and its members are directly elected to represent woredas. Each region prepares a regional MSE strategy, usually closely reflecting the federal MSE strategy, and coordinates its implementation through a regional MSE Council. The key players at the regional level are discussed in the next chapter.

Map 1: Regions and Chartered Cities



Source: Wikipedia

2.3.2 Local policies

At the local level there are woredas (671 urban and 98 rural) and kebele (limited administrative structures of elected officials who represent local people). The Woreda Council consists of directly elected representatives from each kebele in the woreda. The Kebele Council and Executive Committees prepare annual development plans, among other duties. Planning at the local level is largely dependent / subordinated to federal and regional planning priorities.

Ethiopian cities, especially the two chartered cities and regional capitals, are responsible for the provision of state services associated with economic, social, political and national objectives of the country aiming to bring equitable growth including education, health, justice, transport management, economic affairs and security services.

The Urban Development Strategy (2013) sought to place MSEs as the centre of development to ensure fast and equitable economic growth and awards the mandate of supporting MSE development to city administrations. In particular, the strategy emphasises the creation of One-Stop-Shop Service Centres (OSSs) within the city administration that identifies and solves key challenges facing the MSEs. The OSSs are designed to provide business support at a single point of contact, including business registration, credit and saving services, provision of work and commercial spaces and creation of market linkages.

Local governments are empowered to produce economic and social service plans for their territories. Local governments are in the process of creating over 100 city development strategies with a Local Economic Development focus, including MSME development, based on discussions with World Bank staff.

2.4 Conclusions

In summary, several issues are worth highlighting regarding the current SME policy framework:

- There is no comprehensive, horizontal national MSME policy in Ethiopia as is the case in many other countries;
- Instead, there is a series of policies focusing on MSEs, SMEs, priority sectors (e.g. manufacturing and agriculture, urban, unemployed / youth / women, etc.);
- The consequence is a rather fragmented MSME policy environment which is not necessarily conducive to good practice in policy making and implementation;
- The issue of the SME institutions is addressed in detail in the next chapter but it is evident at this stage that there is an array of federal, regional and local state players with aspects of MSME policy responsibility;
- The MSE Development Strategy was originally drafted in 1997 and updated in 2011. Although it is technically still valid, in practice it has long been superseded by, for example, the GTP II and the creation of FeSMMIPA among other policy developments;
- There is an unambiguous need for a new MSME strategy, as well as an action plan;
- Since MSME development is a horizontal, rather than a vertical/sectorial activity, the new MSME strategy needs to be developed accordingly, if continuing policy fragmentation is to be avoided. Aspects of the new MSME strategy should be awarded to the relevant ministries;
- The national and regional institutions responsible for coordinating and monitoring inter-institutional activities tasked to implement the MSME and entrepreneurship strategy need to be strengthened with clear mandates;
- Elements of what is normally considered to be standard good practice in MSME policy making would need to be incorporated into a future MSME strategy, such as:
 - Unitary MSME definition combined with improved national statistics.
 - Creation of measurable MSME strategy targets and strategic objectives.
 - Creation of a coherent action plan with tasks, responsibilities, deadlines, budgets, key performance indicators (KPIs).
 - Ensuring consultation and public private dialogue in preparation and implementation.
 - Establishment of effective MSME monitoring, reporting and evaluation.

3.0 MSME-Related Institutions

3.1 Introduction

The institutional framework can be defined as the set of governmental and other institutions responsible for the design and implementation of MSME policies (as discussed in the preceding chapter). Based on the work carried out by think tanks such as the Organisation for Economic Cooperation and Development (OECD), it normally covers issues such as whether there is a government ministry responsible for SME policy, a single institution responsible for implementing the SME Strategy, a Public Private Dialogue (PPD) tool, an inter-ministerial coordination tool, an M&E system, as well as regular reporting on the progress of the MSME strategy, and similar.

The MSME institutional system needs to be assessed at the national/federal level and regional/local level. In this chapter, an overview is presented of the main institutions that directly or indirectly influence the MSME sector at federal, regional and local level, leading to conclusions.

The aim of this chapter is to provide an overview of the main players in the MSME institutional ecosystem. The details are set out below, with the most important MSME institutions being:

- Federal Urban Job Creation and Food Security Agency: with a focus on MSEs but primarily the youth unemployed (18-29) in urban areas (Ministry of Urban Development and Construction);
- Federal Small and Medium Manufacturing Industries Promotion Authority: with a focus on SMEs in the priority manufacturing sectors (Ministry of Trade and Industry);
- Micro Finance Institutions (MFIs): with a focus on access to finance for MSEs, especially entrepreneurship groups / partnerships comprising youth in the case of the regional-affiliated MFIs;
- Technical and Vocational Training Institutes (TVET): with a focus on delivery of Industrial Extension Services (IES) to SMEs in the manufacturing priority sectors (Federal TVET Agency);

- One Stop Service Centres (OSSs): 1751 of them with a focus on potential and actual MSEs, especially groups / partnerships comprising youth unemployed.

3.2 Federal Institutions

3.2.1 Jobs Creation Commission and Jobs Creation Council

The Jobs Creation Council has a relatively large membership (38 members), including regional government presidents, federal ministries and commissions. Both the Jobs Creation Council and Commission (see below) were established in 2019 by a Directive of the Council of Ministers. The Jobs Creation Council is the macro level coordination body, while the Commission is responsible for ensuring the Council's effectiveness. The key tasks of the Jobs Creation Council are as follows:

- It coordinates and supervises the job creation efforts of the country;
- It ensures that job creation is addressed in macroeconomic plans, policies and strategies;
- It is Chaired by the Prime Minister or Deputy Prime Minister, with the Deputy Chair being the Commissioner of the Job Creation Commission (see below).
- Its secretary is the Director of the Urban Job Creation and Food Safety Agency.

The Jobs Creation Commission was established under the Office of the Prime Minister to govern, monitor and coordinate the job creation agenda. Its mission is to advise on the development and revision of employment and job creation policies, strategies and plans. It provide advisory services on national job policies, strategies and plans:

- Supervise government ministries and agencies in job creation matters;
- Seek external funding for job creation at the national level;

- Promote and coordinate coalitions between the federal and regional government bodies, private sector, NGOs and other development partners for job creation;
- Supervise and monitor the implementation of the decisions of the Job Creation Council (see above) as well as serve as Deputy Chair of the Job Creation Council.

The Jobs Creation Commission's role also covers the issue of entrepreneurship and MSMEs, as well as performing other duties and responsibilities as may be assigned by the Prime Minister. It aims to execute innovative solutions to unlock the private sectors' job creating potential, as well as other job creating initiatives.

Governance and coordination is a key activity, focusing on building a national coordination platform for job creation, as well as national plan for job creation. Its focus is wide, including agriculture, manufacturing, tourism, mining and ICT, etc. in 11 sub-sectors.

It is important to note that the Job Creation Commission has identified the need for a new MSME Strategy (as per the recommendations of the preceding chapter) and aims to engage with the key ministries (MoTI, MoUDC and MoALR) and agencies (FeSMMIPA and FeUJCFSA). Should the new MSME strategy be produced, being located at the Office of the Prime Minister, the Jobs Creation Commission could theoretically form the basis for future inter-ministerial coordination for MSME policy coordination and implementation.

3.2.2 National Micro and Small Enterprise Council(s)

The multiplicity of policies/strategies and institutions means that implementation necessitates coordination. This is the case in all countries: MSME development is the responsibility of a variety of different institutions and stakeholders. This inevitably requires not just coordination but effective coordination. The greater the range of institutions, the more effective the coordination must be.

At the federal level, an MSE Council was established to oversee policy coordination and implementation comprising MoUDC (chair), Federal Urban Job Creation and Food Security Agency (secretariat), Regional Urban Job Creation and Food Security Agencies represented by regional Vice Presidents, TVETs, MoTI, National Bank of Ethiopia (NBE) and Ethiopian Revenue, Customs Authority and other stakeholders.

Regional MSE Councils are responsible for coordinating and overseeing the development of MSEs in their respective regions. Regional MSE Councils are chaired by the Mayor in Addis Ababa and in the case of the other regions, their Presidents / Deputy Presidents. Representatives of the Industry and Urban Development Bureau, Regional TVET Agencies, regional MFIs, Women, Children and Youth Affairs Bureau and regional MSE sectoral associations are also members.

MSE Councils are also established at woreda/district administration/levels to coordinate and oversee the MSE development at this level.

It is not known if these institutions are active at the regional/woreda level, as the MSE Strategy has become decreasingly influential over time.

3.2.3 National Small and Medium Manufacturing Industrial Council

This council is similar to the MSE Council but is hosted by FeSMMIPA which serves as the secretariat and is chaired by MoTI. The Council has structures at regional and woreda levels and is tasked to coordinate the development of small and medium manufacturing industries.

A new coordination body is also being set-up at FeSMMIPA to coordinate the new entrepreneurship strategy to work under this same Council and FeSMMIPA would be its secretariat. The new coordination body will have a mission of strengthening the entrepreneurial ecosystem and minimising duplication of effort and misalignment of government initiatives on entrepreneurship development. Membership is planned to be drawn from different stakeholders such as MoTI, Ministry of Finance, Ministry of Youth and Children, Ministry of Science and Higher Education, Ministry of Innovation and Technology, EDC, National Bank of Ethiopia, Enat Bank, Ethiopian Association of Micro Finance, Commercial Bank of Ethiopia, Development Bank of Ethiopia, the six major regional microfinance institutions, and the private sector represented by the Ethiopian Chamber of Commerce and Sectoral associations.

While the operationalisation of this entrepreneurship body is yet to be realised, the initiative is being driven by UNIDO, the international institution that drafted the terms of reference, while FeSMMIPA has already assumed responsibility for hosting it.

3.2.4 Ministry of Trade and Industry

The Ministry of Trade and Industry (MoTI) is responsible for the promotion and development of industries by creating a conducive enabling environment for the development of investment and technological capacity of the industrial sector through the delivery of support and services to small and medium (and large to some extent, e.g. through the technological institutes – see below) manufacturing industries.

The focus is squarely not only on SME manufacturing but the 5 manufacturing sectors prioritised by the GTP II (leather, agroprocessing, metal processing, wood processing and textiles). This contrasts with the Ministry of Urban Development and Construction (MoUDC), which is responsible for MSEs, except for what is covered by MoTI. In practice, no one appears to be responsible for medium non-manufacturing enterprises, medium manufacturing non-priority sector firms, and micro manufacturing firms in the priority sectors or otherwise. Policy gaps/overlaps and thus MSME institutional support gaps/overlaps are inevitable due to increasing levels of fragmentation.

MoTI provides policy leadership in relation to SMEs in the manufacturing priority sectors and facilitates various Business Development Services (BDS) specifically in the form of free, state-driven Industry Extension Services (IES) support through the agencies and institutions mandated by it, including feasibility studies, market facilitation, input supply facilitation, infrastructure, etc.

MoTI also has a key role in overseeing both FeSMMIPA (see below), as well as the six sectorial manufacturing development institutes, the latter being autonomous (see below).

3.2.5 Federal Small & Medium Manufacturing Industry Promotion Authority

As the name suggests, FeSMMIPA (previously FeSMMIDA – Development Agency) is responsible for the implementation of activities on behalf of MoTI in respect to manufacturing SMEs in the priority sectors. It reports to MoTI and has two main functions:

- Accelerate the expansion of SME manufacturing industry to large-scale status, thus helping the transformation from an agriculture-led to an industry-led economy;

- Strengthen, assist and coordinate institutions that provide support to SME manufacturing industry to make the sector more competitive and sustainable.

In essence, FeSMMIPA's role is to:

- Formulate policies, strategies, programmes, etc. to assist the growth of manufacturing SMEs;
- Strengthen and coordinate institutions that provide support to manufacturing SMEs; facilitate capacity building (e.g. through its growing network of Enterprise Training Centres (24 by end of 2019); manufacturing development (e.g. through BDS/IES) and facilitation and transformation (e.g. infrastructure, technology, export, etc.).
- Act as the Secretariat of the National SMMI Council and entrepreneurship coordination body, - (see 3.2.3 above)

FeSMMIPA has around 300 staff (on paper, its total staff complement is 450) at the federal level. It supports technical assistance, Business Development Services / Industrial Extension Services, advocacy, access to finance and linkages to markets in priority manufacturing sectors. Emphasis is also given to cluster schemes to streamline service provision around infrastructure, raw materials, heavy machinery, etc.

Manufacturing SMEs are encouraged to engage with the 12 Industrial Parks (FDI – MSE linkages), as well as the Integrated Agro-Industrial Parks which offer infrastructure (utilities, roads, sheds, etc.) at a discounted rate.

FeSMMIPA is an implementing partner for various SME programmes (see next chapter) such as the World Bank (leasing, collateral, etc.), JICA (BDS), UNIDO (cluster development and entrepreneurship strategy formulation), etc.

Its mandate does not stretch to SMEs in non-prioritised manufacturing sectors, non-manufacturing SMEs or start-ups and micro enterprises, which means that there is an institutional support gap in terms of the range of enterprises normally covered by the term MSME.

It does not appear to coordinate donors as such, actively undertake PPD or perform M&E of manufacturing SMEs at present.

3.2.6 Sectoral Industrial Development Institutes

There are six autonomous sectoral development institutes under the supervision of MoTI:

- Metal Industry Development Institute (MIDI);
- Leather Industry Development Institute (LIDI);
- Textile Industry Development Institute (TIDI);
- Chemical and Construction Inputs Industry Development Institute (CCIIDI);
- Food, Beverage and Pharmaceutical Industry Development Institute (FBPIDA);
- Ethiopian Industrial Inputs Development Enterprise (EIIDE).

The sectoral development institutes are mandated to develop policies, strategies and initiatives to help support the growth of their respective industries. The emphasis is very much on the delivery of training, especially in the context of TVET trainers (the agents responsible for delivery of IES) and SMEs in the manufacturing priority sectors. A part of the role is also to provide research, advice and consulting to firms in need of more sophisticated support, such as technology transfer, export, etc.

To give examples of their capacities, MIDI has a staff of about 260 and TIDI has about 320. MIDI is currently supporting about 2,300 SMEs in the manufacturing priority sectors while TIDI delivered support to about 130 SMEs, mostly in the form of training delivery to SMEs and TVET IES. These are in connection with various action plans, such as GTP II.

The sectoral development institutes are demand-driven and are expected to respond to the needs of SMEs, as well as large domestic and even international companies, in their sectors of responsibility. This goes beyond the level that is normally considered to be standard level of MSME state support, which typically does not cover large enterprises, as these are generally profitable and with major capacities, so are not supported by the state, except in a small minority of specific cases.

It is important to note that the sectoral development institutes are autonomous institutions. They prepare annual programmes and obtain funding directly from the Ministry of Finance. They coordinate with and respond to MoTI policy requirements, such as delivery IES support and prepare regular reports to MoTI, such as annual reports. As they are autonomous, by definition, MoTI is not in control of

their activities, as such. This situation is unlikely to change without legislative reform.

3.2.7 Federal Technical and Vocational Education and Training Agency (FeTVETA)

The FeTVETA is an autonomous federal government institution whose TVET objective is to create a competent, motivated, adaptable and innovative workforce, as well as to assist with technology accumulation and transfer in promoting economic growth and development. Its mission is to provide direction, policies, programmes and standards towards quality technical and vocational education and skills development. Previously under the then Ministry of Education, it is now the responsibility of the Ministry of Science and Higher Education (MoSHE).

FeTVETA is responsible for the following institutions:

- 9 Regional, Addis Ababa and Dire Dawa TVET Agencies: autonomous structures;
- 388 public TVET colleges and institutions / 1,300+ TVET centres throughout the country.

A review of the IES system (R Pinto, Review of the Industrial Extension Services (IES) System in the FDR of Ethiopia, 2016) was critical of state-funded IES. Among other issues, it noted that: *“A number of issues give cause for concern in the IES targeting and support to MSEs, namely:*

- *Focus on priority manufacturing sub-sectors: in at least 2 regions, the IES system is now delivering support to all new MSEs. It is not clear if this is planned or not but has strategic implications.*
- *Broadening the focus to all MSEs has significant policy implications: resources must be spread more thinly, trainers may not be adequately equipped to support non-manufacturing sectors and, most important of all, it may be leading to market distortion.*
- *Eligible MSEs are typically supported for 5+ years or until new premises become available: this approach has positives, such as a long-term emphasis and concentration but it also has negatives, such as the possible entrenchment of a dependence culture among entrepreneurs.*
- *A pre-defined package of IES services is, by definition, supply-driven rather than demand-driven even if the TVET trainers*

take care to offer what the MSEs want from the four packages. International experience systematically stresses the importance of demand-driven business services.

- *There is a tension between delivering generic IES support as opposed to specialist IES support. TVET trainers rapidly reach their limits when dealing with issues beyond their core competence such as metal/wood/textile work. This means that they cannot support MSEs further without recourse to a wider range of support institutions. This requires much better linkage to the wider MSME system.” (pp.2-3)*

3.2.8 Ministry of Agriculture and Livestock Resources (MoALR)

The Ministry of Agriculture is responsible for rural entrepreneurship via the Rural Entrepreneurship Directorate. Similar to the MoUDC, which focuses on urban youth unemployed, the MoALR’s main target group is the rural youth. The main aim of the rural entrepreneurship programme is to keep such youth in rural areas and hence lower their migratory flow to urban areas, which by itself is characterised by very high unemployment. The types of support given includes assistance into self-employment to the landless and university / TVET graduates in the form of finance/soft loans and land to growth-oriented or innovative youth, so as to speed-up their growth prospects.

The MoALR is responsible for the Agricultural Transformation Agency (ATA – see below), though the agency is legally autonomous with direct government budget funding. There are currently four Agro Industrial Parks, which are expected to expand to 17. The MoALR is not responsible for the development of these parks but is tasked with supporting upstream agricultural input supply chain to the agro-industrial parks. It is also in the process of establishing the Rural Transformation Centres (RTCs), which are located at catchment areas around agro-processing parks, with the aim of supporting farmers to improve agricultural products and ensure quality and sustained delivery of inputs to the agro-processing parks. RTCs are expected to provide logistical services such as farming equipment, harvesting, storage and cleaning support to farmers. In the medium to long term, the RTCs are expected to add value through semi-processing of agricultural products to be supplied as intermediate inputs to companies located in and around the parks, also with the support of the Agricultural Research Institute.

3.3.9 Ethiopian Agricultural Transformation Agency (EATA)

The Agricultural Transformation Agency (EATA) operates as the technical backstopping support institution for the various support programmes delivered by the MoALR. The EATA has four strategic goals:

- To identify systemic constraints of agricultural development by conducting studies and preparing recommendations in order to ensure sustainability and structural transformation;
- To support implementation of the recommendations;
- To support the establishment of strong linkages among agricultural and related institutions and projects in order to ensure the effectiveness of agricultural development activities;
- To manage and lead the implementation of specific solutions as projects.

It is an autonomous agency which has two broad areas of focus namely: 22 “agendas” on crop and natural resources management and 18 “agendas” on livestock development. ATA’s support focuses on:

- Providing technical advice to the MoALR;
- Capacity building to implement the 40 “agendas”/programmes;
- Agricultural Commercialisation Clusters.

3.2.10 Ministry of Urban Development and Construction (MoUDC)

The Ministry of Urban Development and Construction (MoUDC) aims to capacitate cities and urban centres to play a role as development centres by providing standardised services for their residents and creating a competitive construction industry in collaboration with all stakeholders and development partners. The MoUDC drafted and is responsible for the implementation of the MS Development Strategy, revised in 2011, as well as the Urban Development Strategy (see previous chapter).

In essence, while MoTI is responsible for manufacturing SMEs in the priority sectors, MoUDC is theoretically responsible for the remainder of the MS system. In reality, however, because of the nature of the institution, its policy focus is mostly

on promoting entrepreneurship in the urban areas, as well as meeting food security matters. The focus on job creation for the rural unemployed mostly in the 18-29 age group and its emphasis on poverty reduction via the provision of food security does not sit at all comfortably, in policy terms, with the wider notion of developing entrepreneurship. Indeed, it could be argued that this represents only a small sub-set of issues that would normally be covered by a modern MSME policy. If it made sense for MSE policy to reside with this ministry in the past, it is doubtful that this is still the case for multiple reasons set out in this report.

Currently, the MoUDC bases its MSME activities on an outdated and superseded MSE strategy, which is no longer fit-for-purpose (see preceding Chapter). MoUDC also supervises the Federal Urban Job Creation and Food Security Agency (FeUJCFSA) and oversees the network on 1,750+ One Stop Service Centres at kebele level (except for Addis Ababa, where they are in woredas), which are the entry point for the enterprise related state support activities.

Since the OSS's target group is mostly youth (18-29) unemployed, the entry level system automatically focuses on this small sub-set of the MSME target group (see below), rather than the much wider palette of potential and actual entrepreneurs. However, it also has other duties, such as registration, collection of rents and taxes, etc.

3.2.11 Federal Urban Job Creation and Food Security Agency (FeUJCFSA)

The FeUJCFSA is responsible for the development of micro and small enterprises with a focus on job creation and reducing food security. Its main objectives are to improve the livelihood of citizens who are unemployed or unable to work, to support and coordinate non-manufacturing priority sector micro and small enterprises and to promote and develop enterprises engaged in urban agriculture, construction and services sectors to make them more competitive.

The FeUJCFSA is accountable to the MoUDC and has highly diverse social and economic duties and responsibilities, including to:

- Promote and develop non-manufacturing MSEs such as urban-agriculture, construction, trade and service sectors;
- Regulatory (laws), policy (guidelines, strategies and manuals), facilitation

and coordination, capacity building and monitoring;

- Assist the poor unemployed into jobs, usually through partnerships/ groups of 18-29-year olds;
- Protect vulnerable citizens from social problems and illegal human trafficking;
- Provide safety-nets for those unable to work and the unemployed in poverty;
- Facilitation, support and industry extension services (IES) in collaboration with TVET institutions, business counselling, market access / linkage, input supply, credit access, infrastructure, etc.;
- Support and coordinate institutions that assist micro enterprises and non-manufacturing MSEs.

The FeUJCFSA is responsible for the implementation of the MSE Strategy on behalf of the MoUDC. For example, it has created around 10 manuals on different themes covered by the MSE Strategy, such as working premises, market linkage, etc. and it trains regional and city staff as a basis for cascading information and knowledge to the actual MSEs.

The FeUJCFSA is mostly focusing its MSE support on micro / start-ups in the form of partnerships of groups, with a particular emphasis on youth and female unemployed, leaving others to focus on rural and industrial matters, however, there are MSMEs which are not covered by this support.

The FeUJCFSA acts as the Secretariat of the federal MSE Council, the body responsible for coordination and implementation of the SME Strategy. It is chaired by the DPM and meets every 3 months, sometime less often. The last meeting was in June 2019 and focused on the new GoE target of generating 3 million jobs and how this target can be met. The regional MSE Councils are mixed and staff turnover can lead to problems.

Regarding the current MSE strategy, the FeUJCFSA recognises that the last update was 8 years ago but considers there to be major issues, starting with the education system, the lack of capacities among entrepreneurs and the need for adequate finance, for example to network all the OSSs electronically. The OSSs are required to produce many reports, for example on progress against targets but since they lack computers, the information currently needs to be collected and analysed manually.

The 1,751 One Stop Service Centres are the unit closest to the entrepreneur and it is important for these to work efficiently. However, the FeUJCFSA can only act through the regions to deliver support to cities and thus can only influence the OSSs indirectly. The fact that the OSS staff have low salaries, poor educational levels, lack ICT, etc. mean that support to MSEs is patchy.

3.2.12 Other Federal Institutions

- National Bank Ethiopia (NBE): is responsible for the overall governance/regulating/supervising financial institutions like commercial banks, insurance companies, MFIs, leasing companies, etc.;
- Development Bank Ethiopia (DBE): provides debt financing services mostly for large projects, including start-up, expansion and lease financing. It assists exporters to access credit against their signed export contracts and provides financing for rural income generation activities, including entrepreneurship;
- Ethiopian Investment Commission (EIC): is responsible for the promotion of Foreign Direct Investment (FDI), especially attracting investors to the growing network of industrial parks. It has a staff complement of about 290 and an annual target of attracting 280,000 jobs using customised tax incentive packages such as infrastructure, duty free imports and Corporate Income Tax breaks. It also aims to ensure that there is linkage between FDI firms in the industrial parks and domestic SMEs;
- Industrial Parks Development Corporation (IPDC): has two main activities, namely the construction of 12 public industrial parks in all regions of the country. Four are already operational (e.g. Bole, Mekelle, Kombolcha and Hawassa) and the remainder are expected to open in 2019. The industrial parks range from 1,000 to 4,000 ha in size and development is planned in several phases, the first of which is fully tenanted. IPDC also manages the public industrial parks and aims to facilitate eventual import substitution (currently 100% export oriented), as well as facilitation of FDI-SME linkages.

3.3 Regional and Local Institutions

The regional and local institutional structures are diverse and relatively complex since they are autonomous and may choose to either replicate the Federal level institutions or develop their own models and approaches in respect to the institutions for MSME development.

At regional level, the key MSME implementing institutions are the Regional SMMIPA Agencies (ReSMMIPAs), regional Urban Job Creation and Food Security Agencies (ReUJCFAs), which are sometimes merged such as into Industry and Urban Development Bureaus at the regional level (e.g. Oromia), regional TVET agencies and TVET institutions, as well as Micro Finance Institutions.

The two key MSME-oriented Federal support agencies, namely FeSMMIPA and FeUJCFSA, play a coordinating role, while regional and woreda level agencies focus on the implementation of policies and strategies.

In this context, it is also worth noting that Regional MSE Councils also exist and perform a similar role to the National MSE and SMMI Councils, but it is not known how many regional councils exist and are active.

3.3.1 Regional SMMIPA

The role of the Regional Small and Medium Manufacturing Industry Promotion Authority Agencies (ReSMMIPA) is to:

- Develop policies and strategies for the sector, with an accent on the manufacturing priority sectors;
- Provide support to the zones, woredas, kebeles and ultimately also the OSSs;
- To liaise with other institutional players, including the TVET system, to select unemployed, train them, register them, help them to access regional MFI loans and support their development through premises, IES, etc.

The role of ReSMMIPA is broad and challenging. This is particularly notable in the relation to an example, such as the Oromia region, which intends to create 1.1 million jobs by 2020. The Industrial Director has 6 staff but 20 zones, 342 woredas, 7000+ kebeles, etc. to engage with. This suggests that there are significant challenges in implementing its remit.

3.3.2 Regional ReUJCFSA

The original ReMSEDA (now ReUJCFSA) were established in 2000 by regional governments to provide support to MSEs at regional, zonal and woreda level. They were initially established to coordinate support services for the implementation of the Regional MSE Development Strategies since according to the National MSEs Development Strategy (2007) their role is to:

- Provide extension services to MSEs at regional, zonal, woreda and kebele level such as HRD, information and consultation, and technical and marketing services;
- Work in collaboration with the technical arm of regional trade and industry bureaus and to be financed by government and revenues they generate, as well as development partners;
- Be constituted as autonomous legal entities managed by a board consisting of trade and industry bureaus, private organisations and others involved in MSE activities.

ReUJCFSA are regional actors coordinating the development of MSEs at a regional level, though it should be noted that their names and structures vary across the regions. Some are separate agencies, while others are merged with other offices. For example, there is a separate regional agency in the Tigray region, whereas in the Amhara region it is merged with the TVET office, namely the Technical Vocational and Enterprise Development Bureau.

The main role of the ReUJCFSA is to provide support to the zones, cities and OSSs, with a focus on urban youth / women partnerships. For example, Oromia region has 300+ woredas and 600 OSSs, which provides an indication of the scale of their task. The ReUJCFSA mostly capacitate zonal, woreda and OSS staff and supervise them, collect data for reports, provide support with budgets, etc.

3.3.3 Regional TVETA

There are also 9 regional and 2 city TVET Agencies (ReTVETAs). The ReTVETAs are part of the regional government structures, so they are autonomous of the FeTVETA structure since they receive funding via the regions. The organization of regional TVETs is not uniform. For example, in the Amhara Region the TVET function is merged with MSE Development Bureau and in Tigray the industrial Extension Services component has merged with the MSE Development Bureau. Their role is to:

- Provide support and undertake monitoring and evaluation activity to help the TVET Institutions to provide MSEs with demanded and feasible technologies and designs;
- Create a conducive business environment and monitor local and international study tours to relevant leaders and experts;
- Coordinate activities related to assessment of trainees based on occupational Standards;
- Allocate budget and human power to regional activities such as human development, supply of technologies and IES;
- Organise core process owners and assign the staff that provide IES;
- Facilitate preparation of regional human development tasks, technology supply and IES manuals;
- Coordinate local / international donors to solicit funds in kind or cash to support technology development activities;
- Create conducive environment enabling TVET Instructors to get further training based on competency gap studies;
- Coordinate plan, control and monitor TVET Institutions while providing business management and technical training to MSEs through their competent experts.

3.3.4 TVET Institutes and Colleges

The critical players in the Industrial Extension Services (IES) system are the 388-public sector TVET colleges and institutes throughout the country with about 17,000 IES trainers. The key difference is that institutes tend to be newer and do not train up to the Occupational Standards competence level 5. Their duties and responsibilities in the context of IES (see Pinto 2016) include:

- Provision of all-inclusive IES;
- Analysis and selection of feasible technologies, preparation / checking sample design;
- Preparation of training manuals for human resource development; supply of technologies / IES;
- Provision of training based on identified trainees and manuals;

- Deliver special training and advisory services to those with special needs and model enterprises;
- Provide demand oriented training to enable enterprises to become competitive;
- Provide support to MSEs in their locality regarding machine leasing and spare parts;
- Arrange support and training to enterprises engaged in maintenance service;
- Deliver advisory and on the job training to MSEs on production process, product quality and productivity product design and technology usage;
- Ensure availability of inputs required for business management and technical training (such as human resource, finance and training equipment);
- Undertake research on problems associated with machinery / technologies and gaps;
- Deliver advisory services and training to MSEs on machinery usage and maintenance.

3.3.5 Micro Finance Institutions (MFIs)

There are approximately 40 Micro Finance Institutions (MFIs) providing financial services throughout the country. In general terms, the most active MFIs are affiliated to the regions, namely:

- Amhara Credit and Savings Institution (ACSI) - Amhara;
- Addis Saving and Credit Institution (ADCSI) – Addis Ababa;
- Dedebit Credit and Saving Institution (DECSI) - Tigray;
- Oromia Credit and Savings (OCSSCO) - Oromia;
- OMO Microfinance (OMO) – SNNPR;
- Dire Dawa Saving and Credit Association – Dire Dawa.

The MSE strategy places responsibility of implementing access to finance activities to government affiliated MFIs which are required to attend OSSs regularly. MSEs organised by OSSs, in the form of partnerships of 3 - 15 young people (18-29 years old), obtain finance from MFIs. If business plans are approved, the partnerships are normally also awarded loans.

The regional MFIs offer soft loans to groups/ partnerships of young entrepreneurs with maturities of 5 years and interest rates of 8-15%, whereas non-regional, non-state affiliated MFIs offer interest rates of 15-30%, which is twice as expensive. Private MFIs point to market distortion as a result of the soft loans/ revolving funds by the region-affiliated MFIs. It has been argued that the provision of credit by MFIs flows into a small sub-set of sectors/ activities, does not take into consideration the level of development of MSEs, is often based on complex bureaucratic procedures and that the finances on offer are undifferentiated, one-size-fits-all products.

A study on Ethiopian microfinance outreach performance (e.g. number of active clients, gross loan portfolio, percentage of women participation, etc.) concluded that the sector is growing but at a decelerating rate and that none of the microfinance institutions are financially sustainable (Performance of Ethiopian MFIs, Challenges and Prospects, S. Ali & S. Alemu, 2018).

There are a few financial leasing companies responding to the needs of mainly manufacturing and construction enterprises. The Waliya, Oromia, Addis Ababa, Debut and Kazan financing goods companies providing lease finance to enterprises in Amhara, Oromia, Addis Ababa, SNNPR and Tigray, respectively.

3.3.6 One Stop Service Centres (OSSs)

There is a network of 1,751 One Stop Service Centres (OSSs) across Ethiopia at the kebele level (woreda in the case of Addis Ababa). The three key implementing agencies have at least one staff member at the OSSs to respond to MSE needs in a one-stop model. Officers from the micro finance institutions, TVET industrial extension trainers, ReSMMIPAs and ReUJCFsAs and staff from the woreda/kebele from the deploy their respective expertise to support the entrepreneurs' needs: technical, financial and administrative, theoretically saving them time and cost.

The services delivered through the OSSs include:

- Registration and identification of unemployed and collecting statistics;
- Registration and provision of trade licenses;
- Registration for tax purposes;
- Organising as groups/partnerships;
- Coordinating capacity building support;
- Business planning and application for MFI funding;

- Operational support through the BDS/IES providers;
- Facilitation of bookkeeping, accounting, auditing, etc.

OSSs are critical to the operation of the MSME system as they are the basic building block of state support and there is an extensive system in place delivering all services free of charge. However, it is not clear at present whether this massive network of offices and support services operates effectively on behalf of potential and actual entrepreneurs. A report (Small and Growing Businesses in Ethiopia, ADA and First Consult PLC, 2017 p.2) notes that: “... *due to a lack of incentives to innovate and enhance the level of support, service provision remains sluggish, bureaucratic, and of uneven quality.*”

The OSS focus is very much on making lists of youth unemployed and supporting them with public services, through group/partnership formation, capacity building, business planning and access to finance for small MFI loans. This effectively means that OSS support is concentrated on the potential survivalist entrepreneurs. However, the rest of the MSMEs, including the ones that are likely to survive, grow and be dynamic additions to the Ethiopian economy, do not obtain support through the extensive OSS network. OSSs are unlikely to deliver the type of services needed by this target group and the IES system is similarly hamstrung in terms of supporting MSMEs (see Pinto, 2016). These require specialist / sophisticated services which are generally not available through state free provision. This issue is discussed in more detail below in the Business Development Services section.

The One Stop Service Centre (OSS) staff have mixed roles as they are also responsible for looking after administrative issues like collecting rents for the sheds/working premises and tax payments, which should normally be handled by the woreda/kebele administrations. This means the delivery of BDS may be compromised if entrepreneurs perceive them as financial/fiscal organs of the state rather than being there to support them as entrepreneurs. While the use of OSSs to support MSMEs is a good idea, their dual function (i.e. collection of rents, taxes, etc.) may at least in part result in a potential conflict of interest which could hamper their effectiveness in supporting MSMEs.

Other issues of concern include the low salaries, low education levels, high staff turnover, lack of ICT, etc. all of which are fundamentally important in terms of appropriate human capital and being able to systematically build-up knowledge and capacities to support entrepreneurs effectively.

3.4 Private Sector Institutions

3.4.1 Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA)

Proclamation No. 341/2003 reorganised the Chambers system in line with the free market economic policy and the Industrial Development Strategy, resulting in the Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA) in 2007. ECCSA is a large and complex system of support to sectoral association members (e.g. Ethiopian Textile and Garment Manufacturer’s Association, Ethiopian Leather Industries Association, etc.), which is voluntary in nature. The main services provided by ECCSA include the following:

- Trade and investment promotion;
- Capacity building;
- Research and advocacy.

ECCSA is thus an apex organisation of Chambers and Sectoral Associations in Ethiopia with 18 members, including nine Regional Chambers of Commerce and Sectoral Associations, two City Chambers of Commerce and Sectoral Associations, one National Chamber of Sectoral Associations and six Sectoral Associations organised at the national level. ECCSA member associations in turn have an estimated 500,000 member firms, the majority of which are active in the trade sector.

The ECCSA has developed a system for Public Private Dialogue (PPD) in the form of a Memorandum of Understanding with MoTI, to which it reports. Conferences have been held on specific issues: 15 covering national issues such as taxation, livestock and forestry; 3 with the Prime Minister and 15 at the regional level. ECCSA identifies cross-cutting enterprise problems (i.e. not sector or size specific), invites MoTI as well as other relevant state bodies, presents the issue and stimulates discussions, leading to conclusions about how to proceed. The selected problem is then addressed via Technical Working Groups that propose solutions. The ultimate aim is to deliver policy, legislative and regulatory reform. ECCSA believes that its advocacy role has been effective.

3.4.2 Business Associations / Business Membership Organisations

Business Membership Organisations (BMOs) play a key role in representing the interests of MSMEs, highlighting needs, problems and holding the public sector accountable for the performance of MSME services. In Ethiopia, only an estimated 2% of all registered business are members of BMOs.

ECCSA and its 18 affiliated members represent a lot of firms, as in other countries. However, unlike other countries, which place strong emphasis on the development of a strong and independent network of BMOs, there are relatively few active non-ECCSA-affiliated BMOs such as the Coffee Producers Association, Coffee Exporters Association, Leather Export Association, Cotton Growers Association, etc. On the other hand, professional associations (lawyers, accountants, architects and similar) are quite well developed and there are also specialist initiatives, such as the Women Entrepreneurs' Association, albeit with varying degrees of engagement.

Overall, there is significant scope to support the diversification and development of effective BMOs in terms of their membership, services and advocacy, etc.

3.4.3 Business Development Services (BDS)

To help MSMEs to survive, grow and prosper, thus contributing to economic growth and ultimately job creation, they typically need a wide range of Business Development Services (BDS). BDS includes training, business counselling and advising, access to markets, product development, technology transfer, infrastructure and working premises, access to finance, etc. BDS can be delivered to MSMEs by a wide range of actors including individuals (e.g. academics, consultants), private businesses (e.g. consultancies, business centres), NGOs, national, regional and local government agencies and business

and cooperative associations.

In Ethiopia, there is limited BDS provision because support to MSMEs is effectively monopolised by the state. The various branches of the state, such as the OSSs, regional structures, TVET / IES providers, etc. all deliver free services at all stages of the firm's development, from the cradle to the grave. However, the quality of the BDS and its impact is rather low (see R. Pinto, 2016). At the same time, because of the extensive role played by the state in BDS provision, the range of non-state BDS provisions available to MSMEs is very limited as it is largely crowded-out by state provision.

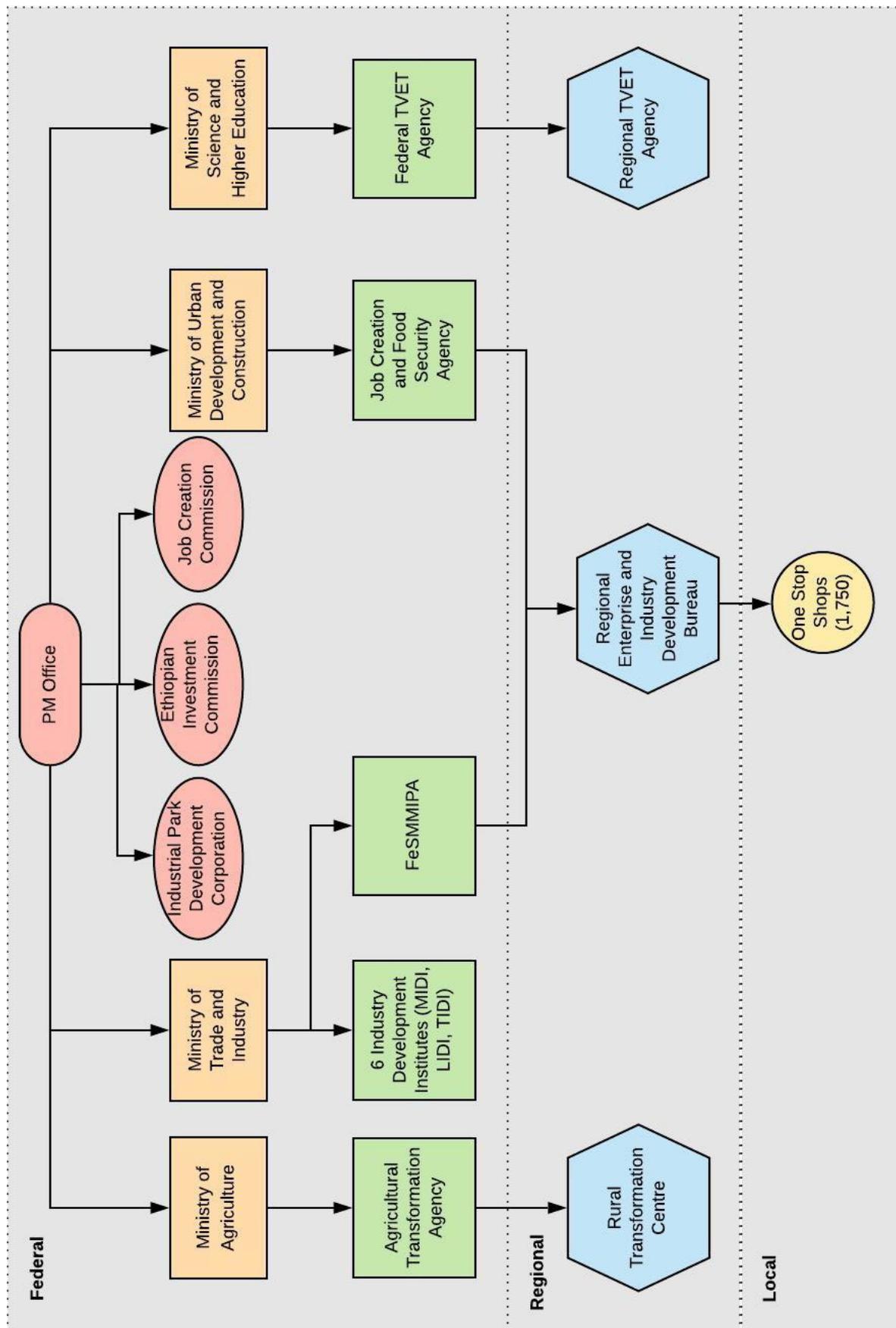
It is hard or impossible to compete with end-to-end free provision by the state so it is mostly donor / IFI / NGO activities that support BDS, albeit on a limited scale, as well as a few private companies. The limited private sector BDS provision is said to be concentrated on activities such as high-level business consultancy, training/HRD, feasibility / marketing studies and evaluations.

However, the recent requirement for PLCs to use of International Financial Reporting Standards (IFRS) shows that the private market can be quickly stimulated, in this case to support PLCs to close their annual accounts and file their taxes. The GoE would be well-advised to mix and match BDS provision, using both the public and the private sectors, thus stimulating diversity in services to MSMEs and raising quality of business services over time.

3.5 Conclusions

The current situation is illustrated in the Diagram below. It only shows part of the federal, regional and local story. Many other institutions exist delivering MSME support in some form or other.

Diagram 1: Ethiopian MSME Institutional Ecosystem



The only possible conclusion to be drawn from the above analysis, illustrated in the Diagram above, is that the Ethiopian MSE institutional framework for MSME development is not only extremely complex but actually evolving into an ever more fragmented system as the MSME policy is divided into industrial, urban, rural, etc. Few have an overview of the system, let alone understand it.

To further illustrate the point, it was mentioned several times that there are about 20,000 professionals supporting MSME development at the regional and city level (see I. Paterson & S. Wole, MSME Strategy Assessment, 2015, p.15). At the one and same time, this demonstrates the GoE's commitment while also capturing the vast numbers employed in the multiple organisations at national, regional, zonal, woreda and kebele levels.

The situation is constantly evolving and so complex that it is impossible to comprehensively set-out the overall system of support for MSMEs, except for highlighting the main elements as we have done in this report, leaving out institutions that are less central to the MSME system, such as the Ethiopian Kaizen Institute, Entrepreneurship Development Centre and many others.

It is evident that such complexity and fragmentation leads to multiple inefficiencies in relation to MSME development support. For example, despite the many and varied institutions, in actual fact the MoUDC is mostly focusing on the urban youth unemployed establishing survivalist partnerships. The MoTI is mostly targeting manufacturing SMEs in manufacturing priority sectors. MoALR is mostly targeting rural youth. This leaves vast swathes of the MSME ecosystem with no support at all, including many that have the greatest potential to grow rapidly, create jobs, general innovation, drive competitiveness and stimulate exports.

If simplicity, coherence and focus are critical to effective policy making, then it is self-evident that

the complex and constantly evolving system of MSME institutional support needs systematisation to deliver policy, as well as institutional, impact. Apart from anything else, when there are finite state / donor / IFI funds, it is essential to use them as effectively as possible.

In a nutshell, the following principles could be applied in order to generate a simple, coherent and focused MSME system institutional ecosystem, whose policy foundation would be an updated and comprehensive MSME strategy and action plan (see preceding chapter):

- One institution with federal MSME policy making responsibility (i.e. cross-cutting/horizontal);
- One institution with federal MSME implementation responsibility (i.e. using a new MSME strategy and action plan as the basis for service and support delivery);
- One institution with regional MSME policy implementation responsibility (i.e. integrating federal with regional with local perspectives, allowing for regional MSME specificity and priorities and the fact that the regions are autonomous);
- Strong MSME inter-ministerial / agency coordination at the level of e.g. Prime Minister's Office;
- Establishment of MSME consultation (policies) and regular, two-way Public Private Dialogue; Strengthening of general Private Sector Development and/or specific MSME Donor coordination; Establishment of Monitoring, Reporting and Evaluation of donor/IFI and state MSME strategy, programmes, projects, etc.

4.0 SME-Related Programmes

4.1 Introduction

Although the two key governmental levers in MSME development concern the policies and the institutions that exist to implement them, as set out in Chapters 2 (policies) and 3 (institutions) above, it is also important in this assessment to address the MSME-oriented projects and programmes that are currently being implemented in Ethiopia. This is the precise focus of the report “SME Donor Mapping Study of Ethiopia” (sequa, 2019), which recently mapped the key SME programmes in the country. This chapter is therefore largely based on this report.

4.2 Key SME Programmes

The SME Donor Mapping Study of Ethiopia report provides an overview of 28 mapped MSME programmes (2019, pp.15-17), including the initiative, description, implementer and donor/funder. For completeness, the key data is presented in Annex 2. Of these 28 MSME focused programmes, it is worth highlighting six of them to provide a sense of what is being implemented in the country:

- Programme for Country Partnership Ethiopia – PCP (400 million USD): UNIDO: Focuses on four pillars: government ownership, multi-stakeholder partnerships, mobilization of resources and focus on priority manufacturing sectors and areas aligned to the GTP II , namely agro-food processing, textiles and apparel, and leather and leather products. Out of 14 programmes, two are particularly relevant. The first concerns the development of Integrated / Industrial / Agro-Industrial Parks throughout Ethiopia (4), 17 Agro Industrial Growth Corridors (AIGCs) and engagement with Rural Transformation Centres (RTCs). The second concerns the Youth and Women Entrepreneurship Project (YoWEP). Its objective is the development of an entrepreneurship ecosystem in Ethiopia through development of a national entrepreneurship strategy, mapping all SME and entrepreneurship activities in the country and development of a body for centralising all entrepreneurship data and to share it with stakeholders;
- SME Finance Programme - SMEFP (276 Million USD): World Bank (and EIB 76 million USD): SMEFP is the biggest SME development initiative in Ethiopia and aims to support the development of SMEs and their job creating potential through access to finance and technical assistance through four components. The first is to establish a lease financing and working capital credit system for SMEs. The Development Bank of Ethiopia (DBE) oversees processing and disbursing of the funds to eligible SMEs. 14 banks and 11 Microfinance Institutions were selected to also participate in this programme. Second, to improve the regulatory and other procedural challenges SMEs face with a particular focus on improving the credit system that heavily relies on immobile asset collateral schemes. Third, BDS for SMEs involves needs assessment studies and procurement of BDS service providers with 21 TVET training centres selected and trained and 272 training providers have been educated in a Training-of-Trainers scheme. The last part involves project management, communication and impact evaluation;
- Ethiopia competitiveness and job creation programmes (250 Million USD + 175 Million additional fund issued in 2018). World Bank: the aim is to support job creation through attracting Foreign Direct Investment to Industrial Parks (IPs) and improving the capacities of domestic enterprises to be linked to these investors. The two components relevant from the job creation and SME development perspective include support for industrial infrastructure and enhancing industrial parks linkages to the local economy. Close to 3,000 employees have been trained within the Bole Lemi Industrial Park and efforts are being made to identify about 25 SMEs and support them through a Matching Grant Scheme. Although there seems to be progress in moving forward these initiatives of creating business-to-business linkages to local suppliers through the development of eligible SMEs, major challenges remain;
- Private Enterprise Programme Ethiopia - PEPE (93 Million USD): DFID: the goal is job creation and improving the incomes of thousands of

Ethiopians through making the markets work for the poor via two components. The first includes the development of interventions in the agro-industry sector by aligning with the GoE economic development priority sectors (cotton, textile and apparel, leather and livestock and fruits and vegetables) whose interventions are mostly focused on large enterprises and secondly enabling access to finance by bolstering the Ethiopian financial system for inclusive and sustainable development of the financial markets via financial inclusion strategies for the poor (increase bank accounts and savings of the financially excluded to improve their income, as well as provide them with more formal financial assets) and facilitating investments for Ethiopian businesses;

- Women Entrepreneurship Development Programme - WEDP (50 Million USD+): helps grow micro and small women owned enterprises by providing business development support and financing. The strategy includes mobilizing MFIs and business development service providers throughout Ethiopia. More than 12,000 recipients have been provided with loans, over 16,000 have received Business Development Services;
- Entrepreneurship Development Programme - EDP (38 Million USD): UNDP: provides entrepreneurship and business start-up support services to young Ethiopians using a public private partnership structure to spur the development of MSMEs and entrepreneurship. The objective of EDP is to equip new graduates and women with entrepreneurship and business development skills to better address the employment gap. The second phase delivers training, BDS components and access to finance awareness raising for MSMEs.

It is evident from the above synopsis that there are some very large support programmes being implemented by donors and IFIs in the country (see also Annex 2 for all 28 programmes/projects). The strategic importance of this theme is not declining. If anything, it is likely that even greater financial resources will flow into Private Sector Development generally and thus also into MSME development.

However, having significant volumes of MSME programmes and funding is one thing. Implementing effective SME programmes that deliver the jobs and industrialisation impacts expected by the GoE, as expressed by its various strategies, including the SME Development Strategy, is quite another.

Since there is no PSD / SME policy and programme monitoring and evaluation mechanism, it is not possible to assess the impact of the large volume of development partner funding on the MSME sector. In the absence of Monitoring and Evaluation (M&E), the GoE (as well as donors/IFIs) must rely on project/programme reporting, which is often inconsistent and does not allow for aggregation of data and thus assessment of impact over time and across the country.

4.3 Analysis and Conclusions

The mapping exercise of the current MSME programmes being implemented in Ethiopia (SME Donor Mapping Study of Ethiopia, 2019) illustrates several other key issues with notable policy implications.

Firstly, there is a very significant amount of donor funding flowing into private sector development in general, which amounts to around EUR 1 billion of committed programme funds. The level of funding is likely to increase.

The donors are highly concentrated, with the principal ones being EuropeAid (EC), UKaid (DFID), Global Affairs Canada (GAC) and USAID. Other important players include GIZ, Italian Development Corporation, Sweden, The Netherlands, JICA and the British Council.

The SME programmes are executed mostly through international implementers (e.g. World Bank, UNIDO, UNDP), private sector consultancy firms, as well as government implementing partners (some execute projects in-house, others rely on outside implementers on a project-by-project basis).

While there are many donors, programmes and significant levels of funding, it is far from clear that the development partner funding is being coordinated effectively. This is despite the existence of the Donor Action Group / Private Sector Development Sub-Group (DAG/PSD) co-chaired by MoTI and the Swedish Embassy and comprising DIFI, GIZ, World Bank, African Development Bank, IFC, Global Affairs Canada, SIDA among other partners. DAG/PSD is a sub-group of DAG that is co-chaired by the Ministry of Finance to coordinate overall donor activities in Ethiopia, however, based on the analysis in this chapter, DAG/PSD is in need of institutional strengthening.

As a result, there is the likelihood of inefficiencies, including duplication, limited information sharing, inefficient use of resources, etc.

Identified gaps in support include a lack of intervention in supporting the growth stage of businesses after their initial start-up, most SME and private sector development initiatives tend to focus on technical assistance and capacity development but less so on access to finance. There is also a need for comprehensive interventions targeting the various economic sectors and including access to finance to lubricate growth along the entire value chain.

Having significant SME programmes and funding is good but having effective SME programmes that deliver the impact expected is much better. However, there is currently no/very limited MSME policy and programme monitoring, reporting and evaluation mechanism, hence it is impossible to assess the

impact of the multiple government/donor/IFI SME activities across the country or over time.

The SME Donor Mapping Study of Ethiopia (2019) suggests that the Private Sector Development Sub-Group (DAG/PSD) is not working well in relation to MSME development. In the absence of an effective PSD / SME donor coordination mechanism, it is not possible for the GoE to assert its rights, as per the Paris Declaration / Accra Agreement, to ensure that development partners' funding / programmes flow to support and enhance the Government's determined priorities.

Connected to the preceding point, in the absence of a coherent and up-to-date MSME strategy, there is also no framework for the GoE to use as the basis for coordinating the rather significant and growing volume of development partner funding for MSME development.

5.0 Recommendations

5.1 Policy Recommendations

At least three ministries are responsible for aspects of the MSME policy. The Ministry of Urban Development and Construction focuses on urban youth unemployed, forming partnerships and generating mainly survivalist entrepreneurial group activities. The Ministry of Trade and Industry is only mandated to focus on SMEs in the manufacturing priority sectors. And finally, the Ministry of Agriculture and Livestock Resources is tasked with supporting youth entrepreneurs in rural areas. If this structure ever made sense in the past, it does not now. This policy distribution results in a lack of policy coherence and leads to a proliferation of institutions which are not coordinated.

The key Ethiopian MSME policy, namely the MSE Strategy was initiated in 1997 and revised in 2011 by the MoHDC. Unsurprisingly, its focus is almost entirely on survivalist urban enterprises established by groups of urban youth and ensuring poverty reduction through urban food security. The MSE strategy is not only very partial, it has been superseded and is no longer fit-for-purpose. Basing the model of entrepreneurship support on groups / partnerships of young, unemployed people, is not compatible with a modern understanding of start-up and MSME support.

Although there are three sets of policy imperatives led by the three ministries and all their respective institutional appendages (see Diagram 1), there are actually very significant policy gaps in state support for MSME development: none of them addresses micro enterprises as a whole (since MoHDC/MoALR focus only on urban / rural youth unemployed); none of them focus on small enterprises (except MoTI's focus on manufacturing priority sectors); and none of them focus on medium enterprises (except MoTI's focus on manufacturing priority sectors). These gaping holes in policy need to be addressed in the form of a modern, horizontal Micro, Small and Medium-sized Enterprise (MSME) strategic framework, which is embedded in the wider policy environment, including the recently created Entrepreneurship Strategy and Jobs Creation Council and Commission (part of the Prime Minister's Office).

Although there is a growing understanding of the role of medium enterprises in terms of generating jobs, competitiveness, innovation, exports, etc., the recent new policy focus is much too restrictive, namely focused solely on manufacturing enterprises in a few priority sectors. Over time, it is likely that placing too many eggs in too few baskets will not pay full MSME policy dividends. There is a need to consider broadening the MSME policy focus to other non-priority manufacturing sectors, as well as to non-manufacturing sectors. Other sectors that offer potential should be identified and supported. The scale of development partner resources flowing into Ethiopia is also resulting in too much finance chasing too few enterprises due to the very narrow policy focus. This is neither desirable nor effective, especially if other sectors / enterprises merit support.

There is an urgent need to create a modern, comprehensive MSME Strategy and Action Plan based on international good practice, which means incorporating the following principles:

- The MSME strategy should contain a vision, targets, strategic objectives, statistical and institutional analysis (national, regional and local), transparent consultation, regular public private dialogue, monitoring, reporting and evaluation, inter-ministerial / agency coordination, donor coordination, etc.
- The MSME action plan should cover a 1-3 year period and contain explicit activities, tasks, responsibilities, deadlines, resources, key performance indicators, etc.

5.2 Institutional Recommendations

The Ethiopian institutional framework for MSME development is extremely complex and becoming ever more fragmented, partly because of an increasing sectorial (e.g. manufacturing, urban, rural, etc.) emphasis over time (see Diagram 1). Yet MSME development tends to be horizontal rather than vertical. Good practice favours a simple and coherent institutional system to support MSMEs.

The Ethiopian situation is so complex and changeable, that it is highly unlikely that the three main ministries in charge of aspects of MSME development are actually aware of the full extent of the institutions involved, their respective roles, who is active/inactive, etc. let alone if the desired MSME development impact is being achieved.

It is only possible to highlight the main elements at federal, regional and local level:

- Federal: three ministries focus on urban and/or rural youth employment and the manufacturing priority sectors; the three federal implementation bodies (FeUJCFSA, FeSMMIPA and Agricultural Transformation Agency (ATA)) focus on the same, with the addition of the TVET/IES services (FeTVETA). There is a multitude of other agencies, councils, institutes, etc. (see Diagram 1) which result in a fragmented institutional ecosystem that very few understand let alone coordinate;
- Regional: the four main implementation bodies also operate at the regional level (ReUJCFSA, ReSMMIPA, ReTVETA and ReATA/Regional Bureaus of Agriculture) but the regional bodies are autonomous and there are many different institutional combinations and configurations. Their role is primarily to train/capacitate others, such as cities, OSSs, IES TVET trainers, etc. to deliver support to MSMEs, rather than doing it themselves;
- Local: the cities are increasingly creating Local Economic Development plans, including the huge networks of 1750+ OSSs, which are basically the smallest and lowest level building block of support to entrepreneurship and includes the main state support branches, including MFIs and TVETs / IES. However, they focus almost exclusively on assisting groups of youth unemployed to become survivalist entrepreneurs, are not yet even computerised and it is unclear as to whether they are having the desired entrepreneurship impact, since they have administrative roles such as ensuring registration, tax payments, MFI loan repayment, etc. which can potentially conflict with their business development service role.

Simplicity, coherence and focus are important organisational goals but the current MSME institutional ecosystem is the diametric opposite of this: it is complex, incoherent and unfocused. More and more institutions are being created and bolted-

on to this ever more bloated ecosystem. 20,000 people are already servicing this structure and more are being added.

Building on the policy recommendations already made, including the urgent need for a new horizontal MSME strategy, there is a need to streamline the MSME institutions as follows:

- One institution with federal MSME policy-making responsibility (i.e. cross-cutting/horizontal);
- One institution with federal MSME implementation responsibility (i.e. using the proposed new MSME strategy and action plan as the basis for service and support delivery);
- One institution with regional MSME implementation responsibility (i.e. integrating federal with regional and local perspectives, allowing for regional MSME specificity and autonomy);
- Establishment of MSME Inter-Ministerial / Agency Coordination at the level of the Prime Minister's Office;
- Establishment of transparent MSME consultation and regular Public Private Dialogue;
- Strengthening of Private Sector Development / MSME donor coordination;
- Establishment of Monitoring, Reporting and Evaluation of donor/IFI and MSME strategy, programmes, projects, etc.

5.3 Programming Recommendations

There are at least 28 SME programmes currently being implemented and more focusing on Private Sector Development more generally. An estimated EUR 1 billion has been committed to Ethiopia in the next few years, which is a significant amount of development partner (donors, IFIs, etc.) support.

But many donors and rising levels of funding can only be deployed effectively by the GoE if it is in a position to lead / coordinate its development partners or the result is duplication, inefficient use of resources, etc.

The same applies to learning from the implemented projects and programmes. If there is no/limited

monitoring, reporting and evaluation being carried out by GoE, then it is hard to ensure that both state (federal, regional and local) resources and development partner funds are being used effectively. But in order to coordinate donors effectively there is a need for a strategic framework, which presumes the existence of an up-to-date, coherent MSME strategy and action plan as tools for:

- GoE-led PSD / SME donor coordination, as per the Paris Declaration / Accra Agreement, to ensure that development partner funding supports the GoE's determined policy priorities;
- Reporting, monitoring and evaluation of state and development partner funded projects and programmes, allowing GoE to recalibrate and improve delivery of MSME support over time.

5.4 Benchmarking Recommendations

As the title implies, this report is an assessment of Ethiopian MSME Policies and Institutions. However, Ethiopia is pursuing a unique approach to economic development, which reflects its economic, cultural, historical, political, funding, etc. specificities. The ecosystem of MSME support presented in this report reflects these specificities. However, there are good practice MSME development principles which transcend the previously mentioned specificities and which make sense for the country to consider, as part and parcel of an overall review of the MSME ecosystem.

In order to add depth to these recommendations, it is useful to benchmark Ethiopia against other countries, such as African, European and Asian ones, in terms of both quantitative and qualitative indicators, as a means to comparing, contrasting and extracting good practice findings and recommendations in relation to MSME policies and institutions.

A separate report will be prepared to benchmark Ethiopia against other countries, with the intention of formulating additional recommendations for MSME policy and institutional reform.

Annexes

Annex 1: Mission Agenda

26 August 2019

Sequa, Briefing, Thomas Ritter, Tessa Schneider, Special Initiative SME Component

GIZ Special Initiative briefing, Ulrich Plein, GIZ

Enterprise Partners, Michael Addisu, Technical Director – SMEs lead, DFID project

MoTI, Paulus Barga, Advisor to the State Secretary and Tsegehiwot Haftu, Textile Expert

27 August 2019

Ministry of Urban Development and Construction Housing, Ethiopia Bedecha, Special Assistant to the Minister and Abuye Aneley, Policy Team Advisor Lead

Federal Small and Medium Manufacturing Industry Promotion Authority, Asfaw Abebe Eregnew, Director General and Seyoum Woujira, Textile and Garment Directorate Director

Ethiopian Chamber of Commerce and Sectorial Associations, Benyam Mesgina Ezra, Director, Investment Promotion Directorate, Million Fekele, Director Research and Advocacy and Tiruwork Tizazu, Director, Export and Import Trade Promotion Directorate

28 August 2019

Ethiopia Investment Commission, Fekadu Nigusie, Project Manager

Bole Lemi industrial Park, Raju K P Karuprayil, Jay Textile Operations Manager and Chairperson of investors' group at Bole Lemi

Metal Industry Development Institute, Kahase GebreMedhin, Technical Support Coordinator Deputy Director and Dereje Kasse, SME Directorate

Entrepreneurship Development Centre, Dugassa Tessema, Technical Training Manager

Jean Pierre Lebrun, EC SME project based at MoTI

29 August 2019

Industrial Park Development Corporation, Tilahun Gemechu, Planning Director and MIS Directorate Director

Textile Industry Development Institute, Delo Benka, Director for Technology Transfer and Training

World Bank, Bisrat Mekonnen, Private Sector Specialist

Job Creation Commission, Meaza Bahiru, Policy and Strategy Directorate Manager

30 August 2019

Oromia Regional Office, Oromia Enterprise and Industrial Development, Firaol Bekele, Quality Control and Technology Expert and Biru Wedajo Degefa, Job Opportunity and Creation

eTex, Yared Fekede, Senior Advisor

Sequa, debriefing, Thomas Ritter, JOBS SME Component

31 August 2019

Solomon Wole, Short Term Expert, overview of support for Assessment and especially benchmarking

04 September 2019

Federal Job Creation and Food Security Agency, Bekele Mengistu, Job Creation and Entrepreneurship

09 September 2019

Addis Abeba Regional Small and Medium Manufacturing Industry Promotion Authority, Gonfa Balcha, Director of Manufacturing

Annex 2: Mapping of private sector/SME development projects/programmes

#	Initiative	Initiative Description	Implementer	Donor/ Funder
1	SME Finance Project	Improve access to financing and TA for SMES to support their growth job creation potential	NBE, DBE, MOFEC, FeSMMIPA	World Bank, EIB
2	Ethiopia Competitiveness and Job Creation Project	Job creation through attracting foreign investment to Industrial Parks (IPs) and improving the capacities of domestic enterprises to be linked to these investors.	MOFEC	World Bank
3	Private Enterprise Programme Ethiopia	Job creation and improving the incomes of thousands of Ethiopians through making markets work for the poor scheme.	EP (DAI, First consult, BCaD, Itad, Enclude)	DFID
4	Strengthening Host and Refugee Population Economies	Improving market systems to better the livelihoods of refugee and host communities.	Oxford Policy Management	
5	Pastoralist Area Resilience Improvement through Market Enterprise	Improve household incomes and enhance resilience to climate change through market linkages.	Mercy Corps	USAID
6	Women Entrepreneurship Development Program	Supporting women micro and small businesses through access to finance and BDS	DBE, FeUJCFSA	World Bank, EIB, GAC, JICA, Italian Cooperation,
7	Entrepreneurship and Business Growth for Youth	Skills development for encouraging youth entrepreneurship	DOT	GAC (Global Affairs Canada)
8	Entrepreneurship Development Program	Encourage entrepreneurship through training and BDS	UNIDO, EDC	
9	Ethiopian driving Growth Through Entrepreneurship and Trade	Support growth of Micro and Small business in agri-business gemstone through BDS and access to finance.	MEDA	
10	Accelerating Business Growth	Support SMEs growth through facilitating access to private equity financing	Renew strategies	

11	Special Initiative on Training and Job Creation	Support job and training creation and improve working conditions by strengthening the role of the private sector for sustainable and inclusive economic growth	Unknown	BMZ
12	Sustainable Training and Education Programme (STEP)	Skills development for Labour market improvement in mid-management.	GIZ	
13	Establishment of a vocational training centre in Mekelle for skilled workers and managers in the textile sector	Developing skilled labour in the textile industry		
14	Sustainable Textiles Programme (eTex)	Capacity development in improving social and environmental standards to attain certifications and better marketing leading to improved income	MoTI	
15	Project on Business Development Service (BDS) Enhancement for Enterprises Growth Ethiopia	Support the development of entrepreneurship eco system through trainings and capacity building of MSEMs.	FeSMMIPA FeUJCFSA Addis Ababa City Administration JICA	JICA
16	Capacity Building for Dissemination of Quality and Productivity Improvement (KAIZEN)	Quality and productivity development training for businesses to improve their growth	Ethiopian Kaizen Institute	
17	Livelihoods Improvement for Women and Youth in Addis Abeba (LI-WAY)	Supporting Youth and Women led SMEs for achieving their potential.	SNV	SIDA
18	Training Academy in Heavy Duty Equipment and Commercial Vehicles in Ethiopia (PPP)	A public Private Partnership project for supporting the development of special skills.	UNIDO	
19	Improving industrial relations for decent work and sustainable development of the textile and garment industry in Ethiopia	Support the HR and labour market in the textile sector for the development of socially sustainable textile and garment industry in Ethiopia.	ILO	
20	Support to the Reintegration of Returnees in Ethiopia	Support returnees in entrepreneurship trainings BDS and finance as well as job trainings for reintegration in Ethiopia.		

21	Leather Initiative for Sustainable Employment Creation in Ethiopia	Job creation through the development of the Ethiopian leather industry by contributing in the development of the Mojo Leather City (MLC) industrial park.	UNIDO	
22	Stemming Irregular Migration in Northern and Central Ethiopia	Reduce migration through creating economic and employment opportunities.		
23	Programme for Country Partnership for Ethiopia	initiative to support the government achieve its economic development agenda or (GTP-II).		Multi-stakeholder
24	Productive Work for Youth and Women through MSMEs promotion (YoWEP)	Mobilizing and coordinating entrepreneurship actors for the promotion of SMEs entrepreneurship ecosystem development in Ethiopia		Italian Cooperation, Austria UNIDO
25	Establishing Moringa based Economic Development Program to Improve the livelihood of Rural Women of Ethiopia	The development of agri-based businesses to improve the livelihood of the poor and increase food security		
26	Technical Assistance Project for the Up-Grading of the Ethiopian Leather and Leather Products Industry	Developing the leather industry by supporting the growth of MSMEs through capacity development	UNIDO	Italian Cooperation
27	The Rural Youth Mobility (RYM) Project	Creating agricultural entrepreneurship and employment opportunities for the rural youth to reduce migration.	FAO	
28	The Ethiopia – Netherlands Trade for Agricultural Growth (ENTAG)	Develop the agriculture sector through capacity building of agri-business owners and entrepreneurship in general with a focus in Aquaculture, poultry, spices, sesame and legumes.	ENTAG	Embassy of the Netherlands

Source: SME Donor Mapping Study of Ethiopia (2019)

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