

# STRATEGIC PLAN

## Regional Industrialization and SME Cluster Development in Ethiopia

As part of the  
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(PCP) for Ethiopia  
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**LIST OF ACRONYMS**

BMO:	Business Membership Organization (Association)
CCI:	Chamber of Commerce & Industry
CDP:	Cluster Development Program
CFC:	Common Facilities Centre
CSIR:	Council of Scientific & Industrial Research, India
CLRI:	Central Leather Research Institute, India
CIBIL:	Credit Information Bureau of India Limited
CRISIL:	Credit Rating Information Services of India Limited
CGTSME:	Credit Guarantee fund Trust for Micro and Small Enterprises, India
DI:	Development Institutions
EDP:	Entrepreneurship Development Programs
EDB:	Ethiopian Development Bank
LMEs:	Large and Medium Enterprises
FeSMMIDA:	Federal Small and Medium Manufacturing Industry Development Agency
FDI:	Foreign Direct Investment
IPDC:	Industrial Park Development Corporation
ILO:	International Labor Organization
LC:	Letter of Credit
OHS:	Occupational Health and Safety
QMS:	Quality Management Systems
GDP:	Gross Domestic Product
GTP:	Growth and Transformation Plan
RMG:	Ready Made Garments
TEV:	Techno Economic Viability Studies
ISM:	Industrial Sewing machine
MDP:	Management Development Program
MoE:	Ministry of Education
MIS:	Management Information System
MFI:	Micro Finance Institutions
MSME:	Micro Small & Medium Enterprises
NIMSME:	National Institute of Micro Small and Medium Enterprises, India
NMCP:	National Manufacturing Competitiveness Program
NSIC:	National Small Industries Corporation, India
PPEs:	Personal Protective Equipment
SME:	Small & Medium Enterprises
SSNP:	Southern Nations, Nationalities, and People's Region
TI:	Technical Institutions
TVET:	Technical and Vocational Education Training



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On behalf of Foundation for MSME Clusters, Dr. Tamal Sarkar, Executive Director, led the project. Team members include Mr. ASK Sharma, General Manager and Project Coordinator, Mr., Mr. Raj Kumar, Manager, Mr. Sanjay Dash, Consultant.



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# **Chapter 1**

## **Introduction**

### **1.1 Background**

Small and Medium Enterprises have been widely credited for being an indispensable part of economic development. Their strength is gauged by the dexterity to create jobs, contribute to industrialization and boost national economic output. As a developing country, Ethiopia stands to gain by tapping into this sector. Ethiopian economy is currently under huge transformation with sustained annual economic growth of 11%. The country envisages transforming the economy into Middle income status by 2025 where industry sector is expected to contribute 18% of the GDP. With the implementation of Growth and Transformation Plan II, ensuring both balanced regional industrialization and integration of the small and medium manufactures to local, regional and global market will be a priority.

Currently the Ministry of Industry of Ethiopia is developing a Master Plan for creating international standard SME clusters. The Cluster Master Plan for SMEs is aimed at establishing required physical infrastructures and creating conducive business environment for the emergence of globally competitive SMEs and facilitating the optimal process for linking cluster enterprises to the regional economy, LMEs and enterprises located in other parks and clusters and training institutions.

The clusters will accommodate priority sub-sector industries, selected based on comparative advantages and local endowments in natural and human resources that enhance their competitiveness and sustainability. In addition, existing but currently underperforming or not yet fully developed SME cluster will be examined in order to strengthen them.



## **1.2 Role of Foundation for MSME Cluster**

Foundation for MSME Cluster has been appointed as the Technical Advisor for the project. The activity of the TA will require intensive capacity building of Regional Development Agencies and institutions established for transforming and integrating the regional economy through SME support and handholding, domestic and FDI investment attraction, Industrial Parks Development and linkages with technology transfer and capacity building institutions.

The objective of the contract for FMC is to field Regional Industrialization and SME cluster Development through preparation of a comprehensive strategic plan and capacity building of support institutions and SME stakeholders. FMC will be the Technical Advisor for the Industrial Development Programmed of the Government of Ethiopia as part of the Program for Country Partnership (PCP) for Ethiopia. FMC will support the MOI, FeSMMIDA and Regional Governments to set up a relevant framework and systems to effectively formulate, implement and coordinate SME cluster interventions at all levels of government to achieve accelerated transformation.

## **1.3 Methodology**

The assignment was started with detailed discussion by a team of experts of the FMC at its home country on the Term of References, Scope of Work and Key deliverables. A Team to work on the assignment was identified with briefing to each of them on the role to be played. Based on the objective & scope of work of the assignment, a detailed plan was prepared and presented to the key expert team for comments and recommendation.

The work started with collection of information from secondary sources on Demography, Geography, History, Political Governance, Economy, Environment, Education, Health, Culture etc. References were made to previous studies conducted by various multilateral agencies and institutions to have a better understanding to prepare a framework and methodology of the field study. Information collection formats were prepared along with a plan of action for the field study.

The field study was conducted between 12<sup>th</sup> of April 2018 and 26<sup>th</sup> of April 2018. During the field study, interactions were done with development Institution FeSMMIDA, ReSMMIDA, Metal Industries Development Institute, Food Parks and Pharmaceutical Zones, Investment Promotion Directorate, Chemicals & Constructions, Inputs Industry Development Institute, Ethiopian Industrial Inputs Development Enterprise, Industrial Development Bureau, Ethiopian Meat and Dairy Development Institute, Leather Industry Development Institute and Textile Industry Development Institute. An interaction meet was also conducted with Ethiopian Development Bank.



Visit to the clusters formed core part of the field study and included induced clusters like Ethio International Footwear Cluster, Bahir Dar traditional Garments Cluster, handloom cluster, leather cluster, cement bricks, wooden furniture, light engineering clusters at Mekelle, metal fabrication & wooden furniture clusters at Awasa. The team also visited natural clusters like Shiromeda Handloom Cluster, Merkato Leather Cluster at Addis Ababa.

Regional Level Workshops were conducted at Bahirdar (Amhara Region), Oromia and Hawasa (SNNP Region), besides meeting Bureau/ ReSMMIDA officials at Addis and Tigray.

Primary information was collected related to number of units in each cluster, technology used, skill, raw material pricing & sourcing, finished goods quality and price, financial linkages, linkages with development institution, developmental work taken up, import, export, market, taxes, value chain of the product, industrial infrastructure, infrastructure with development institutions & their organization structure, availability of power, availability of skilled manpower and BDSPs. Information pertaining to SME Development policy and Sustainable development fund was collected.

A presentation was made on major findings of the survey at FeSMMIDA on the concluding day of the field study.

The information thus collected from field and secondary sources was compiled and analyzed to form a part of this report.

#### **1.4 Limitations of the Study**

Some of the data and information is available only till 2013-14 and in the absence of latest information, the team had to make logical extrapolations so as to summate the SME scenario in framing of strategic plan.

Information provided on lease financing and sustainable development fund is very limited as such interpretation of such SME development schemes is restricted.

With the exception of Addis Ababa, and to some extent Tigray, situation at regions with reference to key issues is very similar, as such most of the strategies given in subsequent chapters are for strengthening of national level cluster master plan and integrating it with regions.



## Chapter 2

# Assessment of existing SME support policies

### 2.1 Introduction

Small and Medium scale Enterprises (SMEs) are regarded as major contributors of economic growth and equitable development in developing economies. Government of Ethiopia, had enacted legislation to encourage business in the country since early seventies.

Since late nineties, the formulation and implementation of MSME development in a strategic way has picked up momentum. At least two Micro and Small Enterprises (MSEs) Development strategies are framed and implemented, which are Industrial Development strategy and Growth and Transformation Plans related (a part of it) to Micro and Small Enterprises. (Change structure)



## **2.2 MSME Development Plans/ Strategies:**

**Micro and Small Enterprises Development Strategy of Ethiopia (1997-2010):** In the strategy, Micro and Small Enterprises are assumed to operate under “Agricultural Development Leads to Industrialization” (ADLI) strategy and market economy principles are considered as fundamental principles. At the end of first and second SME development strategy (in 2009/2010), a total of 176,543 MSEs were established, employing 666,192 people with a credit amount of Birr 814.1 million. The achievement is way below the target of establishment of 584,913 informal and 2,731 formal industries that absorb 739,898 labor forces.

**MSEs Development Strategy (2011-2015):** In the second strategy, the focus is more on the “industry” with a special emphasis on manufacturing sector. In order to alleviate financial constraints, the strategy dictates the state governments to guarantee the credit of the MSEs through the Credit guarantee fund beyond the 20% compulsory saving amount. At the end of the strategic period (2014/15) a total of 271,519 new MSEs were established which employed about 2.8 million people with a loan grant of more than Birr 6.5 billion. From the perspective of new enterprises establishment and employment creation , a remarkable result is obtained.

### **2.2.1 Industrial Development Strategic Plan (2013-2025):**

The overall goal of the industrial development strategy is to bring about structural change in the economy through industrial development. It is aimed specifically, at increasing the share of the industry sector from the current 13% to 27% of the GDP by 2025, and also increasing the share of the manufacturing sector from the current 4% to 17% of the GDP by the year 2025. As both of the MSEs Development strategies are viewed in the first edition of Growth and Transformation plan (GTP I), the Industrial Development strategic plan is assumed to consider more of the second edition of Growth and Transformation Plan (GTP II).

### **2.2.2 Growth and Transformation Plan II (2015/16 to 2019/20):**

According to the GTP II projection, the share of the manufacturing sector in GDP is expected to show a fourfold increase from 4.8 % in 2014/15 to 18 % by 2025. From this projection the share of Micro and Small Enterprises in GDP under base scenario in percent is stated as 1.1 in 2014/15 to 1.8 by 2019/20 with an average contribution of 1.4 in 2015/16 to 2019/20 and the projection is also made for Medium and Large-scale enterprises as 3.7 in 2014/15 to 5.9 in 2019/20 with average share of 4.9 in periods 2015/16 to 2019/20.



### **2.2.3 Some Salient features/ Targets of GTP II Pertaining to MSMEs are:**

- 2% (62,500) of the enterprises are expected to graduate from micro to small enterprises and 10,000 enterprises will graduate from small to medium.
- Development of entrepreneurial skills, by strengthening TVETs in five regions and by establishing entrepreneurship center of excellences in 35 universities.
- Training on entrepreneurship to be given for about 100,000 potential entrepreneurs that are joining the SME sector.
- In connection with government support and facilitation, about 2,247 new and existing standardized one stop service centers will be established and strengthened to increase the productivity of enterprises.
- 9,000 hectares developed land, 15,000 sheds and 600 buildings will be available and ready for new entrants which organize themselves under enterprises.
- With regard to financial support, ETB 21 billion will be available and ready for credit financing.
- Finance for Capital goods will be given to 50,000 enterprises so as to improve their productivity and production and quality of their products.
- By grouping related enterprises into clusters and by providing working premises for about 202 metal and furniture works, 202 textile and leather products, 202 agro processing, a total of 606 buildings will be built in clusters and transferred to the enterprises with reasonable price.
- About 10,000 new and potential medium enterprises will get manufacturing premises in the industrial zones with affordable price. By selecting 16 export products which have an identified value chain, the capacity of operators in the value chain from raw material supply to end markets will be built.
- In relation to the provision of extension service, training on basic entrepreneurial skill and outlook and training of trainers on business development services (BDS) will be given to 2,280 trainers and their competency will be evaluated.
- About 4,341 prototypes which are useful for technology transfer for the micro and small enterprises will be ready and 2,448 improved manufacturing tools will be disseminated to all regions according to their priority.
- Training on how to implement kaizen will be given to 750,000 micro and small enterprises and they will implement it.

## **2.3 Major observations about the policies**

### **2.3.1 SME definition and clarity:**



Definition of MSMEs has shifted from mere investment or mere number of employees to a more comprehensive one, mainly following World Bank criterion as given below:

**Table No 2.1: MSME Classification as per GTPII**

Economic Sector	Micro Enterprises		Small Enterprises		Medium Enterprises	
	Service	Mfg.	Service	Mfg.	Service	Mfg.
<b>Employees</b>	≤ 5	≤ 5	6 - 30	6 - 30	31 – 100	31 – 100
<b>Capital (in ETB)</b>	< 500000	<100000	50001 to 500000	100001 to 1500000	500001 - 7500000	

There are 2 parameters, one is the number of employees and the other being capital, whereas the World Bank also considers turnover as another parameter, other than above two. In fact, in countries like India and Malaysia, more emphasis is given to turnover as in many small and to some extent in medium enterprises. Most of the workers are on contract basis and are not shown as full-time employees. Similarly, in many labor intensive or working capital intensive sectors like construction and handlooms, the capital costs on plant and machinery may be less; however, their working capital and turnovers may match that of medium or large enterprises. Depreciation also plays an important role in assessing capital costs on plant & machinery. For example, a small enterprise, when registered, may have capital cost of ETB. 60000. However, after 4 years, if no further capital investments are made, the existing capital expenditure may become ETB 40000 after depreciation. In such a scenario, the unit will now fall under micro category with reference to investment. As such, considering turnover as third criterion may be a prudent option, which is now understood by many countries.

Similarly, there is no clear demarcation with reference to service and manufacturing medium enterprise definition. Normally capital investments in service sector will be less as they are recurring expenditure-intensive. So, there may be a clear demarcation between service and manufacturing sector ME definition.

### **2.3.2 Lack of clarity on benefits to existing SMEs and natural clusters:**

In GTP II, targets were given on the number of cluster structures to be built, quantum of land earmarked and the number of entrepreneurs to be trained. However, there is no clear demarcation on what the target/ budget allocation for existing SMEs and natural clusters will be, which are already functioning and languishing due to lack of proper infrastructure, skills, technology and more importantly access to finance.



In fact, in many developing countries including India, main emphasis is given to strengthening of existing SMEs and their ecosystems, rather than creating new ones as this may lead to an unhealthy competition and unrest among existing ones, which are already contributing to country's economy.

There should be clear mapping of the regions and sectors, with reference to requirements of existing SMEs and necessity to create new entities. Emphasis should be given on strengthening of existing induced cluster structures, which in many regions like Oromia and Tigray, are lacking basic amenities. Establishing new structures in such regions, when existing ones are languishing, may not yield desired results.

In India, more than 70% of the budget, earmarked for MSME Cluster Development is meant for existing MSMEs and their value chains. For newly induced clusters, sectors and regions were carefully selected based on the need, resource availability and backwardness. After careful mapping it was identified that leather, food processing, electronics and pharmaceuticals need inducing of clusters as their existing number is low and there is still demand supply gap. Similarly, there are regions like North East India, and many backward districts identified for inducing industrial development, however only after assessing the human and natural resource potential. Thus, separate budget is allocated for specified sectors and regions for inducing clusters and value chains.

### **2.3.3 Emphasis only on few thematic areas:**

All the existing SME policies, be it GTP II, lease financing and sustainable development fund, mainly focus on areas like access to finance, skill, technology, space requirement and marketing. In fact, in GTP II there are targets to achieve based on said areas. However, no emphasis is given for improving energy efficiency, occupational health and safety, environment management, quality up gradation, design development, promoting ICT, association capacity building, which are equally important to improve productivity and competitiveness of SMEs. This is especially the case with regions, where access to BDSPs and awareness of TVETs and regional institutions with reference to said focus areas is very limited.

Till, 2006, main focus of Government of India policies related to MSMEs is also on access to finance, marketing and technology. However, realizing the importance after thorough discussions with industry stakeholders, Government of India has come out with an exclusive scheme called "National Manufacturing Competitiveness Program(NMCP)", which has following major sub schemes:



- Design Clinic Scheme – For Design Development
- Zero Effect and Zero Defect (ZED) Scheme for Energy Efficiency and Environment Management
- Lean Manufacturing Scheme: For productivity improvement
- Digital MSME Scheme – For promoting ICT among SMEs
- Technology & quality Up gradation support Scheme – Mainly for quality up gradation & Innovation

#### **2.3.4 Role of FeSMMIDA and its integration at Regional Level**

Establishment of FeSMMIDA, for exclusive SME development is a prudent initiative. FeSMMIDA with its many directorates representing various thematic areas, can really bring in desired changes in SME ecosystem.

As per the policy, the FeSMMIDA is expected to operate at regional level through its branches called ReSMMIDAs, which take care of extension services and IPDCs, which, in turn, will take care of hard components like creation of physical infrastructure and their maintenance. This is an affective policy framework made. However, such policy is not very clear about the role of regional administration, sub city councils and woredas. For example, most of the regions have Trade and Industry Development Bureaus, which have wide network and strong linkages with local industry. However, their role in the new framework is not clear. Even if it was made at federal level, the same was not disseminated in a proper way at regional level. Moreover, in majority of the regions, ReSMMIDAs are at establishment stage and no clear timelines are given about when they will become operational and fully functional.

Effective implementation of any SME policies will mainly depend on strong integration between Federal and Regional support institutions, which need to be given a priority.

FeSMMIDA, was initially under Ministry of trade, then it was entrusted with Ministry of Urban and Housing Development, now it is shifted to Ministry of Industry. Such frequent shifting may dent efficient functioning of the agency and as such, development of the institution is vital for effective implementation of SME policies. It is advisable, to keep it permanently under Ministry of Industry and in future as number of SMEs grow, it may be made a Ministry by itself.

#### **2.3.5 Value chain development among induced clusters:**

In GTP II, there is a clear mention about the industrial parks and that more emphasis will be given for value chain development by integrating principle SME firms with backward and



forward integration. However, such policies were not mentioned or were not clear for SME clusters. In fact, in a majority of the induced clusters situated in regions, space is allocated only to principal firms and there are no input suppliers or traders within the cluster area. Such isolated SME clusters cannot sustain for a long time, without a proper value chain development framework.

Such value chain led clusters need to be given a priority in national and regional level cluster master plans, which are expected to be developed in near future.

### **2.3.6 Distribution framework of Lease Financing Policy:**

According to the guidelines, the lease financing for capital goods will be taken care of by Development Bank of Ethiopia and working capital needs are expected to be taken care of by Commercial Bank along with MFIs.

As per GTP II target, lease finance should reach 50000 SMEs, which is a huge number. During the field survey it was observed that not even 5% of SMEs have received capital goods finance so far, in fact in some regions it is not even 2%. So, in the remaining period of GTP II, which is expected to end by 2020, that means in 2 years, can the DBE alone with its limited staff strength, meet such target? Moreover, as of now the final appraisal of all proposals and procurement of machinery is done at HO level in DBE and meeting requirements of 50000 SMEs by HO officials in 2 years is near impossible. Even if they decentralize the distribution system to regional level branches, meeting such huge target is doubtful. So, there is a need to totally decentralize the scheme and distribute the target to other nationalized banks also or as an alternative MFIs need to be given more targets and increase their lending capacity.

In India and other developing countries, any credit guarantee or leasing schemes will be implemented by consortium of banks and not by a single bank, if the set targets are high. Same procedure can be followed in Ethiopia also.

There is also a need to enhance the role of regional administrations and support institutions in identification of potential SMEs for credit/ capital finance, apprising their applications, handhold them in identification of suitable technologies and machineries, and support DBE in loan distribution and post distribution monitoring.



### 2.3.7 Policy of Cluster Development:

One of the priority areas of MSME policies and GTPs is development and strengthening of SME clusters, and even major component of Sustainable Development Fund is earmarked for the same. However, there is a lack of a separate budget allocation for implementing soft interventions, hard interventions like CFCs, physical infrastructure like roads and other amenities. In the absence/ lack of clarity on such demarcation, it appears that the entire budget is allotted only for development and maintenance of cluster structures, which ideally should not be the norm in any Cluster Development Approach.

Soft Interventions play a crucial role in building up the trust among cluster firms, capacitating them in collective bargaining, improving their marketing and financial management, and making them aware of advantages of energy efficiency and environment management. In fact, implementing soft interventions need to be a prelude to establishment of any capital-intensive hard infrastructure.

Micro, Small Enterprise Cluster Development Program, is the flagship cluster development scheme in India implemented by Ministry of MSME. Under the scheme, for each cluster , USD 3075 is allotted for preparation of Diagnostic Survey Report, USD 30770 for implementation of Soft Interventions, USD 7690 for preparation of DPR in establishment of hard interventions, USD 2.30 million for establishment of CFCs and USD 1.15 million for creation of physical infrastructure in the cluster.

Such component wise budget allocation may be incorporated in National level/ Regional level Cluster Master Plans and also in Sustainable Development Fund.

## 2.4. Conclusions

***It is evident from the MSME policy papers and GTPs that Federal Government of Ethiopia is really committed for the development of MSMEs and understood their importance in national economy. There is also a marked improvement in defining the MSMEs and prioritizing their basic requirements, though it is not very clear why micro enterprises are now separated from SMEs and clubbed with food security.***



*SME development, through cluster approach is a proven tool in many countries and Ethiopia has also initiated many measures in developing the same, through its policies. However, there is a need to strike a balance between improving the existing clusters and inducing the new ones, by careful regional and sector- specific mapping. Inducing clusters to mitigate regional imbalances may be a right tool, provided a need and resource-based approach is adopted.*

*It has been observed in many countries that many good policies are framed for SME development at federal level, however, what is lacking is their effective implementation based on regional level requirements and involvement of local authorities, resulting in mismatch between targets and achievements. So, the Ministry of Industry and FeSMMIDA are expected to develop a strong bond with regional SME support Institutions in order achieve GTP II targets, through firming up of ReSMMIDAs at the earliest.*

*Most of the natural and induced clusters in Ethiopia are still at nascent stage, and require a holistic development approach covering all thematic areas through various soft and hard interventions. Even the budget needs to be allocated accordingly in the policy framework.*

*Access to credit is a major issue and one of the justified policies adopted is lease financing for purchase of capital goods. However, it will be a herculean task to implement such policy at national level by one institution as such it should be decentralized by allotting to consortium of banks. Such framework should also involve concerned regional level support institutions, so as to reach envisaged targeted numbers and mitigate regional imbalances in reaching out to SMEs.*

Acknowledgements:

- Growth and Transformation Plan II (GTP II), (2015/16-2019/20), Volume I: Main Text
- Cluster Development Programs in Ethiopia: Evidence and Policy Implications, by Merima Ali, Olivier Godart, Holgar Gorg, Adnan Seric
- MSME Development Strategies in Ethiopia, Retrospective and Prospective Analysis, by Amare Abawa Esubalew and A. Raghurama
- Ethiopian Industry Development Roadmap by Ministry of Industry
- Strategic Action Plan of MSMEs by Ministry of Industry
- Website of Ministry of MSME, Government of India



## Chapter 3

# Review & Recommendations on management structure of SMEs

**As per the mandate, the present review and recommendations are mainly confined to SMEs and their clustering, which fall under Ministry of Industry.**

### **3.1 Nodal Agency at Federal Level**

With a view of expanding the changes realized in the second growth and transformation plan and become the basis for the industry sector, the small manufacturing sector which has been implemented under the micro and small enterprises, was incorporated with the medium manufacturing sector by Regulation No. 373/2016 of the Council of Ministers. The organization was established with the name the **Federal Small and Medium Manufacturing Industry Development Agency**.



The FeSMMIDA, which was formed under the aegis of Ministry of Industry, Federal Government of Ethiopia will be the Nodal Agency and will be responsible for development of SME sector at National Level.

FeSMMIDA has a very clear vision, mission and objectives. Its vision is ““Realizing sustainable and competitive small and medium manufacturing industry development which have extensive foundation for the industrial development””. The basic functions expected from FeSMMIDA are:

- Capacity building of manufacturing industry development
- Development of innovation and skill
- Industrial information and consultancy (feasibility study of investment, alternative sector into etc.)
- Feasibility study to assist growth of industrial investment, business plan
- Capital lease finance, provision of industrial machinery.
- Provision of industrial cluster infrastructure
- Technology development and transfer
- Industrial market development and creating market chain (expansion of markets)
- Laying down systems to increase quality and productivity of industries
- Creating industrial raw material supply chain.

FeSMMIDA is headed by Director General and is heading 22 Directorates representing various areas and sectors, like:

1. Policy Planning and Project Designing.
2. HR and Institutional Transformation Management
3. Purchase, Finance and Property Administration
4. Communication Affairs
5. Gender and Multi Sector Affairs
6. Manufacturing Development Sector
7. Textile & Clothing
8. Leather & Leather Products
9. Agro Processing
10. Metal & Wood Works Engineering
11. Construction Inputs, Chemical, Jewelry and Mining
12. Manufacturing Facilitation and Transformation
13. Product Technology Development
14. Infrastructure and Cluster Development Directorate
15. Market Development & Industry Linkage



16. Capital Goods Lease Finance
17. Manufacturing Implementation Capacity building
18. Research & Training Capacity building
19. Information Technology
20. Environment Protection and Energy Utilization
21. Entrepreneurship Development
22. Incubation Centers Development and Technology Research

### **3.2 Other Support Institutions at Federal Level:**

At federal level, FeSMMIDA is expected to be assisted by various sector specific development institutions, which belong to various ministries, in matters related to technology transfers, skill development, R&D, so as to make sustainability of SME's, a reality. Other than the above there are various sector specific federal level associations, which need to assist the FeSMMIDA with relevant industry information related to skill, inputs, marketing, financing, quality etc.

List of other Ministries/ their institutions which are supporting SMEs at federal level are given as below:

**Table No 3.1: List of Important ministries & institutions**

<b>S. No</b>	<b>Name of the Institution</b>	<b>Importance</b>
<b>1</b>	Ministry of Foreign Affairs	Transfer of technology and knowledge, FDI promotion
<b>2</b>	Ministry of Finance & Economic Development	Legal registration of investors, to assess registered SME data, to understand market systems
<b>3</b>	Ministry of Science & Technology	Availability of technologies, patenting, technology transfer
<b>4</b>	Ministry of Education	TVETs and their relation to SMEs
<b>5</b>	Ministry of water Irrigation & Electricity	The ministry along with its wings like Ethiopian Electric Utility and Ethiopian Electric Power takes care of power requirement of SMEs
<b>5</b>	Regional Government/ City Admin in select regions	Development initiatives undertaken at regional level, major sectors developed in the region, parks/ clusters developed etc.



<b>6</b>	Ethiopian Standard Agency	To help SMEs in developing quality standards, providing technical support, Skill Development Trainings etc.
<b>7</b>	Industrial Parks Development Corporation	To assess number of parks established/ under establishment stage, issues faced, amenities provided in parks/ Clusters etc.
<b>8</b>	Commercial Bank of Ethiopia/ Development Bank of Ethiopia	To understand SME loan products, credit scenario, sector wise priorities etc.
<b>9</b>	Ethiopian Investment Commission	Foreign investment rules and regulations, FDI investment data, sector wise investments
<b>10</b>	Central Statistical Agency	To assess latest data on SMEs, investments, turnovers, sector/ region wise list of SMEs etc.,
<b>11</b>	Ethiopian Management Institute	To assess managerial skills of SMEs, any reports made on capacity requirements of SMEs etc.
<b>12</b>	Ethiopia Industrial Input Development Enterprise	To take care of input requirements of industrial sector including SMEs
<b>12</b>	Ethiopian Institute of Textile & Fashion Technology	To sector specific SMEs in tech transfers, input sourcing, proto type development, skill development etc.
<b>13</b>	Textile Industry Development Institute	--do--
<b>14</b>	Leather Industry Development Institute	--do--
<b>15</b>	Meat & Dairy Technology Institute	--do--
<b>20</b>	Agro Processing Industry Development Institute	--do--
<b>21</b>	Chemical Industry Development Institute	--do--
<b>22</b>	Metal Industries Development Institute	--do--



**Table No 3.2: List of important associations**

<b>S. No</b>	<b>Name</b>	<b>Type of Association</b>
<b>1</b>	Ethiopian Chamber & Sectorial Association	National Level
<b>2</b>	Addis Ababa Chamber of Commerce	City level
<b>3</b>	Ethiopian Leather Industries Association	Sectorial
<b>4</b>	Ethiopian Economics Association	National Level
<b>5</b>	Ethiopian Association of Basic Metal and Engineering Industries	Sectorial
<b>7</b>	Ethiopian Textile & Garments Manufacturers Association	Sectorial
<b>8</b>	Addis Ababa Women Entrepreneurs Association	City level

**At Regional Level:**

There are mainly two entities, which are expected to support FeSMMIDA in SME development at Regional Level, and those are ReSMMIDAs, their regional subsidiaries and regional level IPDCs. While ReSMMIDAs are expected to take care of soft components/ extension services like training, marketing, input procurement, lease financing, land procurement etc., the IPDCs are expected to take care of hard components like establishment of SME cluster structures, other physical infrastructure and their maintenance.

Each ReSMMIDA will be headed by a Director and will be supported by different departments related to skill, marketing, finance etc.

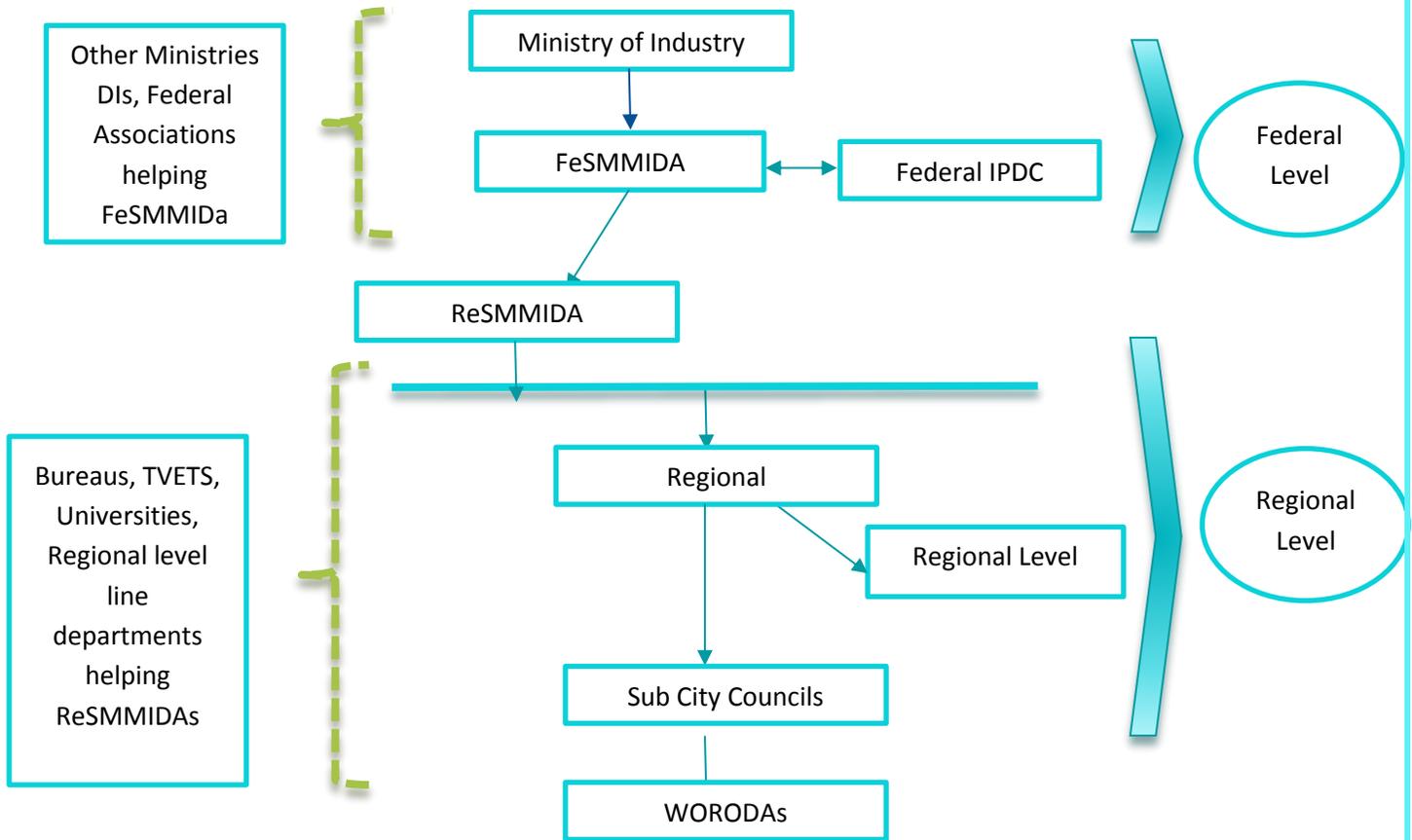
The regional level Trade and Industry Development Bureaus, TVETs, Universities, are other major regional level support institutions, which are expected to support ReSMMIDAs in sustainable development of SMEs, in respective regions.

**At Sub Regional Level**

There are Zonal and sub city administrations, WORODAs (Districts), which will take care of SME development at zonal, sub regional and district levels.

The overall existing support structure for SME & Cluster development is given as below:

**Figure 3.1: Existing SME support structure**



**3.3 Exclusive Cluster Management Support Structure:**

At Federal Level, cluster management of both induced and natural clusters will be taken care of by the FeSMMIDA with the help of its exclusive Directorate on infrastructure and cluster development. The FeSMMIDA is ably supported by Federal level IPDC in identification of suitable land for induced clusters and budget provisions for development of physical infrastructure in clusters. The FeSMMIDA is also supported by Development Bank of Ethiopia in lease financing of SMEs situated in clusters.

At regional level, as indicated, soft interventions of clusters will be taken care of by the ReSMMIDA and hard components are managed by the regional IPDCs. There are State Level Cluster Coordination committees formed in few regions to monitor and counsel the ReSMMIDAS.



At sub regional level, clusters are managed by zonal, sub city and WORODA administrations, ably assisted by Industrial Extension Officers of ReSMMIDAs.

At Cluster level, associations/ cooperatives were formed, which are expected to take care of cluster specific operations and management.

### **3.4 Major observations on existing support structures:**

- Though a mechanism that ReSMMIDAs will take care of extension services and IPDCs will take care of hard component exists, the firming up of such mechanism is still at a nascent stage in many regions. With the exception of Tigray, such mechanism is not still well developed in the other regions. In majority of the regions like Amhara and SNNP, it is still the bureaus that are taking care of cluster development management with specific reference to extension services.
- The role of Trade and Industry Development Bureaus under the ReSMMIDA-IPDC structure is not very clear in relation to SME Cluster Development. In most of the regions, such bureaus have well developed structural framework and reasonable trust among SMEs, though they are mandated to take care of the entire industrial development in the region.
- The capacities of officials of support institutions with specific reference to Cluster Development approach, its components and criterion, besides Value Chains and its analysis is very poor. According to them a cluster means establishing few units, making similar products in shell structure. They are not aware of cluster economic system or cluster map and the kind of linkages required among various entities.
- Even the capacities of such officials to do a techno economic feasibility study prior to planning an induced cluster is very weak. In the first phase of cluster development, most of the structures were built without proper assessment of power and utility requirement. In most of the cases the space given to SMEs is more than what is required and, in few cases, it is grossly insufficient. There are no proper partitions between units and lack of any common facilities. In many structures, there are no sanitation facilities. Thus, space management by support institutions is very poor.
- The communication flow between FeSMMIDA and ReSMMIDAs is still poor and the vision, mission and objectives of Federal Agency were never understood at regional level.



- In many developing democratic countries, it is very common that regional administration is autonomous and will have differences of opinion with federal agencies, the same is observed in Ethiopia, and we see that in few regions both the administrations are virtually running parallel.
- Though cluster level associations/ cooperatives were formed in many induced clusters, they were not capacitated in cluster concepts and collective bargaining.
- There is a marked dissatisfaction among natural clusters. As per their perception, most of the sustainable development fund is utilized for inducing of new clusters, grossly ignoring the existing ones. The existing ones are struggling with dwindling markets and introduction of new clusters creates unnecessary competition.
- The criterion for selection of sector specific clusters in regions is not very clear. There is no mapping of available natural and skill resources, prior to planning of an induced cluster. For example, a leather cluster can be seen in neither most of the regions, where there is neither local availability of raw materials or skilled manpower nor any proper demand assessment done.
- The lease amount collected by IDPC in maintaining the clusters vary from region to region and in most of the cases, it is too low to compensate the cost of maintenance of such clusters. This will lead to continuous dependency on budgetary allocation from Federal Government or diversion of funds ear marked for other development projects.
- Appointment of a Cluster Development Agent (CDA) who can facilitate the implementation of interventions , is not visible in most of the induced clusters. The role of CDA in any cluster development approach is crucial and cannot be avoided



### 3.5 SWOT Analysis of FeSMMIDA

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Wide administrative network, qualified, experienced and committed staff at HO level</li> <li>• Existence of legal, regulatory framework to guide and facilitate its operations</li> <li>• Existence of a well-developed structure for the Co-operative movement</li> <li>• Presence of Regional Bureaus, Agencies, corporations that deliver its mandate</li> <li>• Existence of development Institutions, which are willing to cooperate</li> <li>• Good ICT infrastructure at the headquarters</li> <li>• Appropriate governance system</li> </ul>	<ul style="list-style-type: none"> <li>• Weak or lack of its regional level development agencies</li> <li>• Limited Capacities of regional staff on SME development in general and cluster approach in particular</li> <li>• Inadequate number of technical and support staff at regional level</li> <li>• Inadequate Facilities, Equipment and Transport</li> <li>• Linkage of ICT to regional offices is inadequate</li> <li>• Absence of a databank and other real-time information on SMEs and Co-operatives for timely decision making</li> <li>• Weak monitoring and evaluation system</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Political goodwill</li> <li>• Establishment of exclusive Ministry of Industry</li> <li>• Presence of well-structured GTP II to drive the SME sector</li> <li>• Strategic geographical location that makes Ethiopia a regional hub for investment</li> <li>• Emerging markets local, regional and global</li> <li>• Vibrant economic environment</li> <li>• Developed financial system serving the country</li> <li>• Availability of human resource development institutions</li> <li>• Emerging focus on value addition activities</li> <li>• Availability of key domestic raw materials for local SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Abrupt splits and mergers of ministries</li> <li>• Overlaps of mandates and functions at regional level</li> <li>• HIV/AIDS pandemic and other emerging issues e.g. alcoholism and substance abuse, domestic violence affecting SMEs</li> <li>• Insecurity and instability in the regions</li> <li>• Weak corporate governance and application of best practices</li> <li>• High rate of taxation</li> <li>• High of energy and power fluctuations</li> <li>• Under developed and costly physical infrastructure</li> <li>• Over dependent on regional market by SMEs</li> </ul>



### 3.6 Recommendations

**Presence of a Scheme Steering Committee at Federal Level for Cluster Development( SSC):** The Ministry of Industry will be the coordinating entity, providing overall policy, coordination and management support to the Sustainable Development Fund Scheme. A Scheme Steering Committee (SSC) may be constituted under the chairmanship of a Secretary rank person of Ministry or by Director General of FeSMMIDA. The SSC may co-opt representatives of development banks, DIs, industry associations, R&D institutions and other private sector expert organizations as members/ special invitees, depending on functional needs. The SSC will consider the proposals of clusters submitted by Nodal Agency i.e. FeSMMIDA and shall extend approval to the cluster proposals. The cluster proposals will include the details of budget proposed by NA. The SSC may make intra-sectorial adjustments of activities and corresponding funds without affecting the basic objectives and thrust of the scheme.

**Strengthening of ReSMMIDAs:** While the concept of ReSMMIDAs, taking care of extension services is a prudent decision, capacities of officials need to be strengthened, and training programs on CDP approach to be conducted at each region. Those officials who are involved with Cluster Development need to be exposed to bench mark clusters in India, China and other South East Asian Countries, where dynamics are similar. However, it is to be remembered that capacitating ground level officials, who are directly dealing with clusters, need to be given a priority than confining to senior level federal level officials. It is also to be ensured that such trained officials will be retained in SME cluster development for a reasonable time without any transfers, which otherwise will not show any impact.

**Appointment of CDAs:** All the ReSMMIDAs must ensure the appointment of CDAs in both natural and induced clusters at least for a limited period. Such CDAs must be well educated, need to be trained in CDP approach, go getters with proper communication skills. A selection criterion need to be developed for appointment of competent CDAs and their salaries can partly come from Sustainable Development Fund, partly to be borne by regional administration and may be a small portion by cluster stakeholders.

**Hiring of PMCs or TAs for a limited Period:** In countries like India and Bangladesh, it is a norm that until the regional level officials attain sufficient capacities, the Government will hire the services of Project Management Consultants/ Technical Advisors, who have minimum of 10 years' experience in implementing CDP projects at national and international level. However,



services of such professional agencies may be for a limited period due to huge budgetary constraints .

### **Hiring of Technical Advisor ( TA)– Under SFURTI Scheme for MSME artisan clusters in India**

Established national-level institutions, with proven expertise in artisanal and small enterprise cluster development shall be engaged as Technical Agencies (TAs) to provide close handholding and implementation support to the SFURTI clusters. The TAs shall provide technical support to the Nodal Agencies and the Implementing Agencies. The responsibilities of the TAs will include preparation and validation of Cluster Action Plans, conducting training of the Cluster Development Executives (CDEs) and other officials of the IAs and NAs, regular monitoring of the cluster on monthly/ quarterly basis and submit report on quarterly basis, to the respective field office of Nodal Agencies.

#### **Responsibilities of TA**

To identify focus products and product mix for the cluster for domestic and export markets. That may also include multi products in the cluster and creating linkages with other available network of cluster in the adjoining primary cluster within the given budgetary allocation and as per approval of PPR/DPR;

To put in place a suitable business plan, detailing the revenue model based on appropriate user fee, mechanism to collect it to enable the SPV to achieve the projected outcomes in terms of productivity, sales, employment, wages enhancement, overall income of the cluster as projected in the DPR;

To assist the IA/ SPV in engagement of a Design House/Designer with appropriate terms of reference and detailed scope of work for extending appropriate input of design, product processing, product development and proper packaging in consultation with NA, IA and other stake holders;

To assist the IA/ SPV in engagement of Business Development Services (BDS) providers, out sourcing/improving tools and equipment, developing strategies & best practices for credit linkage as far as possible;

To advise IA/CDE for making plans for procurement of raw materials along with various micro and macro level tools and machineries and other processes as identified and mentioned under DSR/DPR.

To facilitate linkages between the SPV and various other stakeholders, particularly the Government organizations, buyers and financial institutions.

To facilitate in the identification of suitable Technical Consultants in designing appropriate technologies for the cluster within the allocation ceiling for the respective type of cluster.

To create an appropriate system for online reporting of progress to Nodal Agency and to the Ministry of MSME on a monthly and quarterly basis.

Any other work assigned from time to time by the NA, Ministry of MSME, for timely completion of project, any changes in nature of intervention, any sorts of addition/alternation in the implementation program, etc. that may come at any point of time during the project period should very well be considered by TA for execution without any additional cost.

**Source: Revamped SFURTI guidelines published by ministry of MSME. Government of India**



**Formation of State Level and WORODA Level Cluster Coordination Committees:** In order to provide suggestions and advice to ReSMMIDAs and IPDCs for effective cluster implementation approach, such committees are formed in most of the CDP practicing countries. Such committees need to be formed with members from Regional Administration, leading TVETs, Universities, Banks, and MFIs etc. These committees are expected to meet once in every quarter, review the progress made in each cluster and provide suggestions and take necessary actions for effective implementation.

**Strengthening of linkages with DIs and other technical Institutions:** Though this subject is elaborated in subsequent chapters, it is to be mentioned that at present the role of DIs is mainly restricted to individual large enterprises and few SME clusters situated in Addis and Oromia. It is a known fact that these DIs do not have regional presence and have limited staff. Still, there should be a mechanism to have interface with DIs at least at regional level with important cluster stakeholders on quarterly basis so as to assess the technical, skill and quality requirements, so that solutions can be drawn by experts of the concerned institutions.

**Empanelment of regional level civil engineers for development of induced cluster master plans/ layouts:** At present, such functions are taken care of by the bureaus or some private engineers hired by IPDC or bureaus. However, so far it has not yielded desired results as bureau members do not possess capacities to do TEV studies and develop master plans for effective utilization of space, power and other utilities or to focus on the commitment levels of the private engineers. In most of the developing countries empanelment of civil engineers fulfills that responsibility, based on pre-fixed criteria developed by regional infrastructure development departments like IPDCs. As an alternative or as complementarity, capabilities of IPDC officials need to be improved with structured training programs by universities or professional agencies like Mahindra's.

**Role Clarity:** Though FeSMMIDA is the Federal Level Nodal Agency, their regional counter parts including IPDCs do not have clarity on roles. Even if they have, the priorities in many cases are vastly different. In an ideal situation, it is better for Nodal Agency like FeSMMIDA to not to interfere in selection of clusters and cluster- wise budgetary allocation at regional level, which can be taken care of by regional administration, while FeSMMIDA will only take care of overall budgetary allocations and progress of clusters.



For example, in India, the MSECDP, which is a flagship cluster development scheme, till last decade, the mantle of selecting and implementation of each cluster used to be taken care of by Ministry of MSME and its branches in states. However, this led to various conflicts between central and state administrations. Now the Ministry has totally decentralized the scheme, while the selection of clusters and their requirements will be planned by the State Administration, the federal government will look in to the viability of each proposal and allocate the budgets. The monitoring of each cluster will be taken care by a joint action committee of nominees from respective State and Centre. In this way, the scheme is now running smoothly without major hiccups.

**Association Capacity Building:** Associations have to play a vital role in sustainable development of clusters be it natural or induced, as the role of support institutions and TAs, CDAs is for a limited period. Careful framing of association by laws, proper selection of association executive, strengthening of association secretariat with competent staff, providing basic amenities like furniture, office space and communication equipment, conducting management development programs for association executive are some of the measures, which are paramount for developing strong associations.

Recently in countries like India, Thailand, Vietnam, even in China, concerned Government authorities understood the importance of BMO capacity building and it was given a top priority in CDP approach.

Separate budgetary provisions/ scheme have been developed for BMO capacity building and multilateral agencies like GIZ, UNIDO, UNDP, KFW are playing a major role in strengthening the concept by donating funds and providing technical assistance.

In fact, in countries like India, priority is given to rating of associations by accredited agencies and those which got higher ratings are given incentives and awards, which will motivate other associations to be more proactive. M/s Small Industries Development Bank of India is entrusted with the task of rating of associations with the help of professional agencies and is also mandated to develop rating criterion.

**Association (BMOs) rating parameters adopted in India**

- Accreditation standard aligned to International Best Practices.
- Standard developed in collaboration with Ministry of MSME, SIDBI, & GIZ (German Development Corporation).
- Provides BMOs with a framework to plan, establish, operate, monitor and improve services.
- BMO grading based upon four Parameters Governance, Operations, Services and Performance Measurement & Reviews.
- 4 levels for Grading BMOs - Silver, Gold, Diamond & Platinum.

**Association grading parameters**

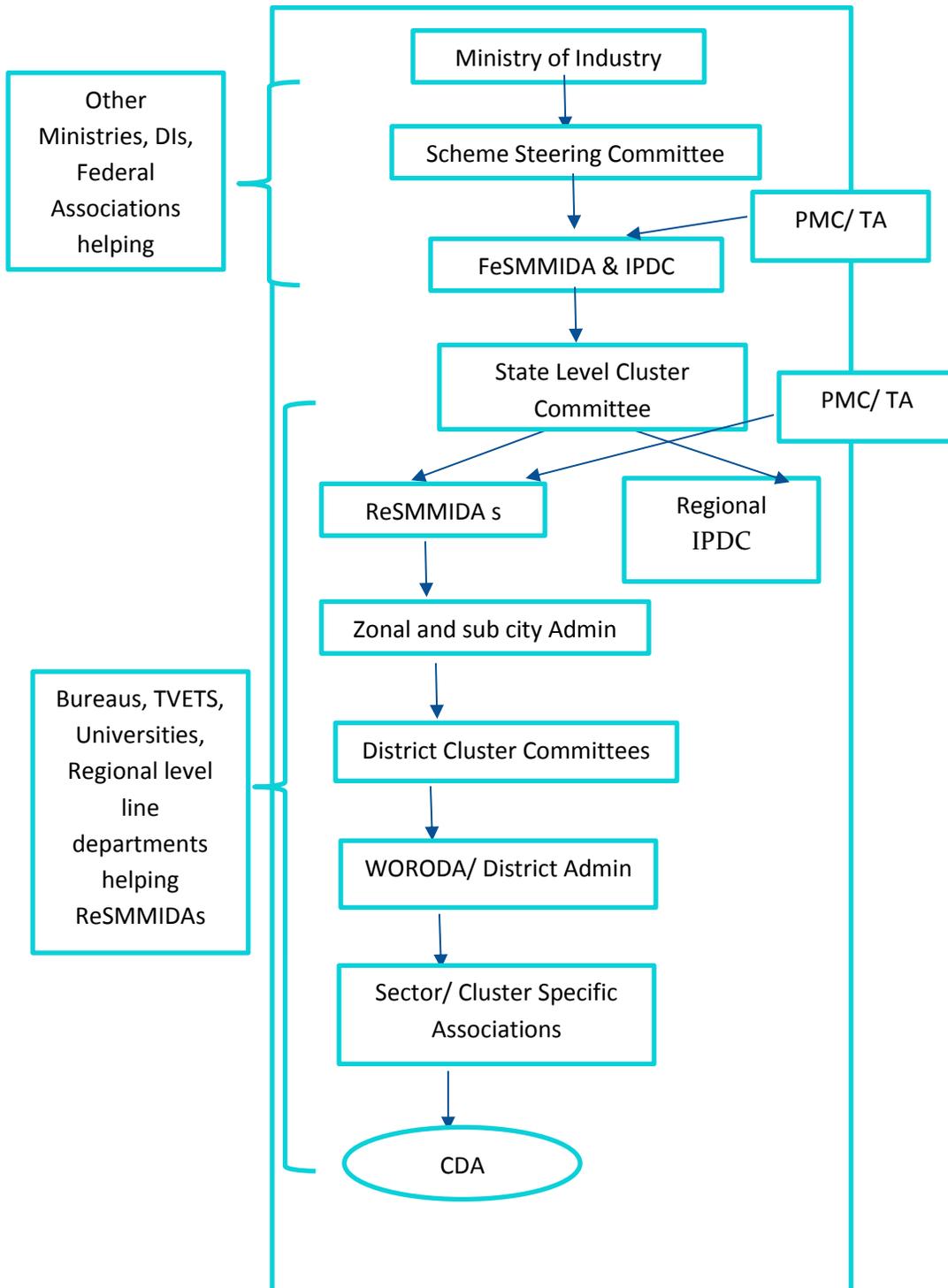
<b>Governance</b>	<b>Operations</b>	<b>Services</b>	<b>Performance measurement &amp; review</b>
Nature of business & operational system	Membership retention and growth	Action Plan	Self-assessment and performance review
Election	Recruitment Policy	Programs	Continual improvement
Leadership	Training to secretariat staff	Advocacy	Review committees
Annual General Meeting	communication	Facilities	Complaint handling
Secretariat Office			

**Source: Session notes on BMO capacity building by FMC**

**Developing a clear strategy for natural cluster development:** FeSMMIDA and Ministry need to give equal importance to existing clusters and fulfilling their necessary hard and soft requirements. In fact, it can be a prudent decision to have separate divisions at FeSMMIDA for natural cluster development and induced cluster development, as both may differ in their requirements and needs. Though removing regional imbalances may be a major objective under sustainable development scheme and GTP II, the importance of existing clusters cannot be ignored as they are already contributing to national and regional level economy in a big way.



Figure 3.2: Envisaged support structure for SME Cluster Management





### 3.7 Major inferences from the map

1. *The solid box across the principal support institutions represents strong linkages among federal and regional level entities.*
2. *Inclusion of Scheme Steering Committee after Ministry shows its importance in overall management of sustainable development fund for SME growth.*
3. *The PMC/ TA is given half inside and half outside the box, stating that it is purely a temporary arrangement and works for short duration to handhold support framework and is not a part of the support system (Did not understand)*
4. *Regional Cluster Coordination committee is given above regional entities, clearly stating its superiority and its advisory role on regional level SME and cluster development. Same is the case with District Level Cluster Committee at WORODA level.*
5. *Box of CDA highlighted in red, stating his/ her importance in the SME development framework.*
6. *Solid flower brackets with other support institutions like DIs, TVETS etc. represents strong linkages with principle support institutions.*

#### Acknowledgements:

- Growth and Transformation Plan II (GTP II), (2015/16-2019/20), Volume I: Main Text
- Government's role in cluster development for MSEs, Lessons from Ethiopia, by Merima Ali
- FeSMMIDA Establishment Gazette by Federal Republic of Ethiopia
- MSME Development Strategies in Ethiopia, Retrospective and Prospective Analysis, by Amare Abawa Esubalew and A. Raghurama
- Revamped SFURTI guidelines published by Ministry of MSME, Government of India.
- Performance & Credit rating scheme of Ministry of MSME, Government of India



## Chapter 4

# Linking Support Institutions to SME Cluster Development Program

### 4.1 Present Status

The capacity and skills of human resources are fundamental for SME cluster development be it natural or induced. In Ethiopia there is a large pool of about 10,00,000 skilled and semi-skilled workers operating within SME Sector. Yet, the skills of the majority of the Ethiopian labor force are not up to the mark to meet global standards. Much of the new SME enterprises in clusters find it difficult to locate the skilled labor they require for their operations and management, with specific reference to medium and the high skill levels. **The problem is not the question of quantity, but an acute scarcity of quality labor. Though there are TVETS, Development Institutions, Universities and Polytechnics involved in skilling of the work force, however, their efforts are not coordinated and SMEs are grappling with following challenges:**



- In many regions TVETs are providing training programs to SMEs, but there is no strategic planning, scheduling and implementation of such programs.
- In many instances, the TVET trainers, do not possess industry exposure, as such programs are not giving desired results.
- There are divergent opinions among regions related to capacity of TVETs faculty to teach SMEs. While some officials suggest to opt for polytechnics, others say it is better to have Industrial Extension agents/ Engineers who should give training programs.
- TIVETS complain that in many regions there is no system of Skill Gap analysis done by support institutions.
- With the exception of Addis, most of the other regional officials are not aware of federal development institutes and their role. They demand such agencies at regional level or branch offices of federal Dirs.
- Some regions are interested in entering into MoUs with local universities for organizing skill development programs, though it never materialized.
- There is also a demand to establish a government owned training institution which can provide capacity building programs (only soft skills) not only for SMEs but also for officials.

Ethiopia is bestowed with many sector specific development institutes ranging from textile, leather, base metal, meat & dairy, etc. Most of them have necessary infrastructure related to testing, training, R&D, Technology transfers and promoting innovations. However, following issues are impeding their importance as major service providers for capacity building:

- The services of many of the DI's are mainly restricted to Large and Medium Enterprises while their services to SMEs is only through capacitating TIVETS.
- Many DIs feel that they are federal level agencies and their mandate to serve in regions is on need basis and they would respond only when regional support institutions request their service.
- DIs expressed their helplessness in establishing branches at regional level as regional administrations are autonomous and unless any region comes out with a request, along with a plan for cost and revenue sharing, they cannot create any branches.
- DIs feel that, it is the prime responsibility of FeSMMIDA and its regional entities to link SMEs in clusters with DIs as they have strong reach and penetration, which DIs do not have
- During preparation of curriculum or conducting training programs, role of SMEs through their associations is very limited, leading to huge gap in what is expected by demand side (SMEs) and what is delivered by supply side (TVETS and other training institutions)



Thus, in spite of having necessary infrastructure these DIs are highly underutilized.

The other major issues related to skill development among SMEs are:

1. There is no apex agency to take care of planning and coordination of industrial training activities. While TVETS and universities are administered by Ministry of Education, SMEs fall under Ministry of Industry and regional administrations have their own mandate. Thus, there is lack of role clarity on the part of these support and technical institutions which leads to limited efforts on SME capacity building.
2. Most of the TVETS and DIs can give training on hard skills (related to technology & production process), however, soft skills (like general management, financial & marketing management) are equally lacking among SMEs.
3. There is no clarity on separate budget provision for skill development at federal level and at regional level. Many a time it has been observed during the survey that planned programs were stopped mid-way due to shortage of funds at regional level.

In the context of the overall projected economic growth, during GTP II, the next five years promise 1.5 million jobs to be created in the economy as whole. This GTP II plans one-third of that figure in manufacturing industry during the same period. This projected employment presupposes the availability of skills compatible with the demand of the industrial sector.

However, such employment targets will only be realized if matchmaking is made possible between supply of and demand for skills in the industrial sector, with a strong administrative mechanism at apex level.

#### **4.2 The strategic objectives**

Thus, the objective of the industrial development strategy is not only to offer job opportunities for the qualified, but also and more importantly to make available a wide pool of highly qualified labor at all skill levels, enough to propel the planned industrial leap. This can be made possible only through a solid industrial training system that is carefully designed to meet the short, medium, and long-term objectives of the “skilling of Industry strategy”.

***However, it is to mention that any strategic planning on skill development cannot confine to SMEs situated in clusters but need to cover the entire SME ecosystem within the country. As***



***such the proposed strategies given below will cover national level SME economic system, in which industrial clusters form a part of the framework.***

The short-term objective is to upgrade the skills of the existing labor into the SME sector. This will be achieved through targeted training activities in the existing sectors, upon the demand of industrial units. This is the stage for close partnership with the private sector, which is key to the articulation of demanded training. It is noted that significant improvement of skills for the already-employed workforce is not happening at required pace. Thus, further deepening of skills is thus deemed as the primary target.

On the medium term, the strategic objective is to induce a shift in the skill structure towards higher proportion of medium and highly-skilled labor. Penetrating to export markets and internationalization of SMEs entails growing deeper skills to match the demand of advanced technology manufacturing. This stage requires further focusing on technological skills as well as leveraging managerial and entrepreneurial skills. It is the role of the Government to bring about the shift in quality, as well as the structure of skills in the prospective industrial labor force.

On the long term, the ultimate objective is building an *innovation-oriented SME sector*. For this target, the inevitable tool is the serious revisiting of the education system. Equally important is a close integration to world markets that places the national workforce amidst the constant challenge of coping with global competitors.

#### **4.3 Requirement of a new Industrial Training System**

The industrial training system need to be carefully crafted to meet the envisaged training targets as given in GTP II. The system will have to place each and every part to serve a particular function over the various time spans. It is expected to assume three basic functions: strategic planning, skill gap mapping, and training delivery.

At strategic planning level there should be an apex body, which can be called as Skill Development Corporation/ Council (SDC) which can be in the lines of National Skill Development Mission Council of India or Industrial Training Council of Egypt.

Strategic planning and coordination of skill development/ industrial training activities will be assumed by SDC. SDC will be an independent entity with no common interests with training providers whether public or private. The council will have members from Ministry of Industry,



Ministry of Education, Ministry of science & technology, FeSMMIDA, one nominee from each of 11 regional administrations, nominees from sector specific development institutes and other technical institutes. The central function of ITC is the estimation of medium and long-term demand in industry, building on the surveyed demand of the operating industrial units. It is through this function that the prospective labor force will be enabled to serve the needs of the new industrial niches. Along the same objective, the council will in charge of pooling resources allocated for industrial training and manages them efficiently to produce the demanded skills. It will not provide training itself but will assume the role of the coordinator by allocating training to the most competent private and public training providers.

Thorough analysis of the outstanding skill demand will be conducted through close partnerships with the industrial units. The necessary channels are readily available. They exist through capitalizing on linkages established by the Ethiopian Employers Federation, Local Development Committees of industrial parks, SME Clusters, sector specific associations on demand side and IPDCs, ReSMMIDAs, Trade & Industry development Bureaus on supply side. Yet, there is need to foster the ability of SME businesses to properly assess their demand remains. In this respect, SME businesses will be guided to conduct comprehensive skills audit, whereby they can assess their training needs by support institutions. This will help defining the demand for upgrading the current labor, as well as estimating the size and attributes of prospective labor.



### **National Skill Development Mission – Apex Body for skilling of Indian Industry**

The National Skill Development Mission is launched to implement and coordinate all skilling efforts in the country towards the objectives laid down in the policy. The key institutional mechanisms for achieving the objectives of the Mission are divided into a three-tier structure at the center to steer, drive and execute the Mission's objectives. The Mission will consist of a Governing Council at apex level, a Steering Committee and a Mission Directorate (along with an Executive Committee) as the executive arm of the Mission. At state level, the states are encouraged to create State Skill Development Missions (SSDM) along the lines of National Skill Development Mission with a Steering Committee and a Mission Directorate at State level. States, in turn, are supported by District Committees at the functional tier.

Mission Directorate is supported by three other institutions: National Skill Development Agency (NSDA), National Skill Development Corporation (NSDC), and Directorate General of Training (DGT) all of which will have horizontal/vertical linkages with Mission Directorate to facilitate smooth functioning of the national institutional mechanism.

National Skill Development Agency (NSDA) will be majorly responsible for the following:

- Operationalize and implement National Skills Qualification Framework (NSQF)
- Establish and operationalize a QA framework embedded in NSQF to improve consistency of outcomes in the skills landscape, which will include laying down a framework for training, assessment and certification processes and agencies in the country.
- Develop national protocols for registration and accreditation of private training providers.

National Skill Development Corporation (NSDC) will be the nodal organization for all private sector initiatives in the short-term skilling space. Its mandate will primarily include:

- Catalyzing the creation of market-based, scalable business by providing funding through a combination of debt, equity and grants
- Implementing skills voucher program
- Driving engagement with industry and businesses
- Promoting centers of excellence for training of trainers in coordination with States and SSCs
- Initiating and incubating Sector Skills Councils (SSCs)

Directorate General of Training: Its large institutional framework consisting of ITIs, ATIs, RVTIs (TVETs) and other national institutes will act as tools of execution for Mission activities. Other functions will include:

- Setting up framework for structure of courses, assessment, curricula creation, affiliation and accreditation of institutes
- Develop national standards on syllabi, equipment, scale of space, duration of courses and methods of training
- Advise on training policy in its network of training institutes
- Coordinate functioning of Industrial Training Institutes (like TIVETS)
- Run training programs for training of trainers/instructors
- Provide technical support to vocational education across the country

Source: <https://www.msde.gov.in/nationalskillmission.html>



Training will be delivered by accredited training providers, be it TVETs or any other academic & technical institutions. Accreditation is charged to the Higher Education Relevance & Quality Agency (HERQA) or to the Ethiopian National Accreditation Office (ENAO). The selected accredited agency will provide a standardized skill and occupation classification that is compatible with the international classification yet adapted to suit Ethiopian industry. Standardization and accreditation will guarantee the delivery of reliable and competitive training services.

Public (Govt. run TVETs, Universities, Polytechnics) and private providers (NGOs imparting SDPs and Private TIVETs) should compete on equal footing to provide training to industrial enterprises, against a charge for the services they deliver. Within the next five years, comprehensive Technical and Vocational Education and Training Program (TVET), need to be strengthened and equipped to meet the standards of world-class training, with the help of sector specific development institutions.

Public policy should no longer opt for subsidizing training providers. Rather, public contributions will go for financing market-priced, high-quality, demanded training. SDC, through public-private partnerships, will ensure the provision of the needed training services through the most competent provider. This will mostly take place through competitive bidding. Public-private partnerships will be the key for adopting a demand driven approach for designing training services, whereas public-private competition will be the module for service delivery. Partnership and competition between public and private organizations will be a synergy that synthesizes a robust industrial training paradigm.

**NIFT-TEA College of Knitwear Fashion –  
An Indian Case study of Public Private Partnership in Vocational Training**

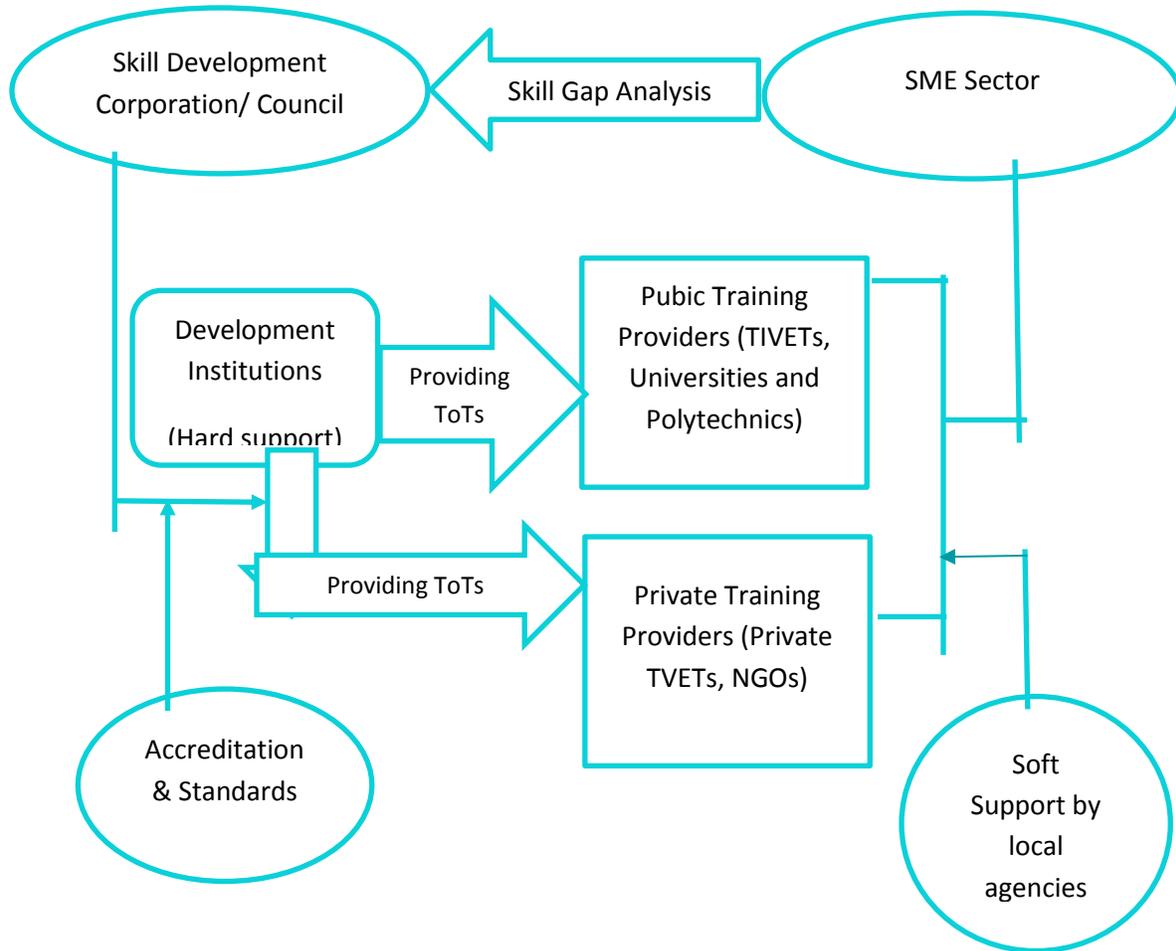
NIFT-TEA was born out of the educational vision of Tirupur Exporters Association to create innovative initiative to extend all-encompassing education & intensive training in the niche arena of Knitwear. Established in 1997 with the support from the Ministry of MSME, Government of India, NIFT-TEA continues to be the first and only one of its kinds not just in India, but across the world as well.

NIFT-TEA is an exclusive institute dedicated to fashion and knitwear industry offering various Diploma, Under Graduate and Post Graduate Degree Programs in textile, fashion, garment & Management field, besides organizing customized training programs to workers of apparel industry.

With more than 400 factories within the premises, these large knitwear industrial complexes offer students extensive opportunities for internships and therefore bring alive the concept of 'earn-while-learn'. At the same time these units also send their workers for any short-term training programs for upgrading their skills. (Source: [www.nifttea.ac.in](http://www.nifttea.ac.in))

Thus, the new industrial training system can be:

**Figure 4.1: Proposed structure of new industrial training system**



#### 4.4 Strategy to Reform TVET System

The reforms should happen at three levels:

- 1) On the national level, an integrated, decentralized system for training delivery will be devised. The new training delivery system will be carefully fitted into the new industrial training framework to insure compatibility and to guarantee the provision of the required training services.
- 2) On the micro level, direct hard support needs to be provided to enhance the capacity of the training delivery units, be it public (Govt. led TVETs) or private. It will provide an inclusive package for upgrading training providers. This includes on-site training, technical assistance to



training centers, training of trainers, as well as financing the purchase of new equipment. In this regard, the sector specific Development Institutes and Universities need to play a major role in providing ToTs and Capacitating TVETs.

- 3) The soft supports (in the form of skill mapping, linkage with industry, providing amenities for training etc.) for TVETs need to be provided by regional agencies like ReSMMIDAs, and bureaus under able supervision of FeSMMIDA.

By the conclusion of the five years (end of GTP II), training providers will be rendered fit enough to shape the required skills demanded by the SME sector with specific reference to skill requirements of natural and induced clusters.

#### **4.5 Budgets for Skill Development**

Federal Government may allocate separate budget for Skill Development by establishing a separate agency to monitor the same. Such agency can also leverage funds from regional governments, large corporates and international donors like European Union (which is already funding such projects in Egypt), UK Aid or World Bank. Even large enterprises can contribute to such fund as part of their corporate social responsibility.

As alternative Ministry of Industries can also plan to allocate a part of the Sustainable development fund which was sponsored by World Bank and European Union for development of SME clusters, as mere establishment of clusters may not suffice unless the cluster SMEs are not capacitated.



### **National Skill Development Fund – Indian Case Study**

The National Skill Development Fund was set up in 2009 by the Government of India for raising funds both from Government and Non-Government sectors for skill development in the country. The Fund is contributed by various Government sources, and other donors/ contributors to enhance, stimulate and develop the skills of Indian youth by various sector specific programs with specific reference to MSME development. A public Trust set up by the Government of India is the custodian of the Fund. The Trust accepts donation, contribution in cash or kind from the Contributors for furtherance of objectives of the Fund. The Fund is operated and managed by the Board of Trustees. The Chief Executive Officer of the Trust is responsible for day-to-day administration and management of the Trust.

The Fund meets its objectives through National Skill Development Corporation (NSDC) which is an industry led 'Not for Profit Company' set up for building skill development capacity and forging strong linkages with the market. NSDC acts as a catalyst in skill development by providing funding to enterprises, companies and organizations that provide skill training. It also develops appropriate models to enhance, support and coordinate private sector initiatives. Till 31st March 2015, NSDF has released USD 3.5 billion to NSDC towards skill development programmes.

NSDC with 160 training partners and 1722 training centers has so far trained around 3.5 million persons across India. Accounts of the Trust are subject to federal Audit and are also audited by a Chartered Accountant for every financial year and in such manner as may be directed by Government of India. The Trust has engaged IL&FS Trust Company Ltd (ITCL), one of the largest Corporate Trustees in India, for providing micro prudential oversight on the implementing partner and monitoring the interests of Trust.

(Source: <https://www.msde.gov.in/nationalskilldevelopmentfund.html>)

#### **4.6 Establishment of National Level Training Institutions**

Ethiopia does not possess sufficient number of public or private institutions which can train both SME entrepreneurs and their workforce besides support institutions with specific reference to soft skills. There is a need to consider establishment of national level institution, which basically involve in Training of Trainers with specific reference to conducting Entrepreneurship Development Programs, Management Development Programs, executive development programs for officials of support institutions, Ministries and other line departments. The institute can also be used for faculty development programs for Universities and Polytechniques, TVETS. However, one of the basic functions of the institute can be to train officials, associations and SMEs in various facets of Cluster Development Approach.

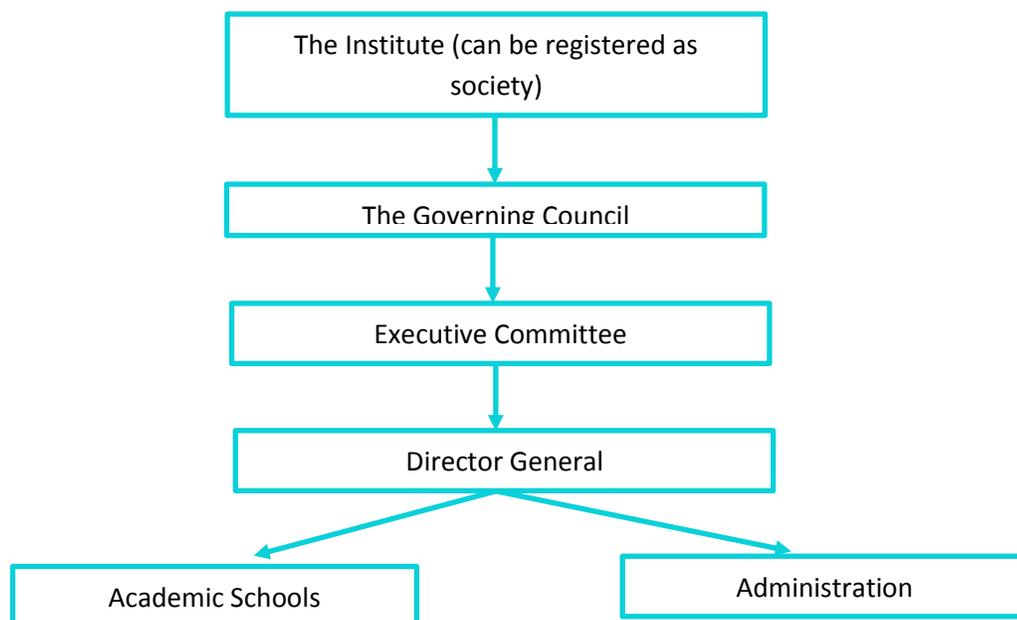


Such Institution can be established under the aegis of Ministry of Industry or Ministry of Education and initially it will be funded by the Federal Government. As the Institution grows in terms of number of trainings imparted and penetration among regions, it can be made autonomous body as self-supporting entity from the revenue generated from its extension services. Once the institute becomes self-sustaining, then recurring expenses can be met with its training and extension services and federal Government will only support to meet any capital expenditure for further expansions.

Such an institute can be managed by a Governing Council at apex level chaired by the concerned Minister and senior bureaucrats from line departments like FeSMMIDA, IPDC, Trade and Industrial Development Bureaus. At execution level, the Governing Council can be assisted by an executive committee with representatives from both related public and private institutions like chamber of Commerce and Industries and federal level sector specific associations. At the institute level, day to day operations will be managed by a Director General who will take care of both academics and administration ably assisted by senior faculty and nonacademic staff. Separate departments can be planned to meet various facets of training and industrial extension development like entrepreneurship development, entrepreneurship extension, enterprise management, enterprise information and communication, SME cluster development etc.

The organizational structure of such institute can be as follows:

**Figure 4.2 Proposed structure of national level training institute**





### National Institute of Micro, Small and Medium Enterprises (NIMSME)

#### – A National Institute for MSME Development in India

NIMSME was originally set up as Central Industrial Extension Training Institute (CIETI) in New Delhi in 1960 as a Department under the Ministry of Industry and Commerce, Government of India. It was decided to keep it free from the tardy and impeding administrative controls and procedures, so that the institute can play a pivotal role in the promotion of small enterprises. Therefore, the Institute was shifted to Hyderabad in 1962, and was renamed as Small Industry Extension Training (SIET).

Since then the institute has come a long way, carving a place of distinction for itself in the domain of entrepreneurship promotion through training, achieving recognition both at the national level and in the international arena. To cope with the pressure of globalization, the Government of India has enacted the MSMED Bill in the Parliament, which became effective from 2nd October 2006. Accordingly, the Institute, in order to reflect the expanded focus of its objectives with name was rechristened as ni-msme from 11th April 2007 and re-destined its structure and organization. It is an organization of the Ministry of Micro, Small and Medium Enterprises.

The affairs of the Society are managed, administered, directed and controlled through Governing Council constituted by the Government of India, chaired by the minister of MSME, Government of India.

From the time of inception, **ni-msme** has been providing unstinted support to small and medium industries and has evolved to be the best in offering services like research, consultancy, information, training and extension to not only enterprises but also to concerned development agencies and MSME Clusters.

***For training and handholding the MSME clusters and their stakeholders, ni-msme has started an exclusive department called National Resource Centre for Cluster Development (NRCD). Training of cluster practioners, implementing agencies, Government Officials in CDP approach, conducting cluster diagnostic reports and providing project management consultancy services are some of the major functions of NRCD.***

The knowledge driven and volatile economy of the present days is posing greater challenges to MSMEs. Further, globalization is threatening the survival of MSMEs in the face of tough competition. **ni-msme** has always been conceiving specialized need-based programs, workshops and seminars in tune with the changing policy and economic situation. These activities have been primarily aimed at the industry and supporting systems so as to enable them to deal with aspects that directly or indirectly affect the success of enterprise.

In the present era of globalization, **ni-msme's** programs are designed to have universal relevance. Through these specialized programs, **ni-msme** has been successfully training the entrepreneurs to face challenges; help them cope with competition; and gain the much-needed competitive edge in the global scenario. **ni-msme** has broken geographical barriers by extending its expertise and services to other developing and developed nations.



**Ni-msme** has had profitable interface with several international agencies like CFTC (Commonwealth Fund for Technical Co-operation), UNESCO (United Nations Educational Scientific and Cultural Organization), UNDP (United Nations Development Program), Ford Foundation, GTZ of Germany, USAID (United States Agency for International Development), and ILO (International Labor Organization), to name a few.

(Source: [www.nisme.org](http://www.nisme.org))

#### 4.7 Summary of Strategic Plan

- *There should be an exclusive budget allocation for skill development at Federal level, with proper structural frame work, in the lines of India, China, Kenya and Egypt. At least a part of the sustainable development fund need to be earmarked for capacity building of SMEs situated in natural/ induced clusters.*
- *There should be a separate skill development corporation/ council at apex level to frame policies and guidelines for effective management of budgetary resources and firming an integrated training system with specific roles and responsibilities of support institutions.*
- *In spite of their short comings in capacity and lack of infrastructure, TVETs play a crucial role in skilling of SME sector in Ethiopia due to their numbers and national level penetration. Higher technical institutions like Sector Specific Development Institutions and Universities need to be integrated in the form of providing ToTs for TVET faculty so that the trainings given by the TVET faculty are more practical and effective for SME stakeholders. In this way TVETs can be capacitated not only in providing hard skills but also soft skills.*
- *While framing of training curriculum and skill gap assessment, involvement of industry (through their associations and federations) is paramount. Such industry institutional linkage will lead to effective skill development among labor force.*
- *Integration of support institutions like ReSMMIDAs and bureaus in the system is equally important as they have direct linkage with the industry and can provide necessary extension services like skill gap mapping, providing amenities to conduct programs, leveraging gap funding from regional administrations etc.*



- *Possibility of establishing a national level institution which will be involved in the area of training and development of Human Resource from Government, Public and Private Sector Organizations & Enterprises; Educational and Training Institutions and other Professional bodies with specific reference to SME Cluster Development may be planned as medium-term objective.*
- *As long run objective, some of the major & capable associations and federations, may be encouraged to establish and manage vocational training institutions with the help of Government under Public Private Partnerships, as such institutions have direct access to SMEs and have better understanding of their skill related challenges.*
- *Lessons can be drawn from countries like India, which is setting bench mark standards in establishment of sound national level structural framework for Skill Development, with separate budget allocation and exclusive professional agencies for policy making, resource allocation and implementation of Skill Development Programs with specific reference to MSMEs.*

Acknowledgements:

- Working Paper on Technical, Vocational Education and Training in Ethiopia by Pramila Krishnan & Irina Shaorshadze, International Growth Centre
- Growth and Transformation Plan II (GTP II), (2015/16-2019/20)
- Website of National Skill Development Corporation, Government of India, NIFT TEA College of Fashion
- Website of National Institute of Micro, Small and Medium Enterprises, Government of India
- Paper on National Skill Development Fund, Ministry of Skill Development, Government of India



## **Chapter 5**

# **Strategies for capacity building demand of the SMEs**

### **- For Select Products with SME Shades**

Based on the number of SMEs, their importance in regional economic settings, their exclusivity in to SME shades, their nature of activity which can be fit to induced SME clusters, following 5 products were selected, after due consultation with regional level Support Institutions and officials of FeSMMIDA:

1. Leather products
2. Readymade garments and traditional handloom products
3. Wooden furniture
4. Metal and light engineering
5. Construction (mainly bricks & cement blocks)

Capacity building of each product specific SMEs may be divided into 3 types, a) Skill Development Programs related to production and processing b) Development of soft skills including entrepreneurship development c) Capacity building of product/ cluster specific BMOs.



While the first one viz. Skill Development will differ from product to product, the other two may be mainly common across the sectors/ products.

**Note:** *While a general comprehensive strategic plan was given separately for skill development along with a model framework, sector specific strategies were only mentioned in brief here so as to avoid duplication.*

## **5.1 Skill Development Programs - Product Wise**

### **5.1.1 Leather Products**

#### **Major Observations on the sector**

- The country possesses one of the world's largest livestock populations with a 57,829,953 cattle population that puts the country first in Africa and sixth in the world.
- The hides and skin supplied to the tanneries have reached 1.4 million cow hides, 6.7 million goat skins and 13.2 million sheep skins.
- There are 2000 active SMEs in Merkato natural leather cluster other small induced clusters in more than 7 regions across the country, with estimated total number of leather product making SMEs to 5500.
- The Ethiopian sheep skin is sought for high class and high value glove leather and the goat skin, is equally acknowledged to be the finest for suede making for garments and footwear.
- Despite its significance as a livestock producer, the off-take rate is of a lesser amount (13.87 per cent cow hides, 27.34 per cent goat skins and 40.29 per cent sheep skins) and the country has not utilized its rich livestock resource.
- There are 32 tanneries nationwide, converting hides and skin into different types of finished leather.
- There are 24 medium and large scale footwear manufacturers. The production capacity of shoe factories including production of Small and Micro enterprises rose to 15 million pairs per year. Therefore, the shoe industry is an emerging and promising industry in the country.
- There are 23 garments and goods factories and three glove factories producing leather gloves, garments, bags and different kinds of leather products. This industry, particularly glove production is an emerging segment and appears to be more promising.
- Total leather products export, still about 73 per cent is earned from finished leather, which has the potential to be converted into other value-added products such as shoes, bags, gloves or garment.

- Currently there are three universities that offer first degree program in leather technology, footwear and leather goods technologies with the support of Leather Industry Development Institute (LIDI).
- At present, the government is processing all the preliminary activities to construct Leather City at Modjo. Meanwhile, two foreign companies: Huajian International Shoe City and George Shoe are constructing their own Industrial Parks.

**Table No 5.1: Snapshot of Leather Sector**

S. No	Indicator	2012 as base year *
1	Share in total manufacturing sector (%)	44.1
2	Product Mix	Tanneries, Leather Footwear and other leather products
3	Total Exports in million USD	<b>112.06</b>
	Leather	100.2
	Crust	48.7
	Finished Leather	51.46
	Shoe	10.16
	Leather Goods & Garments	1.74
4	Total Imports for shoes (in 1000 USD)	31860
4	Gross value of production in million Birrs	3.4
5	Total number of units (Including public sector & private)	141 LMEs (87 in Addis Ababa), other than an estimated 55000 SMEs
6	Major Problems faced	<p>Low off take rates of live animals, and weak meat Industry, weak linkage between the leather industry and agriculture, Lack of chemicals, accessories and components, low capabilities of Product development , R&amp;D, fashion and design, Scarcity of working Capital, Less Productivity and capacity utilization, Environmental challenges,</p> <p>Infrastructural problems , Transport and logistics constraints, Limited Marketing capacity at factory level</p>

S. No	Indicator	2012 as base year *
7	Production Performance	
	Tanned Leather	NA
	Shoes in million pairs	11.7
8	Availability of raw material	
	Domestic Availability	Leather is available locally
	Import dependence	Shoe Buckles, laces and other accessories
9	Product wise capacity utilization (in %ge)	
	Leather Tanned	60%
	Shoes	50%
10	Aggregate Employment (in Numbers)	14,019
11	Products showing increase in employment	Tanneries and shoe making

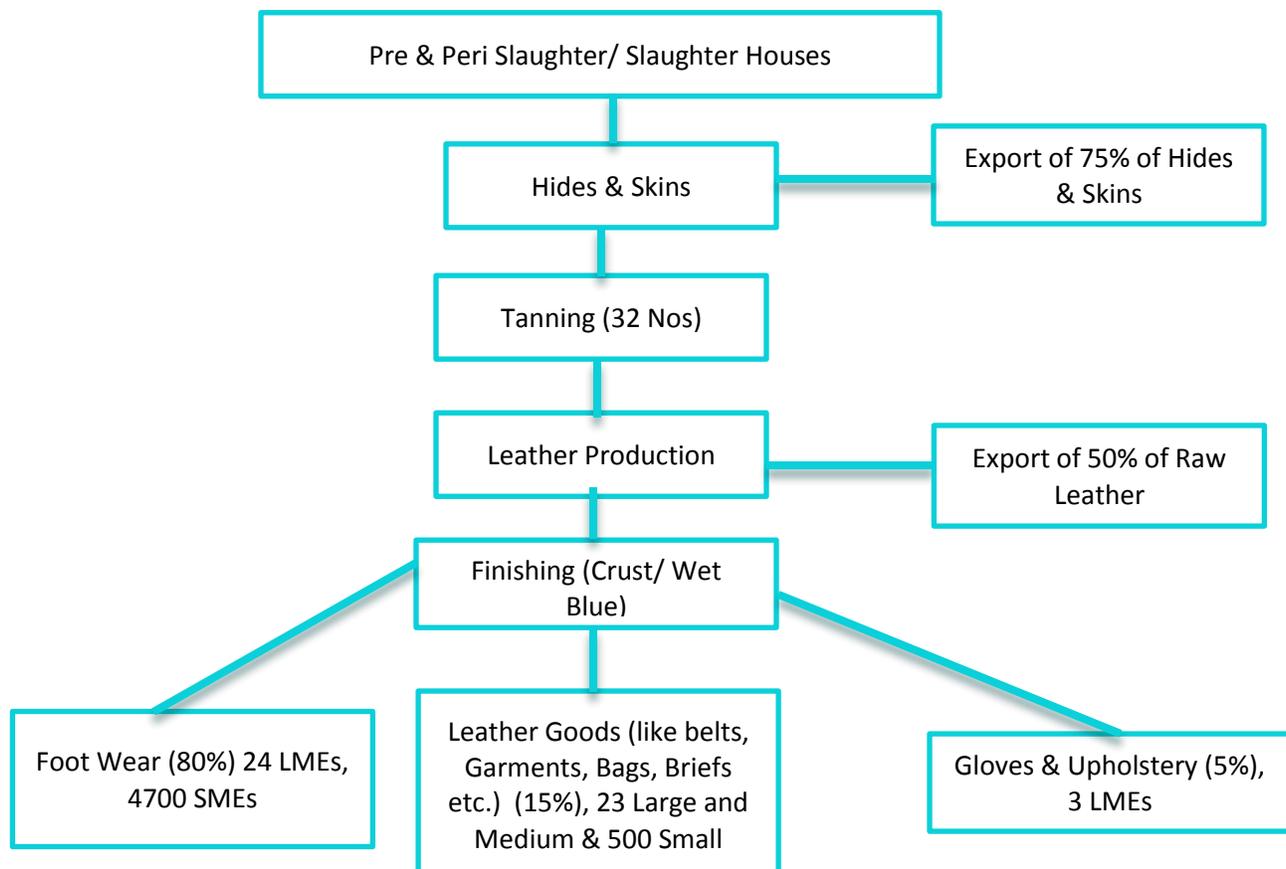
Table No 5.2 : SWOT Analysis of Leather Products

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Availability of tanned leather locally</li> <li>• Most of the SME owners were trained technically by TVETS</li> <li>• Most of the SMEs trained in Kaizen and some them implemented it</li> <li>• Product diversification catering to local demands like belts, bags, jackets other than shoes</li> <li>• Presence of local markets in most of the regions</li> <li>• Presence of BDSPs related to production and technology</li> <li>• Partial adoption of mechanization in stitching</li> <li>• Cheap electricity- up to 8 times less than other manufacturing nations</li> <li>• Import duty free equipment, machinery and on spare parts and / or any goods needed to realize production</li> <li>• Low rent and lease up to 1-2 USD per square/</li> </ul>	<ul style="list-style-type: none"> <li>• Poor skill sets of workers with specific reference to precision cutting, finishing</li> <li>• Reluctance of workers to adopt mechanization</li> <li>• Lack of sufficient skilled work force in many regions</li> <li>• Lack of entrepreneurial and negotiation skills among SME owners</li> <li>• Limited efforts on design development</li> <li>• All accessories like buckles, anklets, zips etc. need to be imported</li> <li>• Non-adoption of safety standards and reluctance to use PPEs</li> <li>• Limited access to finance as many SMEs cannot afford collaterals</li> <li>• Poor finishing resulting in substandard products</li> <li>• Lack of awareness on export policies and procedures</li> <li>• Poor linkage with Support institutions</li> <li>• Limited capacity utilization which is not crossing</li> </ul>



meter for factory buildings	50%
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Possibilities of establishing common raw material depots from tanneries</li> <li>• Presence of Leather Industry Development Institute for technology diffusion and skill development</li> <li>• Presence of TVETS which have leather processing as one of the curriculums</li> <li>• Presence of cluster structures for leather in many regions</li> <li>• Strong financial support from government</li> <li>• Lease financing scheme for purchase of capital goods</li> <li>• Presence of Government and Private MFIs for WC facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Invasion of Chinese synthetic shoes, which have good local demand due to cheaper price</li> <li>• Diminishing profit margins as most of the SMEs are still in unorganized sector, as such no Government support</li> <li>• High trade deficit restricting purchase of accessories important for growth of Industry</li> <li>• Severe competition from large units and Mercato Natural cluster</li> <li>• Lack of continuous power supply in many regions</li> <li>• Migration of labor as other sectors like textiles offer higher wages</li> </ul>

Figure 5.1 : Value chain of leather sector





### Assessment on capacity building:

For assessment, leather shoe making was considered as 80% of total leather production is shoes, besides most of the other products are also similar to a greater extent with reference to skills.

1. **Quality** of leather products made by 80% of SMEs, with specific reference to those in induced clusters is still very poor. Most of the units and workers are comfortable using manual tools while making products instead of advanced machinery as they lack skills. So even if the lease financing is provided in purchase of such machinery, the probability of adoption by workers in SMEs may be low.
2. **Production Process:** Use of metal strip knives for cutting and lack of sufficient skilled workers in making of shoe uppers, is leading to higher wastages. In closing or machining process, the pieces are sewn together on flat machine, however, when it comes to finishing of three dimensional uppers, no post machines are used as workers are not skilled enough and hence, is mainly done manually. Even eyelets for inserting laces are done manually in many SMEs, which result in uneven symmetry. During attachment of upper and lowers, glue is used without making the surfaces rough, leading to poor sticking and sole will come off in a shorter time. There are many technologies which have come up in buffing, waxing, polishing and staining, but most of the SMEs follow manual methods.
3. **Designing:** Designing entails sketching shoe models and shoe lasts. The resulting templates are crucial to the later stages of the shoe production process. In most of the developing countries CAD is widely used in leather product designing for faster and more accurate results. However, with the exception of few larger firms no SMEs have any knowledge about such CAD. In fact, Central Leather Research Institute (CLRI), India has developed separate CAD software, which is cheaper and CLRI can also train in use of such software.
4. **Safety and work environment:** In most of the SMEs visited, it has been observed that workers don't wear safety masks. This is unhealthy as inhaling poisonous odors from glues and chemicals used, may result in breathing problems. Though the support institutions have trained unit owners in KAIZEN and other lean manufacturing practices, more than 80% of the units are not following them and keeping work places in unhygienic conditions.

The following table shows skill gaps in Leather Products Sector at various categories:

**Table No: 5.3 Skill gaps of leather sector**

Category	Skill Gaps
Operator Level	<ul style="list-style-type: none"> <li>• Reluctance for mechanization</li> <li>• Limited knowledge of leather fabric, its defects and handling techniques</li> <li>• Lack of understanding of basic operations, defects and its remedies</li> <li>• Inadequate knowledge of basic machine adjustments and troubleshooting.</li> <li>• Lack of awareness on work-place hygiene and sanitation,</li> <li>• Safety and health care measures</li> </ul>
Supervisor Level	<ul style="list-style-type: none"> <li>• Lack of experience in handling machines</li> <li>• Limited awareness on safety and quality standards</li> <li>• Unable to implement use of Personal Protective Equipment by workers</li> </ul>
Executive level	<ul style="list-style-type: none"> <li>• Inadequate knowledge of quality parameters</li> <li>• Inadequate understanding of production process and lead time</li> <li>• Gap in knowledge of international quality standards</li> </ul>
Managerial Level	<ul style="list-style-type: none"> <li>• Inadequate knowledge of supply chain management, insufficient knowledge of product costing</li> <li>• Poor negotiation skills</li> </ul>

### Proposed Strategies for Skill Development

(a) Creation of content for production of value added products (including audio visual training tools & aids). This will customize the training curriculum, training modules & materials on the identified areas like design and development, pattern making & product development (focusing on value added products). The key objective is to facilitate the training content integration and adoption by relevant training institutions (TIVETS) for effective utilization/appropriate certification of the training modules. This can be done by LIDI with the help of CLRI as there is already a strong linkage between the two.



(b) Identification and training of 10 to 12 master trainers on leather product design (one each from regions), development and fabrication of value added products. This may be done in CLRI campus in India, due to presence of necessary infrastructure facilities.

(c) Training of 100 selected candidates in Ethiopia on leather product design, development and fabrication of value added products by the 10 master trainers trained in India. Identification of training beneficiaries (10 per training) such as industry workers/ chief operators, designers, sample developers, pattern makers, entrepreneurs in leather goods industry covering all the regions, and their profiling for pre & post program assessment.

d) Training program for at least 300 master artisans selected from small-scale leather artisans & technical staff. This would include the following sub activities: • Intensive study of the key micro, small and medium enterprises clusters to understand their status regarding design and development of leather goods and footwear • Develop the training manual and teaching aids (including agenda, working methods and procedures, handouts and evaluation forms) • Develop the list of equipment and materials which is necessary for carrying out training sessions. • Identification of training beneficiaries (15 per training) for training of master artisans.

e) Making of standard Course Curriculum:

Skills qualification frameworks for the leather sector need to be developed • Apex Body may be formulated under the Ministry of Industry/ FeSMMIDA as Nodal Body for Skill Development in the sector.

Authorities such as Ministry of Education/ State ministry of TIVET, may be entrusted to form a Sector Skill Council (SSC) with representations from regional, LIDI, Leather industry associations and SSC to be made responsible for developing National-level Occupational Standards (NOS), Qualification Pack (QP), competency framework, evaluation criterion and accreditation systems and model curriculum for various key job role associated with leather, leather goods and footwear industries.

### **5.1.2 Metal and Engineering Products/ Services**

#### **Major Observations**

- MEIs are considered as the primary industries to contribute to import substitution-based industrial development, which is emphasized in both the GTPs.
- 85% of demand for MEI products is currently fulfilled by imports, which is very high and a major contributor for negative foreign exchange.



- Ethiopian steel industry heavily depends on raw material import from multiple countries such as Turkey, India, Ukraine and China, rather than domestic iron making process. The products are mainly final products for basic construction materials such as bars, hollows, tubes, pipes and corrugate sheets.
- Basic metal products made in Ethiopia are concentrated in rather basic construction materials such as reinforced bars, hollow sections and corrugate sheets as well as billets which are intermediate products. It is also observed that iron and steel manufacturing processes that exist in Ethiopia are still limited and need to be expanded toward upstream processes.

**Table No: 5.4 Snapshot of MEI Sector**

S. No	Indicator	2012 as base year
1	Share in total manufacturing sector (%ge)	27.3
2	Product Mix	Manufacture of basic iron & steel, fabricated metal products, machinery & equipment, motor vehicles, trailers and semi-trailers
3	Total Exports in million USD	Nil, in fact 30% depend on imports
4	Gross value of production in million Birrs	8.8
5	Total number of units (Including public sector & private)	194 LMEs, number of SMEs not known
6	Major Problems faced	Limited skill sets, poor technology, limited product base etc.
7	Production Performance	Increase by 135% since last 2 years
8	Availability of raw material	Local 70% and imported like high end steel 30%
9	Product wise capacity utilization (in %)	
	Manufacture of basic iron and steel	10%
	Manufacture of fabricated metal products except machinery and equipment	55%
	Manufacture of machinery and equipment	20%
	Manufacture of motor vehicles, Trailers & semi-trailers	15%
10	Aggregate Employment (in Numbers)	13,238

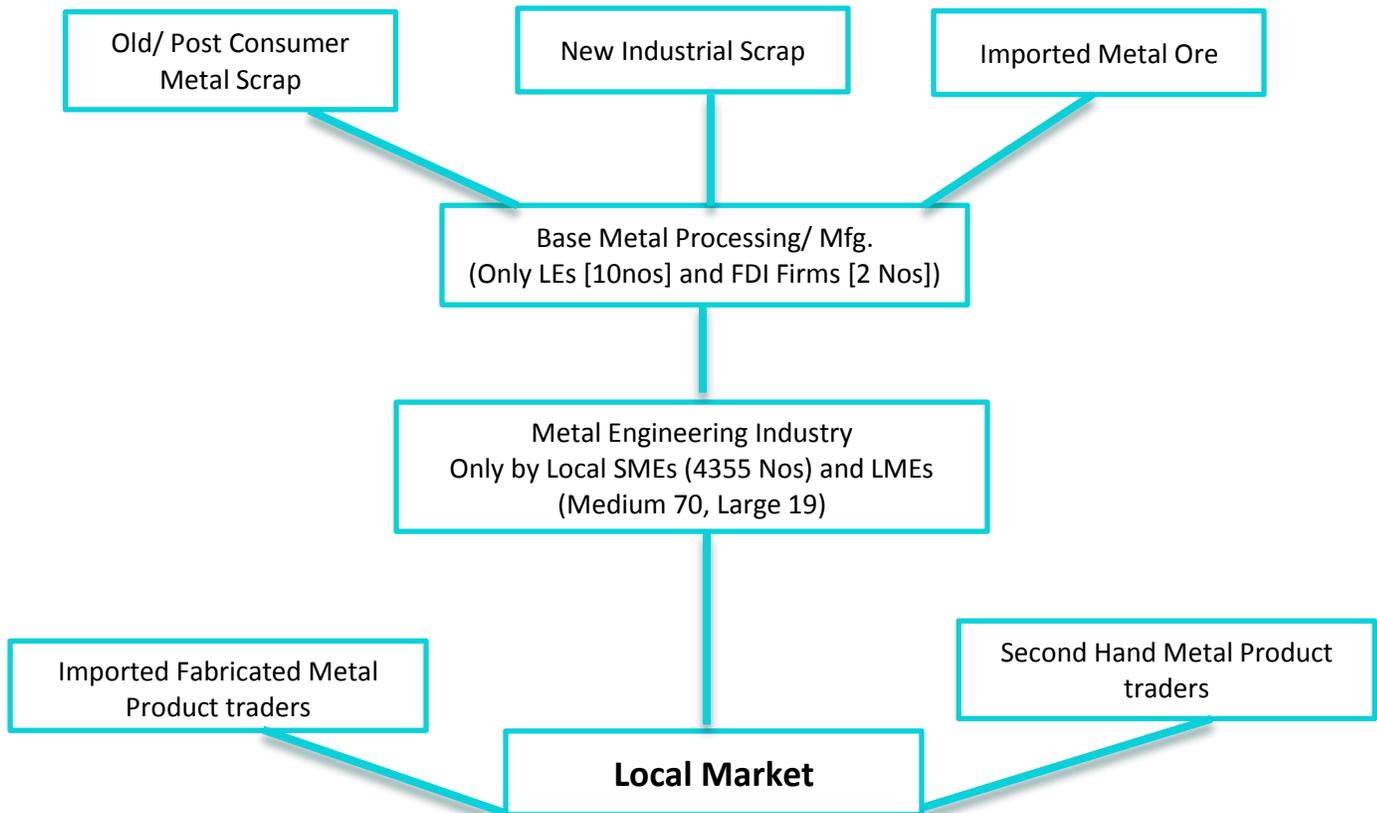


Table No: 5.5 SWOT analysis of metal & engineering

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Most of the owners have formal training from TVETS</li> <li>• Adoption of lathe machines for precision cutting</li> <li>• Availability of Iron locally</li> <li>• One of the few sectors which has good local market and no dependency on export markets</li> <li>• Access to finance is better compared to other sectors</li> <li>• In many regions, other sector clusters are utilizing their services – cluster twinning</li> <li>• Regional governments providing leased premises at affordable price and lease financing</li> </ul>	<ul style="list-style-type: none"> <li>• Poor skill set of workers in CNC machining, motor and coil winding, arc welding</li> <li>• Non-adoption of safety measures like use of glasses while welding and boots resulting in many health hazards</li> <li>• Lack of any OHS measures by SMEs</li> <li>• No energy efficiency measures leading to high consumption and power bills resulting in higher production costs and limited profit margins</li> <li>• In regions like SNNP, Tigray, non-adoption of KAIZEN or lean management leading to improper space utilization and unhygienic shop floor conditions</li> <li>• High dependency on import of steel and rolled metal and lack of hard currency leading to high machine idle time and employee drudgery</li> <li>• Poor quality control measures resulting in substandard products</li> <li>• Limited entrepreneurial skills among owners</li> <li>• Poor linkage with Support institutions</li> <li>• Lack of middle management</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Can leverage other sectors for their service</li> <li>• Presence of Base Metal Engineering Institute to take care of technology and skill demands</li> <li>• Presence of TVETS and Polytechnics which offer short term courses for metal and light engineering</li> <li>• High prospects to become vendors for larger units</li> <li>• Strong financial support from government</li> <li>• Presence and creation of more cluster structures</li> <li>• Lease financing scheme for purchase of capital goods</li> <li>• Presence of Government and Private MFIs for WC facilities</li> </ul>	<p>Presence of large engineering firms in many regions</p> <p>High import restriction on metals</p> <p>Lack of any prospects for exports thereby restricting their services to local markets</p> <p>Market for light engineering units depend on performance of other sectors as they are their primary clients</p> <p>Price war among SMEs resulting in closure of many units</p>



Figure 5.2 Value chain of Base Metal & Engineering industry



**Major Observations:**

For metal manufacturing industry there is a need to increase existing capacity utilization to fill the demand by production management methods such as kaizen; increasing the variety of downstream products; expanding into upstream processes that should strengthen the steel industry. However, all the base metal making units fall under large category and are spread in different locations. Thus, the prospect of bringing them under cluster mold may be a tough task considering the geographic spread, varied nature of production and falling under different value chains.

Regarding the engineering industries, a large part of the demand for MEI products is from the power sector, which is the largest consumer (75%) of engineering products even in the next decade. This currently fulfilled by imports but there are various products which can be domestically produced in the future. Enhancement of designing capacity is required to exit from “full turnkey” dependency, which deters industrial development.

Table No 5.6 Skill gaps of MEI Sector



Category	Skill Gaps
Operator Level	<ul style="list-style-type: none"> <li>• Lack of skills in use of advanced lathe and CNC machines</li> <li>• Reluctance to use PPEs even use of safety glasses while welding</li> <li>• Lack of skills in advanced welding technologies like arc welding, friction and electron beam etc.</li> <li>• Limited knowledge on advanced motor winding technologies</li> <li>• Inadequate knowledge of basic machine adjustments and troubleshooting.</li> <li>• Lack of awareness on work-place hygiene and sanitation</li> </ul>
Supervisor Level	<ul style="list-style-type: none"> <li>• Non-Adoption of Kaizen and poor knowledge in its implementation</li> <li>• Lack of experience in handling advanced CNC and arc welding machines</li> <li>• Limited experience in repair &amp; maintenance advanced machinery</li> </ul>
Executive level	<ul style="list-style-type: none"> <li>• Inadequate knowledge of quality parameters including Kaizen</li> <li>• Inadequate understanding of production process and lead time</li> </ul>
Managerial Level	<ul style="list-style-type: none"> <li>• Poor negotiation skills with vendors</li> <li>• Poor leaderships skills with specific reference to implementation of quality and safety parameters</li> </ul>

gineering firms with more than 90% of them falling under SME category and spread in geographic concentrations, with common challenges and opportunities make them ideal to be developed under cluster form. Improving technical capability and human resource development, particularly in basic elemental technology and managerial methodology including quality and productivity improvement using kaizen, are fundamental to the creation of sound industrial base and thus should be further stressed under CDP strategy.

**Assessment on capacity building:**

**Proposed Strategies for Skill Development**



**Metal Industries Development Institute has mandate of conducting skill development programs, introduction of QMS, conducting bench mark studies and dissemination among MEIs. However, as of now their services are mainly utilized by large and few medium units, mainly within Addis and Oromia regions.**

MIDI may not have sufficient man power to conduct SDPs in all the regions, however, they can select few master trainers from TIVETS, universities, Industry Extension Officers, who have engineering background, from all the regions, (at least 4 from each region) as light engineering industry is widely spread across the country, and train them in advanced CNC machining, welding and motor winding practices. MIDI already developed curriculum in this regard, which only needs to be strengthened as per the requirements of SMEs by discussing with sector specific federal and regional level associations. These trained master trainers can then train SMEs in their respective regions.

In most of the developing countries like India, Thailand, Vietnam, an Institution of Engineers has been established, which is expected to take care of engineering requirements with specific reference to technology and skill development. Such type of institutes may also be planned as mid to long term objective.

Each region needs to form a separate council/ subcommittee to map, evaluate and make an action plan in imparting SDPs to metal and engineering industry, which will have nominees from local university, important TIVETs, Industry, FeSMMIDA besides MIDI.

### **5.1.3 Ready Made Garments and Traditional handloom products**

#### **Major Observations**

- The Ethiopian textile – and apparel industry has grown at an average of 51% over the last 5-6 years and some 65 international textile investment projects have been licensed for foreign investors.
- Retailers like H&M, Primark and Tesco have established offices in 2012 and are buying clothing- finished products- from Ethiopian manufacturers. The foreign direct investments (FDI) in the textile- and apparel industry have grown significantly over the period, of which the inauguration in 2010 of Yak Addis, the Ethiopian subsidiary of the Turkish textile giant Yak Textiles, at a cost of USD 140 million is the most renowned of them .



- Other investors in the textile- and apparel industry originated from India, China, Turkey and Bangladesh.

**Table No: 5.7 a snapshot of the textile sector in Ethiopia**

S.No	Indicator	2012 as base year*
1	Share in total manufacturing sector (%ge)	33
2	Product Mix	Spinning, fabric formulation, dyeing, finishing and sewing, Handlooms
3	Total Exports in million USD	84.6 (USA, European and African markets)
	Yarn	8.9
	Fabric	9.3
	Apparel	63
	Handloom products	4.4
4	Gross value of production in million Birrs	2957 (in 2010) 167 Million USD
5	Total number of units (Including public sector & private)	7200 (Only estimated, no authentic figure available)
6	Major Problems faced	<ul style="list-style-type: none"> <li>• Low productivity of the industries</li> <li>• Competition of imported / illegal imports of textile and apparel</li> <li>• Elimination of the subsidies</li> <li>• Limited product mix and low quality of products</li> <li>• Expansion of used cloth trade throughout the country</li> <li>• Low purchasing power of majority of the population and, as the result</li> <li>• Limited local demand.</li> </ul>
7	Production Performance	
	Yarn (Tons/ Day)	240
	Woven Fabric Thousand meter per day	407
	Knitted Fabric tons / day	83
	Knitted Fabric Processing tons/ day	60
	Woven Fabric Processing thousand maters/ day	163

S.No	Indicator	2012 as base year*
8	Availability of raw material	
	Domestic Availability	Raw cotton and the potential to produce other natural fibers such as hemp, ramie, flax, linen, silk and bamboo. Ethiopia has potential in silk production, though the current production is very low.
	Import dependence	synthetic fiber/yarn, wool, dyestuffs, chemicals and related accessories; Machineries in the sector come mainly from suppliers in China, Italy, Germany, Japan and South Korea
9	Product wise capacity utilization (in %ge)	
	Garments	54
	Handlooms	65
	Raw Fabric	60
10	Aggregate Employment (in Numbers)	37,484
11	Products showing increase in employment	Garments, Running Fabric

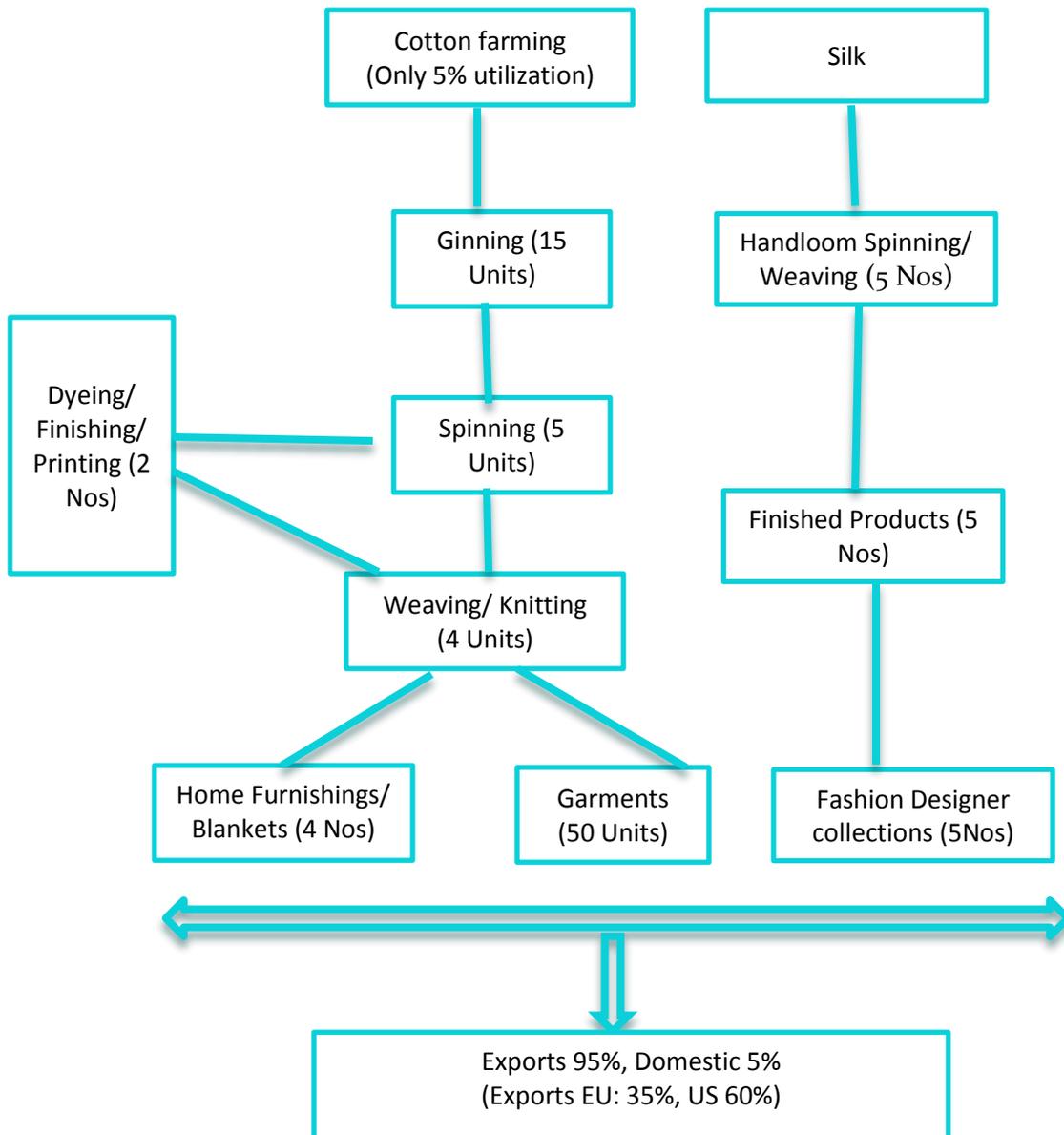
Table No 5.8 : SWOT Analysis of Textiles

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Availability of abundant labor at low cost</li> <li>• Abundant availability of cotton – the major raw material</li> <li>• Cheap electricity- up to 8 times lesser than other manufacturing nations</li> <li>• Free water supply. Most garment companies use tap water- ground water or river water</li> <li>• Import duty - free equipment, machinery and spare parts and / or any goods needed to realize production</li> <li>• Reasonable access to local markets</li> <li>• Local availability of experts- also foreign experts paid by government</li> <li>• Low rent and lease up to 1-2 USD per square/</li> </ul>	<ul style="list-style-type: none"> <li>• Poor skill sets of workers with specific reference to use of industrial sewing machines, advanced cutting and calendaring machines, metal looms</li> <li>• Limited efforts on design development and pattern making</li> <li>• Poor emphasis on product diversification</li> <li>• No manmade fibers – only through imports</li> <li>• Lack of hard currency with SMEs to buy accessories which are imported</li> <li>• Limited access to finance as many SMEs cannot afford collaterals</li> <li>• Poor quality control measures resulting in substandard products</li> </ul>



<p>meter for factory buildings</p>	<ul style="list-style-type: none"> <li>• Lack of awareness on export policies and procedures</li> <li>• Limited entrepreneurial skills among owners</li> <li>• Lack of private BDSPs in quality, designing at regional level</li> <li>• Poor linkage with Support institutions</li> <li>• Lack of middle management-</li> <li>• Inefficient production - 45% maximum</li> <li>• Manual pattern and marker making</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p>	<p style="text-align: center;"><b>Threats</b></p>
<ul style="list-style-type: none"> <li>• Strong financial support from government</li> <li>• Tax holidays up to 2-10 years depending on region and distant to Addis</li> <li>• Profit dividend allowed outside the country</li> <li>• Income tax holidays up to 2 years for expatriate technicians/ trainers and other persons with desired expertise that are willing to transfer knowledge</li> <li>• Presence and creation of more cluster structures for textiles</li> <li>• Lease financing scheme for purchase of capital goods</li> <li>• Presence of Government and Private MFIs for WC facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Invasion of Chinese products in a big way, as they are cheaper and more attractive</li> <li>• High trade deficit, restricting purchase of accessories important for growth of industry</li> <li>• Severe competition from large units</li> <li>• Weak sector and cluster level associations</li> <li>• Political turbulences in few regions</li> <li>• Customer inclination towards imported products over domestic ones</li> </ul>

Figure 5.3: Textile Value Chain



**Analysis of Snap Shot & Value Chain:**

- Low production of local cotton. Ethiopia cultivated cotton on 75,000ha of land in 2010/2011. It planned to cultivate 265,000 ha by the end of 2014/2015 but it managed 125,000 ha. Local production of cotton in 2010 was 2,500 ton which was equal to the demand of textile factories and even had a surplus. The year after , the production surged to 79,500 ton while the demand stood at 39,000 ton. Matching supply and demand has been a great challenge for the industry.



- Average productivity capacity usage of the textile factories was 40% in 2012. The average capacity utilization of garment factories however stands at 54%
- Lack of diversification in products, relative low quality of the products as well as limited productivity affected export performance as well
- The inability to compete on the international market due to price pressure caused many textile-and garment manufacturers to renew their interest for the domestic and local market.

**Value Chain Assessment:**

Despite constraints, the potential for growth of Ethiopian textile-and apparel industry is huge thanks to good demographics, low costs of commodities like water and electricity and the fact that the sector is still considered “infant” and can only mature from this point. Aligning cotton production with demand, constructing strong forward- and backward linkages, developing major areas of concentration as clusters, and attracting new prospects to the nation enforced by increased FDI efforts give way to the supposition of a bright future and large employment possibilities.

**Assessment on capacity building:**

The garmenting sector would be the key driver of the employment in the textile sector. A large portion of the human resource requirement will be for operators who have the adequate knowledge of sewing machine operations and different types of seams and stitches. Although, the industry will continue to have predominantly line system of operations, designer and high-end fashion exports would necessitate “make through” system of operations which would require the operators to have the ability to stitch the complete garment. The availability of merchandising and designing skills would be crucial for increasing share in export markets and tapping the potential in new markets.

Quality Processes : There would be increasing focus and adoption of quality and environment related processes, such as: ISO 9001:2008 ISO 14001.

The changes in technology would significantly affect the profile of people involved. As mentioned earlier, the share of metal looms in the Ethiopian textiles industry is only 20-30% as against a world average of 55%, thereby indicating a low degree of modernization in the weaving industry. Also, in the apparel sector, Ethiopia has much lower investment in special purpose machines, which perform specific functions and add value to the product. Very few export establishments have invested in cutting machines or finishing machines.

Modernization of technology would necessitate more technical skills for operators in the production and maintenance functions across the value chain of the textile industry. The sector



human resource and skill requirements in the textile industry also need multi-tasking/multi skilling at the operator level. The human resource at the higher levels, as well as in other functions like procurement would require knowledge of various types of machines and also the changes in technology.

**Table No: 5.9 Skill Gap Assessment of garment sector**

Category	Skill Gaps
<b>Designer</b>	<ul style="list-style-type: none"> <li>• Inadequate understanding of buyer requirements which leads to number of iterations before the sample is accepted.</li> <li>• Insufficient knowledge of latest fashion trends in the international markets – changes in design between ‘seasons’. It is required that the designer be able to forecast trends by being networked with foreign designers in major markets. The same is applicable to Ethiopian markets as well.</li> </ul>
<b>Production Manager</b>	<ul style="list-style-type: none"> <li>• Inadequate knowledge of specialty fabrics</li> <li>• Lack of adequate scientific knowledge of line balancing, work study, and Quality Control (this is because a large number of managers have been elevated by experience rather than by formal training).</li> </ul>
<b>Operator Level</b>	<ul style="list-style-type: none"> <li>• Lack of proper knowledge of industrial sewing machine operations, and different types of seams and stitches</li> <li>• Ability to work across different machines is missing</li> <li>• Ability to stitch the complete garment is missing (In case of units which do not follow line system of production)</li> </ul>
<b>Supervisor Level</b>	<ul style="list-style-type: none"> <li>• Insufficient knowledge of various types of sewing machines – ability work in a cross-functional manner across sewing machines</li> <li>• Inadequate soft skills to manage the shop floor personnel.</li> </ul>
<b>Managerial Level</b>	<ul style="list-style-type: none"> <li>• Knowledge of international quality standards.</li> </ul>

**Proposed Strategies for Skill Development:**

Focus areas for skill building are given as below:

**Table 5.10: Proposed capacity building measures**

Category	Skill Gaps
<b>Fabric Making (handlooms)</b>	<ul style="list-style-type: none"> <li>• Operations of metal looms</li> <li>• Skills of dobby loom weaving</li> <li>• Operations of jacquard loom (if possible)</li> <li>• Loom threading, loom pattern changing</li> <li>• Regular maintenance – preventive and schedules</li> <li>• Quality compliance.</li> </ul>
<b>Apparel Manufacturing</b>	<ul style="list-style-type: none"> <li>• Pattern making</li> <li>• Garment Construction</li> <li>• Quality Control</li> <li>• Time and Motion studies</li> <li>• Production Planning and Control of computer based tools.</li> </ul>
<b>Fashion Designing</b>	<ul style="list-style-type: none"> <li>• Fashion styling and illustration</li> <li>• Basics of costing</li> <li>• Pattern making and draping</li> <li>• Merchandising</li> <li>• Design studio activities</li> <li>• Portfolio presentation.</li> </ul>
<b>Quality Assurance</b>	<ul style="list-style-type: none"> <li>• Pattern making and garment construction</li> <li>• Quality Control processes and inspection</li> <li>• Fabric and Garment defects and remedies</li> <li>• Technical audit and computer skills.</li> </ul>
<b>Sewing Machine Technician</b>	<ul style="list-style-type: none"> <li>• Maintenance and operation of high speed sewing machines</li> <li>• Chain stitch, button stitch, etc.</li> <li>• Maintenance and precautions</li> </ul>
<b>Sewing Machine Operators</b>	<ul style="list-style-type: none"> <li>• Basic sewing machine control</li> <li>• Threading</li> <li>• Sewing of different shapes</li> <li>• Quality standards</li> <li>• Maintenance of sewing machine.</li> </ul>



Strengthening of linkages of Textile Industry Development Institute with TVETS and Regional Support Institutions is very important. As of now services of TIDI are confined to Addis, Oromia and SNNP, that too in a limited way. There is a need to train at least 20 master trainers (5 in advanced weaving and 15 in garment making) from each region, considering the large size of the industry by TIDI, who can be from TIVETs or from the industry itself. These master trainers will then be taking care of training requirements at regional level with the help of regional support institutions.

Similarly, at least 5 manual designers from each region need to be trained in advanced designing and pattern making practices including textile CAD software, who can then become ToTs for local manual designers.

Exposure visit of ToTs and support institutions to bench mark apparel clusters like Ludhiana, Coimbatore and Tirupur in India to understand how, skill requirements are met through industry-Institutional linkages.

**Making of standard Course Curriculum:**

Skills qualification frameworks for the Textile sector need to be developed. Authorities such as Ministry of Education/ State ministry of TIVET, may be entrusted to form a Sector Skill Council (SSC) with representations from regional, TIDI, Textile industry associations and SSC to be made responsible for developing National-level Occupational Standards (NOS), competency framework, evaluation criterion and accreditation systems and model curriculum for various key job roles associated with fabric and apparel industries.

**5.1.4 Wooden Furniture**

**Major Observations**

- The Ethiopian Furniture has grown at an average of 35% over the last 5-6 years and this sector is totally unorganized and mainly confined to SMEs.
- There are no federal level sector specific associations for wooden furniture nor the regional level or cluster specific associations are strong.
- Flow of direct FDIs in furniture manufacturing is very limited, there are many local traders and retailers, who are selling Italian furniture and there is a great demand for it from middle and upper income groups living in major cities.



- At present, the furniture made is mainly distributed within the country; Eucalyptus & pine are the major wood used while timber and teak are imported from Indonesia, China and Malaysia.

**Table No 5.11: A Snapshot of the furniture sector in Ethiopia:**

S.No	Indicator	2012 as base year*
1	Share in total manufacturing sector (%ge)	0.6%
2	Product Mix	Tables, beds, chairs, Dining sets, Sofas, Office furniture, doors and windows etc.
3	Total Exports in million USD	Not even USD 0.7 Million . Mainly to Jordan, Namibia and neighboring countries.
4	Gross value of production in million Birrs	800
5	Total number of units (Including public sector & private)	8800 Small and 300 Medium
6	Major Problems faced	<ul style="list-style-type: none"> <li>• Poor quality of products</li> <li>• Low productivity of the units</li> <li>• Low added value</li> <li>• Lack of domestic designers, brand names, distributors</li> <li>• Lack of marketing and management skills</li> <li>• Shortage of skilled labor sources</li> <li>• Most SMEs are informal, unregulated and undocumented.</li> </ul>
8	Availability of raw material	
	Domestic Availability	Eucalyptus and pine wood are available within the country. Rivets, keels and other accessories are also locally available in limited quantities.
	Import dependence	USD 42 Million worth of wood and wood accessories are imported, while USD 17 Million worth of furniture mainly from Italy and China imported.  Timber and Teak wood imported from

S.No	Indicator	2012 as base year*
		Thailand, Malaysia, Myanmar
9	Product wise capacity utilization (in %ge)	
	Home Furniture	60
	Office Furniture	30
	Others like Construction	10
10	Aggregate Employment (in Numbers)	42000
11	Products showing increase in employment	Office furniture and construction materials like wooden doors and windows

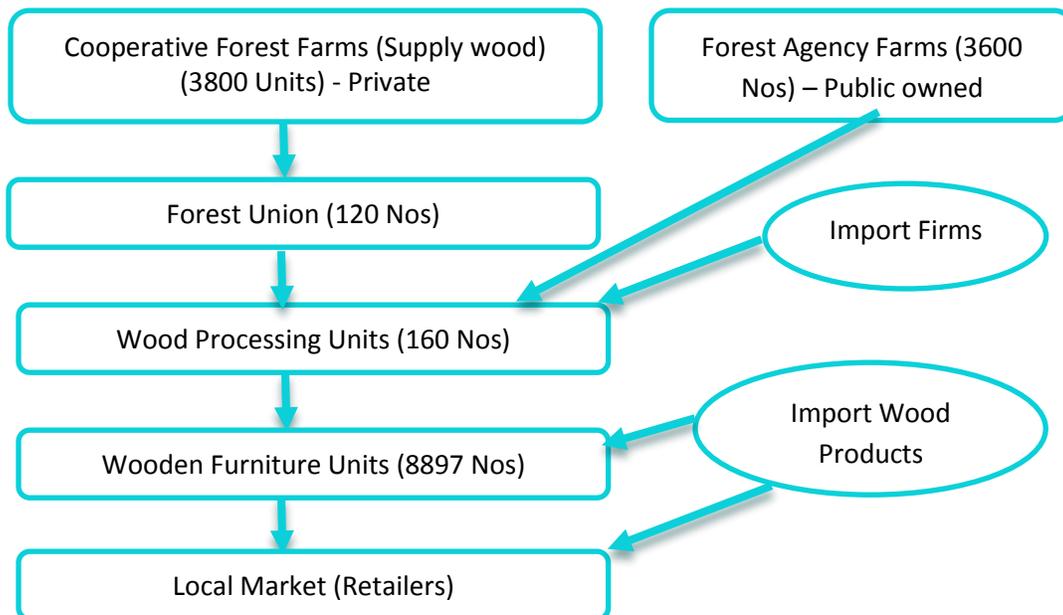
Table No 5.12 : SWOT Analysis of Wooden Furniture

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Availability of abundant labor at low cost</li> <li>• Abundant availability of pine and Eucalyptus wood</li> <li>• Availability of electricity at cheaper price.</li> <li>• Reasonable access to local markets</li> <li>• Low rent and lease up to 1-2 USD per square/ meter for factory buildings</li> <li>• Product diversification as per the local market demand</li> <li>• Presence of separate cluster structures in many regions</li> <li>• Good linkages with saw mills for wood supply</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of skills in mechanized cutting, wood seasoning, spray painting, polishing resulting in poor quality products – not fit for exports</li> <li>• Lack of any quality control measures</li> <li>• Low productivity of units partly due to limited mechanization and partly due to limited skill sets</li> <li>• Shortage of skilled man power</li> <li>• Most of the SMEs are unorganized with no proper documentation as such access to credit is limited</li> <li>• Heavy dependency on MFIs for WC requirements, which charge high interest rates</li> <li>• NPA rate is very high in the sub sector due to low productivity and poor profits</li> <li>• Non Adoption of any safety measures during color spraying, cutting leading to accidents and health hazards</li> <li>• Limited emphasis on design development and lack of proper designers</li> <li>• Unable to afford BDSPs for designing, quality, marketing</li> </ul>



Opportunities	Threats
<ul style="list-style-type: none"> <li>• Establishment of common wood seasoning and raw material depots in collaboration with cooperative forest farms</li> <li>• Presence of lease financing scheme for purchase of machinery</li> <li>• Good regional support institutions which encourage exposure visits and participation in fairs</li> <li>• Availability of constructed sheds on lease at cheaper prices</li> <li>• Booming construction sector which requires a lot of wood work which is mainly untapped by SMEs ;</li> </ul>	<ul style="list-style-type: none"> <li>• Invasion of substitute products like iron, plastic and cane furniture</li> <li>• High import tariffs on imported teak wood and accessories and SMEs lack hard currency</li> <li>• Invasion of Italian furniture which is high quality and middle and upper class are preferring such furniture</li> <li>• Lack of any sector specific development institute to support in technology and skill development</li> <li>• Not many TVETs have experts in wood processing</li> </ul>

**Figure 5.4: Furniture Value Chain**





**Analysis:**

This sub sector is one of the major manufacturing sectors providing employment to more than 40000 people. The local value chain is fairly well developed and has good local demand not only from ever growing domestic, but also booming construction sector.

However, the exports of furniture are very limited due to poor quality of products, lack of any value additions, obsolete designs, lack of highly skilled man power, limited awareness on product diversification like Complete Knocked Down Kit(CKD), which attract lower import duties are some of the reasons for such low exports.

Stringent regulation on sourcing of wood and lack of hard currency to buy timber and teak, is also adversely affecting the industry.

**Assessment on Capacity Building**

Most of the workers are not aware of use of machinery in cutting, polishing, color spraying and finishing of wood nor the unit owners have strong negotiation and finance management skills.

No emphasis on design development initiatives and dependency on traditional out dated designs resulting in diminishing market demand.

**Table No 5.13 : Skill Gap Assessment of Furniture sector**

Category	Skill Gaps
Designer	<ul style="list-style-type: none"> <li>• Inadequate understanding of buyer requirements which leads to number of iterations before the sample is accepted.</li> <li>• Manual Designing Practices</li> </ul>
Operator Level	<ul style="list-style-type: none"> <li>• Lack of skills in CNC machining, spray painting, mechanized polishing</li> <li>• Limited skills in assembly and frame construction</li> <li>• Ability to work across different machines is missing</li> <li>• Ability to make the complete furniture product missing</li> </ul>
Supervisor Level	<ul style="list-style-type: none"> <li>• Insufficient knowledge of various types of sewing &amp; cutting machines</li> </ul>



Category	Skill Gaps
	<ul style="list-style-type: none"> <li>• Lack of awareness on Completely Knocked Down (CKD) Kits and how to make such value-added items</li> <li>• Lack of experience in adopting CAD designs to make products</li> <li>• Poor local supply management skills</li> <li>• Lack of skills in making of multi-functional products</li> </ul>
Managerial Level	<ul style="list-style-type: none"> <li>• Lack of skills in sourcing of materials and components at international level</li> <li>• Lack of confidence in managing international supply chains</li> <li>• Poor skills in innovation and design</li> <li>• Lack of skills in targeting niche markets</li> </ul>

**Proposed Strategies for skill Development**

There is a need to develop a separate wood processing Industry Development Institute, considering the magnitude of wood processing sub sector in Ethiopia. Like in Malaysia, a wood industry Skill Development Institute (SDI) can be established at federal level with its branches in major regions of wood processing unit’s concentration.

The establishment of such an institute should in line with the national aspiration to accelerate transfer of technology and processing level of value added timber products such as furniture, joinery and molding. The main objectives of such institute are:

- To provide industry-oriented skills training for the wood-based industry;
- To produce adequate skilled manpower for the wood-based industry;
- To provide technical advisory services in furniture manufacturing;
- To expedite technology transfer through technical training; and
- To assist in product development and design.

However, as short-term objective, FeSMMIDA and other regional level agencies need to do a detailed skill mapping and prepare a customized curriculum as at present there is no specific curriculum for wood processing and furniture making industry. There is a need to develop such curriculum by TIVETs with the help of Wood Development Institute of Malaysia and Base Metal and Engineering Institute of Ethiopia.

### 5.1.5 Construction Materials (Bricks & Hollow Cement Blocks)

The demand for bricks is mainly dependent on building construction. In Ethiopia, clay bricks are applied in construction of kilns for bakeries, and in the kitchens due to their high heat resistance and also in industrial and commercial construction.

Although brick has high strength and high aesthetic value in building construction, it is being gradually substituted with blocks because of high cost per unit of construction and high cement consumption in relation to blocks for the same unit area.

**Table No: 5.14: Cost Comparisons of Clay and Cement Hollow Bricks**

Item	Hollow Bricks			Clay Bricks		
	Piece/ m <sup>2</sup>	Birr/ Pieces	Birr/ m <sup>2</sup>	Piece/ m <sup>2</sup>	Birr/ Pieces	Birr/ m <sup>2</sup>
<b>External</b>	12.5	5.00	62.5	116	1.5	174
<b>Internal</b>	12.5	4.00	50.00	58	1.5	87

The above table shows the cost of using clay bricks is almost 3 times that of using hollow bricks.

Most residential and high-rise buildings in Addis Ababa and major urban areas are built with hollow block as a walling material, when bricks are used in the building structure, it is mostly for facing (appearance) purposes at the front side, rather than for structural purposes.

Thus, the larger proportion of application of bricks is in high rise building, commercial and industrial constructions. Its application is also more in urban areas than in rural areas. As such, the supply of bricks as reflected from the official statistics is not increasing over the past many years.

#### **Applications:**

**Clay or sand bricks:** The principal application of bricks is for construction in buildings, for partition and for lining various types of kilns and furnaces used in iron and steel plants, cement and fertilizer, petrochemicals, glass and ceramics and other chemical industries extensively.

**Hollow Cement Bricks:** Mainly used as linings for high rise constructions and also in majority of residential houses.

However, it is to be remembered that demand for these two types of bricks is very low compared to wood and mud construction mainly in rural areas.

Some of the statistics of five selected regions as of the financial year 2000 (latest statistics not available) are given as below:

**Table No: 5.15 Construction statistics of select regions**

Region	Total Urban Housing Units	Material of the wall			
		Bricks	Blocks	Wood & Mud	Others
<b>Tigray</b>	115421	534	543	46102	68242
<b>Addis Ababa</b>	134742	9163	23076	307855	34648
<b>Amhara</b>	285203	229	3409	254396	27169
<b>Oromia</b>	406169	1996	4775	371986	27439
<b>SNNP</b>	142212	90	1029	124057	17030
<b>Total</b>	<b>1083747</b>	<b>12012</b>	<b>32832</b>	<b>1104396</b>	<b>174528</b>

Thus, use of bricks (both clay and hollow) is not even 5% of total materials used. However, this situation is fast changing and brick industry is growing now at the rate of 10% per annum, since last five years.

**Supply of bricks:** A major share of bricks supply comes from three factories; namely Ethiopia Bricks, Ceramic Bricks and Addis Shekla. Out of this, Addis Shekla has suspended production following privatization while the remaining two are still operating. In addition to the two public owned bricks factories, there are an estimated 4800 small privately owned bricks factories, but their production is small in quantity and poor in quality.

Transporting and selling bricks over longer distance is not an economical operation. Moreover, cement and transport cost over a long-distance construction material is expensive in the region. In view of the relative stagnation of supply of bricks and costs related to transporting it over long distances, the demand situation has been considered within the regional context and neighboring regions.

Thus, the value chains of both types of bricks, with reference to SMEs are concerned, are confined to regional level.

The value chains of both clay and cement bricks are given as below:

**Table No 5.16: Value chain of clay brick (One Piece)**

Value Item	Cost (in Birrs)	Cumulative Cost (in Birrs)
Clay	0.2	0.2
Oil for drying & Burning	0.4	0.6
Water	0.1	0.7
Power for machinery	0.2	0.9
Labor	0.3	1.2
Transportation	0.1	1.3
MRP (15%)	0.2	1.5

**Table No. 5.17 Value chain of Cement Hollow Blocks (One Piece)**

Value Item	Cost (in Birrs)	Cumulative Cost (in Birrs)
Cement	1.5	1.5
Kankan & Others	0.7	2.2
Water	0.2	2.6
Power	0.1	2.7
Labor	1.5	4.2
Transportation	0.2	4.4
MRP (15%)	0.6 (rounded)	5.00



Table No. 5.18: SWOT Analysis of Bricks & Cement Blocks

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Availability of abundant labor at low cost</li> <li>• This is the only sector which enjoys presence of all raw materials locally - cement, kantar or water</li> <li>• Availability of water free of cost at many places</li> <li>• Most of the SME owners are educated and have prior experience</li> <li>• Huge demand from nearby residents and establishments</li> <li>• Presence of cluster structures at affordable lease prices</li> </ul>	<ul style="list-style-type: none"> <li>• Improper mixing of various ingredients leading to poor quality with reference to cement bricks</li> <li>• Higher cost of productions due to shortage of labor</li> <li>• Most of the sheds constructed in many regions are temporary structures, though permanent ones promised but not material led since long time</li> <li>• Lack of enough space thereby restricting production and storage of materials</li> <li>• Lack of entrepreneurial skills among owners and thus affecting their linkages with banks</li> <li>• Poor emphasis on product diversification in to paver blocks and use of slag as alternative raw material</li> <li>• Lack of middle management-</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Strong financial support from government</li> <li>• Tax holidays up to 2-10 years depending on region and distant to Addis</li> <li>• Presence and creation of more cluster structures</li> <li>• Lease financing scheme for purchase of capital goods</li> <li>• Booming construction sector in the country</li> </ul>	<p>Most of rural people are still using mud and wood for house construction thereby limiting markets for clay and cement bricks</p> <p>Bureaucratic hurdles to supply for Government structures by SMEs</p>

**Major Issues observed:**

When the cement hollow block makers were contacted, it was observed that most of them are graduates and have undergone training in TVETs. But no formal training was given to the



workers and they have to learn from their owners. The quality of bricks/ blocks is very poor. No testing equipment related to following observed:

#### 1. Absorption Test on Bricks

Absorption test is conducted on bricks to find out the amount of moisture content absorbed by them under extreme conditions. In this test, sample dry bricks are taken and weighed. After weighing, these bricks are placed in water fully immersed for a period of 24 hours. Then weigh the wet brick and note down its value. The difference between dry and wet brick weights will give the amount of water absorption. For a good quality brick, the amount of water absorption should not exceed 20% of weight of dry brick.

#### 2. Crushing Strength or Compressive Strength Test on Bricks

Crushing strength of bricks is determined by placing brick in compression testing machine. After placing the brick in compression testing machine, apply load on it until brick breaks. Note down the value of failure load and find out the crushing strength value of brick. Minimum crushing strength of brick is 3.50N/mm<sup>2</sup>.if it is less than 3.50 N/mm<sup>2</sup>, then it is not useful for construction purpose.

#### 3. Hardness Test on Bricks

A good brick should resist scratches against sharp things. So, for this test, a sharp tool or finger nail is used to make a scratch on the brick. If there is no scratch impression on the brick then it is said to be hard brick.

#### 4. Shape and Size Test on Bricks

Shape and size of bricks are a very important consideration. All bricks used for construction should be of same size. The shape of bricks should be purely rectangular with sharp edges. Standard brick size consists length x breadth x height as 19cm x 9cm x 9cm.

To perform this test, select 20 bricks randomly from brick group and stack them along its length, breadth and height and compare. So, if all bricks are of similar size, then they are qualified for construction work.



### 5. Soundness Test of Bricks

Soundness test of bricks shows the nature of bricks against sudden impact. In this test, 2 bricks are chosen randomly and struck with one another. Then the sound produced should be a clear bell ringing sound and the brick should not break. Then it is said to be a good brick.

### 6. Structure of Bricks

To know the structure of the brick, one brick is picked randomly from the group and broken. Observe the inner portion of brick clearly. It should be free from lumps and homogeneous.

Such above quality testing is lacking among units, mainly because of lack of skills and there is a need to capacitate owners and workers by TVETs, with the help of Base Metal & Engineering Institute.

**Table No 5.19 : Skill Gap Assessment of Furniture sector**

Category	Skill Gaps
Operator Level	<ul style="list-style-type: none"> <li>• Lack of skills in precision cutting, shaping and sizing</li> <li>• Lack of knowledge on quality parameters</li> <li>• Limited knowledge on best proportionate mixing practices</li> <li>• Lack of awareness on use of PPEs like safety boots and masks</li> </ul>
Supervisor Level	<ul style="list-style-type: none"> <li>• Insufficient knowledge of various types of quality tests to be conducted</li> <li>• Limited awareness of selection methods of quality raw materials (clay/ cement)</li> <li>• Unable to adopt best mixing practices as they have only acquired skills</li> <li>• Poor local supply management skills</li> <li>• Lack of skills in making of multi-functional products</li> </ul>
Managerial Level	<ul style="list-style-type: none"> <li>• Lack of skills in sourcing of quality raw materials</li> <li>• Not aware of hardness, absorption tests which are crucial for longevity of construction</li> <li>• Poor skills in innovation and product diversification (making of paver blocks)</li> </ul>



**Proposed Strategies for Skill Development:**

The role of Base Metal and Engineering Institute, which has sufficient knowledge in quality testing of construction materials, is very crucial as TVETs do not appear to possess sufficient skills in construction quality tests.

There is a need to train a few of the TVET trainers and Industrial Extension officers (who are civil engineers) of different regions and train them as ToTs, who can in turn take care of regional level trainings.

There are good technical institutes in India like Indian Institute of Material Management, National Council for Cement and Building Materials, whose services can be availed in capacity building of ToTs from TVETs, Poly Techniques and universities.

Every region has to make an annual skill development plan for building materials along with number and type (operator, supervisor etc.) of targeted beneficiaries in consultation with industry, local TVETs and Development Institute, as any such SDPs are totally different from other sectors and cannot be clubbed.

**5.2 Soft Skill requirements across the five selected Sub Sectors/ Products**

Each sector/ sub sector looks for a different mix of hard skills and experience depending on the business it is in. Yet it is no longer enough to be a functional expert with specific reference to middle and upper management levels. To complement these unique core competencies, there are certain "soft skills" every unit need to look in to.

"Soft skills" refer to a cluster of personal qualities, habits, attitudes and social graces that make someone a good employee and compatible to work with. Today's employers also want people who are agile, adaptable and creative at solving problems." However, this is also applicable to employers, with specific reference to SMEs as many times they also play a dual role as middle management (Supervisors).

Some of the following soft skills lacking in SMEs observed during field survey are:



### **5.2.1 Communication**

As a soft skill, communication is not about multiple syllables or rousing speeches. Able entrepreneurs and supervisors can comprehend and act efficiently on instructions, and explain complex issues to colleagues and clients alike. Communication is also an important aspect of leadership, since leaders must be able to delegate clearly and comprehensibly.

### **5.2.2 Leadership**

Leadership is a soft skill SMEs can show even if they are not directly managing others. Leadership can be thought of as a collection of various other soft skills, such as a general positive attitude and outlook, the ability to communicate effectively, and an aptitude for both motivating self and motivating others.

### **5.2.3 Teamwork**

Like leadership, good teamwork involves a combination of other soft skills. Working in a team towards a common goal requires the intuition and interpersonal acumen to know when to be a leader, and when to be a listener. Good team players- be it owners or supervisors- are perceptive, as well as receptive to the needs and responsibilities of others.

### **5.2.4 Problem Solving/ Conflict resolution**

Problem solving requires not just analytical, creative and critical skills, but a particular mindset: those who can approach a problem with a cool and level head will often reach a solution more efficiently than those who cannot. This is a soft skill which can often rely on strong teamwork too. Problems need not always be solved alone. The ability to find out who would help to reach a solution to a problem, and the method he uses, is a great skill.

### **5.2.5 Decisiveness**

Knowing the distinction between decisiveness and recklessness implies a soft skill in itself. Decisiveness combines a number of different abilities: the ability to put things into perspective, to weigh up the options, to assess all relevant information and, crucially, to anticipate the consequences, good and bad.



### 5.2.6 Ability to Work under Pressure and Time Management

Many jobs for SMEs come with demanding deadlines and occasionally high stakes. Recruiters prize candidates who show a decisive attitude, an unfaltering ability to think clearly, and a capacity to compartmentalize and set stress aside. Time management is closely related to the ability to work under pressure, as well as within tight deadlines.

### 5.2.7 Flexibility

This is the most critical aspect observed in Ethiopian SMEs. It is natural, workers can be wary of leaving the comfort zone formed by their repertoire of hard skills. Flexibility is an important soft skill, as it demonstrates an ability and willingness to acquire new hard skills, and an open-mindedness to new tasks and new challenges.

**Other than the above, the Association Executive, SME owners and supervisors lack certain common entrepreneurial skills like effective operational and financial management, negotiation, marketing management, which are equally important for development of SMEs and SME cluster managements.**

Some of the soft and general skills required across various levels of SMEs and cluster governance mechanisms are:

**Table No. 5.20 : General soft skills required for SMEs**

Level	Skill Gaps/ Required Skills
Supervisors	Negotiation & Communication Problem solving (Among workers) Decisiveness Inducing flexibility among workers Operational management
General Managers or Plant In-charge	Communication skills Financial & Operational management Team Work Leadership Decisiveness



Level	Skill Gaps/ Required Skills
	Time Management and ability to work under pressure
Unit Owners	<p>General Entrepreneurial skills like Operations and financial, marketing management skills.</p> <p>Strong Negotiation &amp; Communication skills to deal with buyers and input suppliers</p> <p>Leadership</p> <p>Time Management and its implementation</p>
Associations (Cluster level)	<p>Conflict resolution among units</p> <p>Labor Management</p> <p>General Management skills to run cluster of units (both operations &amp; financial)</p> <p>Legal Management</p> <p>O&amp;M of Common Infrastructure</p>

**Strategies for soft skill and general hard skill development:**

There are good universities and Business Management Schools in Ethiopia, which need to develop proper curriculum exclusively for SMEs on capacity building, as unlike large units, the teaching should opt for basic models like theory, practice with proper audio-visual aids.

Though TVETS and Industrial Extension officers of regional support institutions can impart such skills, however, in many of the developing countries such programs can also be done by committed and experienced NGOs.

As indicated in strategic plan on skill, there is a requirement of national level capacity building institutions which not only cater to the needs of soft skills of industry but also to associations and officials of support institutions.

Each region has to map the soft skill requirement, prioritize the areas to cover, make a plan along with budget and other resources required and submit to the regional administration for proper budget allocation, which is not happening at present in most of the regions.



### 5.3 Conclusions:

- *Based on their share in manufacturing sector and mainly entry into SME shades, uniform presence in the regions surveyed, potential for market growth, size of the industry, five sub sectors/ products were selected for capacity building which are leather products, readymade garments and handlooms, wooden furniture, metal & engineering and construction materials (clay and cement bricks).*
- *During the survey, each sub sector/ product is mapped for skill gap assessment and detailed sub sector wise hard skill requirements were given.*
- *It was observed during the survey that requirement of soft skills and general management skills are common across the sub sectors and the same are mentioned across the management levels. It is also observed that due emphasis was not given in conducting soft skill programs and any training programs conducted so far have been mainly on hard skills.*
- *Other than SMEs, it is equally important to capacitate associations, which are expected to be long term self-governance mechanisms for clusters as support institutions and implementing agencies like UNIDO cannot handhold cluster units permanently.*
- *While a general comprehensive strategic plan was given separately for skill development along with a model framework, sector specific strategies were mentioned in brief here so as to avoid duplication.*
- *There should be a strong skill gap assessment, a mechanism for TOT at federal level, preparation of sector wise regional level action plans for training programs, so as to assess the overall budget requirement and allotment at federal level in collaboration with regional administrations. At present such system is lacking and training programs are conducted on need basis or as per pre-fixed targets.*

### Acknowledgements:

- Profile on bricks  
(<http://www.ethiopianembassy.org/AboutEthiopia/InvestmentProjectProfiles/Manufacturing/Non-metallic%20Products/Bricks.pdf>)
- Comparative Value Chain and Economic Analysis of the Furniture/Wood Processing Sector (Chairs) in Ethiopia, Tanzania, Zambia, China and Vietnam by World Bank
- Food processing Industry in Ethiopia by Business Wire in their business report 2016
- Business Opportunity Report Ethiopia, Textile & Leather Industry by Nash international BV, Dhyana van der Pols, Commissioned by Netherland's Embassy
- Basic Metal and Engineering Industries: Policy Framework and the Firm-level Study  
([http://www.grips.ac.jp/forum-e/pdf\\_e12/JICA&GDFReport\\_Ethiopia\\_phase1/Intellectual\\_Partnership\\_for\\_Africa/12Final\\_Report\\_ch10.pdf](http://www.grips.ac.jp/forum-e/pdf_e12/JICA&GDFReport_Ethiopia_phase1/Intellectual_Partnership_for_Africa/12Final_Report_ch10.pdf))
- Skill Mapping Report by IL&FS
- A Series of Studies on Industries in Ethiopia by Embassy of Japan



## **Chapter 6**

### **Strategy for building up Trade & Investment Capacity of SMEs**

Although competitiveness in the form of trade & investment is a firm level phenomenon, macroeconomic and microeconomic environments influence market signals. To enhance SME competitiveness, therefore, requires the creation of enabling legal, regulatory and administrative environments, access to finance and raw materials, capable institutional structures, and most importantly human capital and a sustainable environment.

Removing supply-side constraint to trade and investment requires firms to build up their competitive advantages in terms of proper resource management, access to finance, adoption of advanced technologies, product diversifications and innovations.

However, competitive advantage is also measured in relation to the markets rival firms compete in. Integration into regional and global trade and investment networks will require much effort, although it is not an impossible proposition.



Since macro-economic environment like framing of legal, regulatory and administrative policies along with effective support structures were discussed in other chapters, building of internal competitiveness of SMEs will be discussed in the present chapter. There are five major factors, which are important at SME level to strengthen their trade and investment capabilities, namely, access to credit and adopting better financial management, access to raw materials, technology, markets and BDS providers.

## **6.1 Access to finance :**

### **6.1.1 Present Status**

One of the major policy decisions taken by Federal Government of Ethiopia is introduction of lease finance scheme to develop investment capabilities of SMEs. While Ministry of Industry is the Nodal Agency, Development Bank of Ethiopia was appointed as the implementing agency for the scheme. Some of the salient features of the scheme are:

- a) SMEs will be provided loan up to 30 million birrs, exclusively for purchase of machinery.
- b) The required machinery will be purchased by DBE itself from the empaneled list of machinery suppliers both at domestic and international level.
- c) Based on the business plan submitted by SMEs, the DBE will do the due diligence of both the applicant and the machinery suppliers and finalize the preferred bidder and capacity of the machinery.
- d) The interest rate will be between 9 to 12 percent, which will be based on the financial projections in business plan, repayment capacity of entrepreneur and type of business and sector.
- e) At present the means of finance is 20% promoter's equity and 80% will be the loan. There will be 6 months moratorium and repayment period will be between 3 to 5 years based on the quantum of loan required, business plan projections and repayment capability of the promoter.
- f) The scheme is applicable for both existing and new SMEs. However, priority will be given for those SMEs which are in organized induced clusters, since they are built and managed by Government Agencies.

Other than the above there are Government run and Private Micro Finance Institutions, which are supporting SMEs in not only meeting working capital requirements but also providing capital loans. However, their average financial limits are between 1 to 3 million birrs and that too at higher interest rates of 12 to 15%. In fact, a few of the private MFIs are charging much higher rates up to 18%.



### **6.1.2 Challenges in existing environment of SME financing**

Ethiopian SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. These obstacles come at two levels. High budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing at Macro level. Other issues are property rights regimes may not allow ownership of land (in many of SME clusters, land is owned by Government), markets for transfer of immovable assets is underdeveloped (EDB require assurance letter from Government about fist lean on land), absence of registries for mortgages and pledges will increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation.

The second level of obstacles may be due to organizational capacity weaknesses: for example, in most of the SME clusters visited, business services markets in accounting, auditing, financial management and legal counsel is so underdeveloped that SMEs are unable to access or afford such services: essential services they would need when they approach banks and other types of lenders.

#### **Other challenges as perceived by creditors are:**

- SMEs are regarded by Ethiopian creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates.
- Information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals.
- High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.

**Some of the issues faced by SMEs in access to finance with specific reference to flagship lease financing scheme are:**



- In majority of the clusters not even 30% have received lease financing benefits, while some of them are in approval stage since long time, some of them have not even applied.
- DBE is supposed to be the torch bearer of LFS. But their penetration among clusters is limited, in most of the clusters they have not even financed 20% of units.
- Majority of the SME units are benefitting from MFIs, which are more amicable. However most of them cannot offer more than 1 to 3 million birrs and their interest rates are 3 to 5% higher than what EDB can offer.
- The concentration of EDB appears to be more on project financing (financing to LMEs) than lease financing (to SMEs) due to low default rate in large firms.
- The awareness level of junior officials especially working WOREDAs (Districts) and city council level on lease financing and its guidelines is very poor.
- MFIs complain increasing number of defaulters among SMEs, in spite of precautions like group loaning, obtaining collaterals undertaken. As per survey observations default rate among firms is 50 to 60% per cluster, which very alarming.

### **6.1.3 Strategies to mitigate the challenges**

Reducing information asymmetry of SMEs and high perceived risks by using credit scoring systems, external information providers, risk self-assessment for the SME entrepreneurs, pricing to the level of risk; sharing risk with third parties (loan guarantees) using covenants as an alternative to loan guarantees and setting up special support units for high risk customers such as start-ups are some of the strategic solutions which are better explained as below:

**A) SME rating Agency: In most of the developing countries, Federal Governments established or encouraged SME rating agencies. The major benefits of such rating agencies are:**

- It conducts a trusted and unbiased evaluation of SMEs
- Access to funding: A good rating from such agency carries weight with lenders and can help SMEs get faster credit at a lower cost.
- Credibility and confidence building with business partners: The agency rating is an indicator of overall credit worthiness of an enterprise arrived at by analyzing its operating performance and financial strength. A good rating provides comfort to all your stakeholders.
- Rating helps improve visibility: Rated enterprises get a free listing on agency website.
- Reaching out to all leading banks and financial institutions in the country
- Useful as a marketing tool: SME can publish their rating on their website, brochures, advertisements, and marketing material.



- Self-improvement tool: Along with the rating, agency gives a detailed, analytical report on the strengths and weaknesses of the rated enterprise. This functions as a powerful self-improvement tool, enabling enterprises to strengthen their operations.

Thus, there is a need to establish such rating agency in Ethiopia so as to help SMEs to understand their credit worthiness and weaknesses to plug.

### **CRISIL – A trusted Rating Agency for Indian SMEs**

Credit Rating Information Services of India Limited popularly known as CRISIL was incorporated in 1987. It operates as ratings, research, and risk and policy advisory company.

CRISIL is now a Standard & Poor's company that is engaged in investment research outsourcing, fund services, risk management and infrastructure advisory services.

Rating– The Company rates all kind of organization such as industrial companies, banks, SMEs, non-banking financial institutions, insurance providers, mutual funds, infrastructure entities, state governments, and urban local bodies. Till date it has rated over 11,026 debt instruments, 5716 companies and many more.

Research– It offers an in-depth research on Economy – Industry – Company spectrum. CRISIL caters research needs of over 600 domestic and international clients that include 90 per cent of Indian commercial banks.

Irevna a division of the company provides an offshore investment research to world's leading investment banks and financial institutions. Another division of company CRISIL Fund Services provides fund research, rankings, and ratings to mutual funds industry.

Advisory– Company provides advisory services on policy, infrastructure and energy through its subsidiary CRISIL Risk and Infrastructure Solutions (CRIS). It also operates in Africa, the Middle East, and South-East Asia.

#### **Its achievements in SME sector are:**

- More than 110,000 performance ratings to MSMEs assigned since 2005
- Large and well-equipped business development and analyst team to assign performance ratings
- Working closely with more than 40 banks and financial institutions across the country to encourage CRISIL SME Performance Rating
- Banks and financial institutions provide interest rate concession/relaxation in processing fee based on performance rating assigned
- CRISIL SME Performance Rating is used widely by banks as input for evaluation and monitoring of MSMEs

(Source: [www.cibil.com](http://www.cibil.com) )



### **B. Creation of Credit Guarantee Fund**

Since most of the SMEs are unable to leverage lease financing due to lack of collaterals and various bureaucratic hurdles arise in obtaining assurance letter for Government Land in which SMEs are established to show as collateral, there is a need to establish a credit Guarantee Fund for Small and Medium Enterprises by the Federal Government.

Credit guarantee fund is a type of fund which backs up the loan taken by the beneficiaries as a form of collateral. This assures the lending agencies including banks, financial institutions to readily supply loans.

It is simply a guaranteed loan by the government micro and small enterprises do not have to have collateral in order to borrow funds for business whether it is for a startup or expansion of operating business. The government will back the loan up to 80% of the borrowed capital.

Such type of Government backed credit guarantee is quite popular in many developing countries of Asia, Africa and Europe.

Under the scheme, the Federal Government will create a separate entity (preferable in the form of a trust), with senior level bureaucrats and officials, nominees from national level industry associations as a part of the management committee (or board of trustees). Involvement of Development Bank of Ethiopia as Nodal Agency is advisable considering their proximity to industry. Under the scheme ,if any bank including DBE is willing to provide loan (either term loan or working capital) for SMEs (both existing and startups), the collateral guaranty will be given by the credit guarantee trust for may be up to 80% of the project cost. Presence of proper educational and professional back ground, lack of any previous loan defaults, presence of all mandatory approvals and licenses, may be some of the criterion for selection of SMEs to cover under the scheme. This cover can also be extended to government led MFIs, other than banks.



### **Credit Guarantee fund Trust for Micro & Small Enterprises (CGTMSE) – An Indian Case Study**

Availability of bank credit without the hassles of collateral and/or third-party guarantee would be a major source of support to the first-generation entrepreneurs to realize their dream of setting up their own Micro and Small Enterprise (MSE).

Keeping this objective in view, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector.

To operationalize the scheme, Government of India and Small Industries Development Bank of India (SIDBI) set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in August 2000 with an initial corpus of USD 3.8 billion to be contributed by Government of India and Small Industries Development Bank of India (SIDBI) in the ratio of 4:1. The committed corpus has been augmented by USD 7.7 billion by the GoI aggregating to more than 10 Billion USD.

The main objective of the credit guarantee scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed.

The other objective is that the lender availing guarantee facility should endeavor to give composite credit to the borrowers so that the borrowers would obtain both term loan and working capital facilities from a single agency.

The Credit Guarantee Scheme (CGS) seeks to reassure the lender that, in the event of an SME unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 50/ 75 / 80/ 85 per cent (as per the current structure) of the credit facility.

Salient features of scheme are: Credit guarantee for MSE loans up to 0.3 million USD, which are not backed with collateral and third party guarantee, Both Manufacturing and Service sectors covered, all fund / non-fund based facilities covered, Maximum Guarantee Cover of up to 85% of credit facility is granted under the CGS, Guarantee coverage is 50% for credit facilities above 77000 USD, 106 lending institutions registered as MLIs with CGTMSE (21 Public sector Banks, 20 Pvt. Banks, 51 Regional Rural Banks, 9 Financial Institutions and 5 Foreign Banks).

(Source: [www.cgtmse.in](http://www.cgtmse.in) )



### **C. Making the SMEs loan fit**

During the survey it was observed that many SMEs are not maintaining any books/ ledgers and their financial management is very poor. There is a necessity to capacitate the SMEs in financial management by conducting, customized Entrepreneurship Development Programs by ReSMMIDA with the help of regional Trade & Industry Development Bureau. Such EDPs can be organized by either TVETS or local universities. However, taking the help of local auditing firms will further boost the efficiency of such EDPs. SMEs need to understand the importance of obtaining all necessary licenses, preparation of business plans and business forecasts, proper marketing plan, cash flow management, production cost monitoring, maintaining accounting books and ledgers etc. through the EDPs, which will not only make them loan fit but also make them better entrepreneurs.

In fact, undergoing a formal EDP is mandatory to obtain any loans, incentives, subsidies in most of the developing countries like India, Thailand, Vietnam, Kenya etc.

### **D. Role of Associations in access to credit and capacity building of SMEs in financial management**

In Ethiopia there are many associations which are national, regional, district and cluster level. There are also sector specific federal level associations for leather, textiles, dairy, agro & food processing, chemicals and pharmaceuticals, light engineering and base metals. There are also associations which were exclusively created for induced clusters by federal and regional agencies. However most of these associations at present are mainly confined to lobbying and advocacy. Their services are not expanded to help member SMEs in betterment of financial and marketing abilities. There is a need to capacitate and motivate such associations to take up the cause of making their member SMEs loan fit and help them in obtaining loans by entering MoUs with banks and MFIs. In this way, though the association doesn't provide any formal guarantees to the banks, it is an assurance to the lending institutions that they are members of a formal entity and chances of default may be low.

Such formal MoUs with associations by banks and FIs is gaining popularity in countries like India, China and Bangladesh. In such cases the associations will not only conduct training programs on best financial management practices for their members, but also engage a financial consultant to prepare business plans and help SMEs to submit them to the banks. They also hand hold the SMEs in the finalization of machinery suppliers, installation of machinery and initiation/ expansion of commercial operations.



**ALEAP Credit Guarantee Association (ACGA) – Case study on association led SME credit facilitation**

To help and support the SMEs financially, ALEAP has come up with Aleap Credit Guarantee Association (ACGA). ALEAP is the first association, which has taken initiative to implement the scheme in the regions of Telangana in Andhra Pradesh, India.

ACGA is a company incorporated under section 25 of Companies Act. 1956 for the purpose of facilitating collateral free lending to SMEs in AP region of India.

Its main objectives are:

- Implement Mutual Credit Guarantee Scheme through corpus contributions to be made by its members to the small scale industrial units including service industries.
- To identify genuine entrepreneurs who require credit assistance.
- To enable Entrepreneurs access finance from Banks/financial Institutions without collateral security.
- To promote MSME units by improving Credit flow to Small and tiny sector in a cost-effective manner.
- To enhance comfort level of bankers and provision of technical services in choosing entrepreneurs.
- To build a platform for Bankers and Entrepreneurs to solve various issues pertaining to Credit.

ACGA is closely associated with Public Sector Banks like Syndicate Bank, Andhra Bank, State Bank of India etc., Govt. Organizations such as NSIC, SIDBI, NABARD, DIC etc. in facilitating credit facilities to the needy Entrepreneurs.

(Source: [www.aleap.org](http://www.aleap.org) )

**SME customers**

During the field survey it is also observed that the concerned officials of EDB and other banks including Government led MFIs never understood the issues of SMEs. For example, the evaluation criterion for project financing of larger enterprises by DBE may not be applicable for lease financing to SMEs, which is now in practice. Financial analysis of SMEs is definitely varying from the large units. As such there is a need to sensitize and train bank staff in the following areas:

- Demand for financial services of micro, small and medium enterprises (MSME)
- Responding to the financial needs of MSMEs
- Economic and financial analysis of MSME clients
- Evaluation methods of MSME finance
- Monitoring and credit risk management in MSME lending



- Non-performing loans management

In this regard the Federal Government of Ethiopia can take the assistance of World Bank, which has Technical Assistance and Capacity-Building of banks and SMEs as one of the mandate. Under the mandate, the World Bank provides advisory support, training and other services to help governments, banks and regulators support MSME finance, and to help financial institutions expand access to finance. The Bank also develops guidance, principles and toolkits for governments, regulators and the banks.

#### **F. Enlistment of consultants by banks**

During the survey it was also observed that SMEs are unable to afford hiring of consultants to prepare their business plans as they are charging anywhere between ETB 1500 to 5000. Even those who hired their services complain that such consultants are not making effective business plans without properly assessing financial and marketing viability of the project. Even the bankers complained that many business plans are substandard in quality, made purely based on assumptions without proper support documents like quotations, market orders etc. Lack of understanding on cluster concepts among such consultants is another problem for spread of lease financing among cluster-based SMEs.

One strategy can be appointment of consultants by SME lending banks like DBE, which is normal practice in Asian countries like India, Thailand and Vietnam. **When contacted, the Vice President of Lease Financing in DBE informed that soon they will come out with tender to enlist such consultants, who have experience in SME lending. However, post appointment DBE has to capacitate them in Cluster Approach, norms of SME financing, evaluation parameters.**

The advantages of having empaneled consultants are:

1. High possibility of submitting unbiased business plans.
2. Submission of business plans as per the requirements and norms of the concerned bank.
3. Fees of such consultants will be fixed by bank, which will be more SME friendly. As consultants get continuous projects, they will be happy to prepare at reduced prices.
4. Banks can also utilize their services in techno economic feasibility studies of proposals submitted by larger and medium firms.



**Pre-Requisites for enlistment of consultants by Bank of India**

- Technical Expertise & qualification - minimum Engineering / Chartered Accountancy / or equivalent in the field of service offered. (In case of consultants other than individuals, and individuals with non-technical qualification, specialist staff with requisite qualification to be on the rolls of employment or available on retention basis, with the applicant. Such specialist staff may include senior retired engineers/professors or bureaucrats.)
- Experience - Minimum 15 years' experience in the field of specialization/services for individuals.
- Constitution - Individual, proprietorship concern, partnership firm, private/public limited company or a co-operative society
- Proven track-record of industrial consultancy
- Own establishment
- Registration / affiliation with professional bodies
- Willingness to take up assignment anywhere in the country
- Exhaustive knowledge of financial analysis
- Satisfactory status reports from bankers. In case of individuals, satisfactory references from previous employer.
- Reasonable quote of consultancy charges or accepting bank's pre-fixed fee slabs

(Source: [www.bankofindia.in](http://www.bankofindia.in) )

**G. The other strategic measures which could be worth considering for access to finance and reduce Non-Performing Assets by the Government are:**

- Improving the flow of industrial intelligence to the banking sector, especially sectorial information, to help credit officers make prudent decisions;
- Strengthening a cash-flow-based approach to lending on pilot-basis in selected banks through coordination with the DBE;
- Improving bankruptcy regulations through legislative reform to place creditors' rights in a superior position relative to tax and social security claims;
- Establishing collective lines of credit on pilot-basis in selected banks to finance new projects in selected medium-technology industries; namely, engineering machinery and equipment, labor-intensive construction materials like Bricks and Ceramics and automotive components;
- Applications for small and medium enterprises; and providing appropriate incentives to establish venture capital funds.



## H) Creation of Robust Mechanism for mitigating the growth of Non-Performing Assets

One of the major complaints made by Banks and MFIs during field survey is ever increasing loan defaulters and NPAs. Though there is a formal mechanism that banks will inform to other banks of any SME defaults, it is mainly confined to regional level. This weak controlling system has propelled few habitual offenders to take loans in different regions and default. This is a demotivating factor for banks to further lend to needy SMEs.

Federal Government may consider creating an autonomous bureau/ agency which will monitor credit flow and NPA management at central level. Such bureau will be collectively managed by all the scheduled banks, where in the details of all the borrowers will be maintained. Each SME unit will be provided with a Permanent Account Number at the time of registration and their credit history needs to be monitored through the account number. If any SME defaulted the bank/ MFI will inform the same to the bureau, who will in turn update his record. There will be a marks/ grading system based on his proper loan repayment and credit worthiness.

### *The advantages of such bureau are:*

**Analytics and Consulting-** In this rapidly-evolving market, access to better information and knowledge is the key to growth. Bureau provides all-inclusive analytics and consulting services to a wide range of organizations which gives them a competitive advantage and allows them to make smarter decisions.

**Customer Acquisition-** Apart from customer information, bureau also helps organizations engage and retain the best customers. The customer acquisition solutions by bureau allows companies to have a greater access to knowledge, data and analytics related to their customer base which, in turn, lets them capitalize on the opportunities and make better informed decisions.

**Fraud and ID Management-** The ever-changing financial market makes it imperative for the organizations to keep a sharper eye on possible frauds. The traditional risk management tools are not enough to detect fraud and inefficiencies in the modern world. Bureau's Fraud and ID Management solutions assist the organizations in assessing risk and finding the right customers.

**Portfolio Management-** It is very important to understand the risks in your portfolio and manage it accordingly. The portfolio management solutions offered by bureau help a consumer



in adjusting his strategies and increasing profitability. This service assists them in monitoring the changes closely and choosing the next course of action in a judicious manner.

**Collections Management-** This solution provided by bureau allows banks and financial institutions to track down the bad debts and manage their collections more efficiently. The information provided will let them easily predict the debtors' behavior, reduce bad debts and control operational costs.

**Credit Information Bureau of India Limited – One stop solution for credit risk management**

CIBIL is licensed by the Reserve Bank of India and is governed by the Credit Information Companies (Regulation) Act of 2005. Every month, banks submit the data related to their customers such as the loans outstanding, repayment trends, etc. to CIBIL on the basis of which it determines the CIBIL Rank for individuals and Company Credit Report (CCR) for the business consumers. With help of CIBIL Score, lenders can evaluate the borrowing capability of an individual or a company and offer loans accordingly.

CIBIL Score is a three-digit number ranging between 300-900, with 300 being bad and 900 being good. So, the closer you are to 900, higher will be your chances of loan approval. Individuals should also check CIBIL Score online to determine their credibility and then apply for loans.

It is not just a credit reporting agency but a global risk information provider that offers services to businesses like analytics and consulting, fraud and ID management, CIBIL score, portfolio and collections management, CIBIL microfinance report and more. Individuals can also get a subscription to CIBIL to get regular credit reports, rectify errors and resolve disputes with lenders.

CIBIL is known for maintaining one of the largest collections of consumer information at global level, with a total of over 550 million individuals and businesses. CIBIL's mission is to provide credit information that will help businesses grow faster and at the same time give cheaper and quicker credit to the people. A person's CIBIL Score is his financial report card which helps him strategize his credits judiciously. CIBIL is also committed to bringing financial literacy in India along with inclusion and protection. (Source: [www.cibil.com](http://www.cibil.com) )

**I) Establishment of Regional Level Banking Committees (RLBCs)**

The RLBC is an inter-institutional forum for coordination and joint implementation of development programs like lease financing and policies by all the financial institutions operating in 9 regions and 2 city administrations. Although RLBC is envisaged as a bankers' forum, concerned regional Government officials are also included.



### **Members**

- Representative of National Bank of Ethiopia (He can be the Chairman/ CEO of the committee)
- Representative of DBE
- Representative of commercial bank of Ethiopia
- Representative of Dashen Bank
- Representative of United Bank
- Representatives of all regional level Lead Banks like cooperative Bank of Oromia, Bank of Awash, Bank of Aysinnia, and other other banks having a fair network of branches in the rural, semi-urban and urban areas of the region.
- Representatives from regional level government departments like ReSMMIDA, IPDC, and Trade & Investment Bureau etc.

### **Functions of RLBC:**

- I. To discuss issues, consider alternative solutions to the various problems in the field of banking development and evolve consensus for coordinated action by the member institutions.
- II. To do the necessary spadework for formulation of Annual Credit Plans for getting in time district-wise resource allocation by banks and disaggregation's of the various Government Programs.
- III. To undertake critical analysis of the progress of the implementation of Annual Credit Plans & Government and other agencies sponsored credit linked programs/ schemes in the various districts.
- IV. To review the assistance required and provided by Government agencies.
- V. To consider problems referred by the district level forums and take necessary follow-up action.
- VI. To review the loan recovery performance.
- VII. To ensure arrangements for training of both bank and Government staff as well as evaluation of the programs implemented.
- VIII. To discuss about the availability of adequate infrastructural facilities, forward and backward linkages necessary for successful implementation of the schemes.

### **6.1.4 Conclusions**

- ***Access to credit and better financial management by SMEs is crucial for development of trade and investment capability among Ethiopian SMEs.***
- ***Access to finance is essential for improving SME competitiveness, as SMEs have to invest in new technologies, skills and innovation.***
- ***Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum.***
- ***There are institutional issues covering a spectrum from the macro level to the micro, which are accompanied by capacity deficiencies. A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks.***



- *It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative than pointing it out as their main obstacle: they need to mobilize joint advocacy and recommendations, based on sound analyses, through their membership organizations.*
- *Most significantly, SMEs must implement sound business practices and continuously invest in good internal management systems: in accounting, planning, financial, operations and human resource management.*

## 6.2 Access to raw materials

### 6.2.1 Present Status

In Ethiopia more than 70% of the SMEs spread across five major sub sectors under manufacturing sector, which are:

1. Leather and Leather Products
2. Textiles (Mainly Ready-Made Garments and Handlooms)
3. Wood Processing (Mainly furniture)
4. Metal & Light Engineering (Machinery and gate grill fabrication)
5. Construction (Mainly Bricks and to some extent Ceramics)

Other than the above, there is food-processing SMEs like bakeries, dairy, flourmills, meat processing, though they are not visible in induced clusters, so far visited.

The major inputs required in each of the above sub sectors and their distribution channels are given as below:

#### a. Leather and Leather Products

Ethiopia has 6<sup>th</sup> largest livestock in the world and more than 30% of it after slaughtering will go tanneries. While 40% of the tanned leather is used by local leather products making industry, remaining will be exported to countries like China, Italy, India and other East African countries. Thus, availability of tanned leather is not a problem for leather product makers. However most of the tanneries cannot supply directly to SMEs as minimum quantity to be purchased from any tannery is 5000 SFT, which is beyond the reach of individual enterprise. So, the leather is bought



by major traders/ wholesalers, who in turn will supply to retailers or sometimes directly to SMEs. Thus, SMEs will end up paying double or triple time VAT (at each stage 15% added). For example, a medium grade tanned leather at tannery costs ETB 5000 Birr per 100 SFT, but when an SME buys this in open market it costs anywhere between 6000 to 6500, thereby increasing overall production costs.

Other than leather, SMEs also require following materials in making of shoes, bags, belts, wallets etc.:

- Polyurethane and Rubber (for sole making)
- Adhesives
- Ethyl Vinyl Acetate
- Wax
- Cotton
- Stainless steel

Almost all the above materials are imported by the major importers from countries like China, Turkey and India as there are very few units which make such inputs locally. Thus, the heavy import duties, lack of hard currency (trade deficit), inconsistent supply are impacting the production of SMEs. Lack of hard currency also forces SMEs to purchase substandard raw materials. Thus, in most of leather products like shoes, while leather is of top quality, the sole and adhesives, used, are so poor that they can never attract international buyers.

Thus, Leather Product making SMEs are the worst affected sub sector due to shortage of raw materials.

**b. Construction Materials:**

There are brick making clusters in Tigray, Oromia and Addis Regions. In Ethiopia only, cement bricks are used in more than 80% of construction. The cement is available in local factories and only 20% of cement is imported from countries like Kenya, Turkey. Other materials like stone chips are available from stone crushers. Required dyes for making bricks are available from light engineering firms.

By far this is the only product, observed, which does not depend on imports and all materials are locally available.

There are only 2 ceramic factories found in 5 regions visited. One is Tabor Ceramic Products in Awasa and Medtech Ceramics in Addis. Other than these two there is a large unit established by



Chinese DL Yuan Ceramics Limited. Refractory ceramics, electrical insulators, sanitary products and tiles are some of the major products manufactured in the units.

The principal raw materials required for the production of refractory and other ceramics are quartz, feldspar, lime, dolomite and kaolin, which are locally available.

However no major ceramic making SMEs observed in neither clusters, nor the existing units have any issues related to raw materials.

c. Wood Processing (Furniture)

There are wood processing SME clusters observed in SNNP, Oromia and Tigray other than Addis and most of them are located in induced clusters.

While Eucalyptus and Lumber are the major wood types available locally, teak and neem wood are imported from China, Indonesia and other Central Asian Countries. Only China has exported 70 Million USD worth of wood to Ethiopia followed by Indonesia which exported 38 million USD worth wood during last year.

Other than wood, furniture units require, steel keels, adhesives, rivets, colors. While colors and adhesives are mainly imported from China, India and Turkey, the keels and rivets are available locally. However, the steel required to make such rivets and keels are again imported by local engineering firms and thus the additional import duty cost is passed on to furniture units.

d. Metal and Light Engineering

Ethiopia imported 1.06 billion dollars' worth of steel and iron during 2017, according to United Nations Comtrade data base. The major exporters to Ethiopia are China (45%), India (19%), Turkey (18%) and Ukraine (8.9%). Though Federal Government has its own steel rolling plant and Ethiopia is bestowed with iron ore mines, however the indigenous steel industry is still at nascent stage and import situation will remain high at least for next 4 to 5 years.

Thus, most of the light engineering firms are purchasing iron and steel from traders/wholesalers, who import materials. As such, the entire SME furniture industry is import dependent, with the exception of availability of Eucalyptus. Even locally available wood is highly regularized by Ministry of Agriculture as saw mills require prior permits. Unhealthy practices in



providing permits, cutting of trees which are still not ripe enough for making of solid wood, are some of the major issues in locally available wood supply chain.

e. Textiles

Textile value chain is fairly well developed in Ethiopia with the presence of cotton cultivators, Spinning, Ginning mills, Handlooms, Ready Made Garments and exclusive textile clusters and parks.

Cotton is one of the important agriculture crops in Awasa and Humera Regions of the Country. Ethiopian cotton production has reached more than 70000 tons per annum which is supplied to textile industry and is self sufficient.

However, when contacted, many of the SMEs complained that lack of dyeing facilities in the country is forcing them to import dyed yarn from countries like China and India. Similarly, other fabrics like polyester, jeans cloth, nylon, Zari etc. are imported as local manufacturers are not even meeting 30% of the demand. Other raw materials like thread, zippers and buttons are mainly imported from countries like China, India, Turkey and Bangladesh.

Dependency on imports for inputs is increasing the production costs and forcing SMEs to opt for cheaper quality materials. Thus, they are unable to compete with Chinese made garments even in local markets.

f) Food Processing:

The food and beverages sector is one of the main components of Ethiopia's manufacturing sector. Based on official industrial statistics, the number of establishments under this subcategory is 670 and of these those under private ownership account for about 96% of the ownership title. The subsector includes a wide variety of activities, mostly linked to the transformation of domestically produced agricultural products. The subsector comprises the following production industries: vegetables, animal oils and fats, dairy products, grain mill products, prepared animal's feeds, bakery products, sugar and sugar confectionery, macaroni and spaghetti, wines, malt liquors and malt, soft drinks and production of mineral water.



However, animal feeds, Bakery products, Sugar Confectionary are the major products which fall mainly under SME category, though the present policy now kept the food and beverage industry under Integrated Agro Textile Parks and their visibility in induced/ natural clusters is negligible.

Most raw materials used in the sector are available domestically. Above 60% of the surveyed SMEs reported that they had accessed inputs from domestic market. However, this subsector is to a large extent dependent on rain-fed production of raw materials, such as raw milk, oil crops, fruits and vegetables, grain/cereals, sugar cane, unprocessed tea/coffee, malt etc. The production of processed products therefore to a large extent depends on the seasonality of weather, which largely determines the quality of the materials available. The situation is true for most food and beverage agro-processed products. Volatility of production size due to inconsistent supply of inputs, which is again as a result of the weather dependent nature of most raw materials for this subsector, was one potential difficulty raised.

**Thus, some of the major issues related to inputs cutting across sectors are:**

- With the exception of bricks and agro processing, most of the other clusters depend on imports, like leather products (for accessories), metals & light engineering (for sheet metal), furniture & wood (partially for timber and other accessories), food processing (preservatives).
- Virtually none of the regions knows the existence of industry input development enterprise and its activities. In fact, many cluster stakeholders feel that such institutes should be established at regional level or the federal institute should have its depots/ branches in regions.
- There is no bulk purchasing observed in most of the clusters which can give better economies of scale.
- Poor quality of finished products, high selling prices, and exploitation by middlemen are some of the major adverse impacts of non-availability of raw materials.

## **6.2.2 Proposed Strategies**

### **a) Strengthening of Public Input Aggregator**

Ethiopian Industry Input Development Enterprise (EIIDE) is the government-run input aggregator. The agency imports materials related to textiles, building materials, and general goods, food stuff, paper and stationery items, tires and canvas. It also supplies and distributes



items either on credit or consignment basis, in addition to acting as commercial representative to various foreign companies. The institute claims that it has strong connections with 80 clusters across the country and wide networking with regional and federal level SME support institutions. It provides a maximum of 6 months input credit to SMEs. The institute is also trying to link SMEs with MFIs for availing working capital for purchase of raw material.

Though establishment of such government aggregator is a good initiative taken by Federal Government, its penetration so far is mainly confined to large enterprises and few SMEs and clusters within Addis region. During the survey, regional level SMEs expressed their ignorance about presence of such institute.

There is a need to strengthen the activities of enterprise and a few strategies can be:

- Branching out the enterprise into regions: The agency with the help of regional administrations can establish its branches in regions, with specific reference to those regions which have considerable SME presence. However, this can only be possible, if the regional administration and FeSMMIDA take active role in identification of suitable land and building, map the sector level input requirements, help agency in linking with SME clusters.
- Establishment of Depots in major areas of cluster concentration: As an alternative, the agency can also establish a raw material depot in major areas of sector specific cluster concentrations. For example, Tigray region has more than 400 metal and light engineering enterprises. So, establishment of a depot for supply of steel and iron can reduce the production cost of such SMEs as most of them at present are dependent on wholesalers and traders, who supply at very high prices.
- Strengthening of human resources: As of now the agency is having limited staff, which cannot manage ever increasing demand of inputs from the industry. Moreover, the agency need sector specific experts, to assess the input requirements, their quality and best possible sources. As such Federal Government needs to allocate more budget for recruitment of additional staff. As an alternative, the agency can also take the services of sector specific development institutes in identification of suppliers and quality testing.



**National Small Industries Corporation –  
Its Services to MSMEs related to input procurement**

National Small Industries Corporation (NSIC), is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote and foster the growth of micro, small and medium enterprises in the country. NSIC operates through a countrywide network of offices and Technical Centers in the Country. To manage operations in African countries, NSIC operates from its office in Johannesburg, South Africa.

One of the important services of NSIC is providing inputs to MSMEs under raw material assistance scheme.

Raw Material Assistance Scheme aims at helping MSMEs by way of financing the purchase of Raw Material (both indigenous & imported). This gives an opportunity to MSMEs to focus better on manufacturing quality products.

**Benefits of the Scheme**

- Financial Assistance for procurement of Raw Material up to 90 days.
- MSMEs helped to avail Economics of Purchases like bulk purchase; cash discount etc.
- NSIC takes care of all the procedures, documentation & issue of Letter of credit in case of imports.

**Terms and Conditions**

- Security in the form of Bank Guarantee from Approved/Nationalized Banks.
- The rate of interest will range between 8.75 to 9.75 based on their rating provide the dues are not more than 90 days. If more than 90 days the interest rates will go up to 11%

**Other features**

- Presence of its branches all over the country with depots in major regions
- Support Associations also in procurement of raw materials for their members
- Strong scrutiny and assessment system for SME input requirements.
- So far supported more than 40000 MSMEs in the country

(Source: [www.nsic.co.in](http://www.nsic.co.in) )

**b) Encouraging Private Aggregators**

In spite of strengthening of the Industry Input Enterprise, its capability to reach out to ever increasing SMEs across the country is remote. It is very difficult for a single agency to cater to diversified sectors, which require different inputs with different specifications. For example, in steel itself there are more than 200 varieties, which are used by light engineering units.



Thus, another alternative strategy is encouraging, qualified and enthusiastic entrepreneurs to become private aggregators, both at national and regional level. Such aggregators can take orders from various SMEs, operating in the clusters, assess the total demand, negotiate with original manufacturers and supply at competitive prices. The advantages of such system are:

- Encouraging employment to qualified and enthusiastic professionals
- Maximizing outreach of SMEs with reference to raw materials, which single government led agency cannot achieve
- Ability of private aggregators to understand regional dynamics and requirements as they belong to such regions.
- Ease of doing business without bureaucratic hurdles, which government institutions face.
- Avoiding middlemen exploitation

Such private aggregators can be encouraged by providing them with tax rebates/ exemptions, low customs duties, soft loans with low interest rates by Federal Government.

However, there should also be a strong controlling mechanism as private aggregators tend to exploit SMEs and may resort to unfair practices in the long run. So FeSMMIDA and ReSMMIDAs may be appointed to control such aggregators either externally (frequent inspections and checking stock statements etc.) or internally (becoming a part of the management in the form of honorary director or member of the company).

The concept of private aggregators is fast catching up in countries like India, Bangladesh and East Asian countries.



**Power2SME - The first 'Buying Club' for Indian SMEs**

Headquartered in Guru gram, India, Power2SME has offices spread across the country. Having started its operations in 2012, Power2SME with its mission 'Empower SMEs to enable the India growth story' has a proven track record of enabling small businesses and enterprises enhance their overall productivity and achieve measurable business value through its offerings.

The company plays a crucial role in sourcing input raw materials for SMEs at the most economical price points in varied categories like Chemicals, Inks, Paints, Metals, Polymers and more. This helps SMEs focus on their core business of accelerating growth, both in terms of revenue and development.

The company team comprises over 120 professionals with domain expertise in sales, supply chain, marketing, finance, human resources and IT. It has so far helped 300000 MSMEs in acquiring requisite raw materials at competitive price.

The company has raised 3 rounds of funding from Invents Capital, Kalaari Capital & Accel Partners over. They have together invested over USD 15.5 million in the company.

Power 2 SME is focused on working with large, established and trusted suppliers so our customers are assured of the quality of the product that they buy from us. Our current suppliers include companies like SAIL, IOCL, GAIL, AkzoNobel, Haldia, etc.

(Source: [www.power2sme.com](http://www.power2sme.com))

**c) Motivating associations for bulk procurement:**

In Ethiopia more than 2000 clusters were induced in the last 10 years, other than the presence of more than 50 natural clusters. In most of these clusters there are associations which are expected to attend the requirements of their members. Since raw material is one of the major challenges faced by SMEs, associations need to encourage their respective members to buy material in bulk. This phenomenon was already started in few of the clusters situated in Addis Ababa. For example, in Ethio International Footwear Cluster, which is an off shoot of Mercato Leather Cluster, the association is taking care of input requirements of its members. At the beginning of every month the association convenes a meeting and collects the individual requirements of its members, then negotiates with suppliers including Industry Input Enterprise, collects the money from members and purchases materials at competitive price. In fact, the association has a tie up with local tannery, which supplies leather directly to members. This sort of bulk procurement by associations is lacking in the regions, as associations are not strong and capacitated enough to undertake such activities. Thus, one of the important functions of FeSMMIDA and its regional support institutions is “capacity building of associations” and



motivating them to go for bulk purchases. Such bulk procurement will improve bargaining power of SMEs and they can reduce the production costs by 10 to 15%.

In fact, in newly planned induced clusters, a separate provision needs to be made for raw material warehouses with all necessary amenities.

**d) Budgetary allocation to revolving fund for bulk purchases:**

Ministry of Industry, through FeSMMIDA is implementing Sustainable Development Fund Scheme for strengthening of SMEs through cluster approach. Other than establishing G+4 structures, providing amenities, capacity building of SMEs, a part of the fund can also be earmarked for providing revolving fund to SME clusters, which will be used as guarantee for banks to avail working capital loan for bulk purchase. Cluster Specific associations can be used as the implementing agency in this regard, which will avail such revolving fund and create raw material banks to meet their member requirements.

Such raw material bank concept for SME clusters is prevalent in countries like India, where most of the cluster development schemes are allocating a part of the budget for revolving fund to purchase raw material. In this way banks can also get a guarantee, as such fund will be kept as security against which they will give working capital loan to associations.

If not in all clusters, such mechanism can be tried on pilot basis in a few performing clusters, observe the outcome and can be replicated in other clusters.

In India, there is a Scheme Called SFURTI, basically to encourage artisan-based SME clusters to undertake soft interventions, and establishment of common facilities. The project cost of each cluster may vary from USD 230000 to USD 460000. However, under the scheme there is provision that a cluster may spend 25% of project cost for establishment of raw material bank, so as to encourage bulk procurement of raw materials and capacitate bargaining power of SMEs.

**e) Resource based creation of induced clusters**

Since Federal Government is planning to create more than 2000 clusters during GTP II, in order to mitigate regional imbalances, one of the criteria for establishment of a cluster in a particular region is availability of requisite raw material with in cluster region. Though this criterion was



already mentioned in phase -1, where in 2100 clusters were established, in reality, most of the clusters are created, based on availability of budget and sector specific applications received.

For example, in Tigray region, a brick making cluster was established at Mekelle, because of availability of raw material. In fact, the cluster is 10 Kms away from the MESSEBO cement factory, as cement is the major input required in making of bricks. Similarly, the required stone chips are available from stone crushers, which are operating with 10 Kms radius due to availability of hills and mining resources. Required dies are available from the adjacent, light engineering cluster, which make required sizes.

However, such planning is lacking in establishment of majority of the clusters. In Bahir Dar, a leather garments cluster was established, mainly due to number of applications received from prospective entrepreneurs. Once SMEs are established in the cluster, they realized that raw materials are not available locally and are now mainly procured from Addis Ababa, which is 500 Kms away. The higher transportation costs, coupled with inconsistent supply, lack of input quality management measures, have resulted in dwindling production and profit margins. It is observed that most of the SMEs are not even reaching 30% of the capacity and are recurring losses.

Thus, resource-based establishment of clusters needs to be given a top priority in any future endeavors of inducing clusters.

**f) Priority to value chain approach and circular economy-based clusters**

While inducing clusters, a value chain approach needs to be followed rather than core cluster firm approach. For example, in Ethio International Foot Wear Cluster, it was ensured that entire value chain of input suppliers, shoe upper makers; finishers were allotted separate places besides association taking care of marketing aspects. Thus, shoe makers who are principle firms can get their inputs from within the cluster. However, such sort of arrangement is not visible in clusters spread across various regions.

Similarly, where ever possible, creating clusters, where one cluster product (or its waste) will become input for another cluster, may be given priority. For example, In Bahir Dar, a handloom cluster is established, adjacent to a traditional dress making cluster. Thus, the running cloth made by the handloom weavers has become input for traditional dress making cluster. This is a win-win situation for both as weavers get continuous job and dress makers get in puts at cheaper prices. Even in Mekelle, metal engineering cluster is supplying dies and required



machinery parts to adjacent brick making cluster and wood processing cluster. This concept may be described as a sort of circular economy, where finished product of one unit becomes input for another unit.

Value chain and circular economy-based cluster approach is now fast catching up in countries like India, China, Thailand as part of sustainable consumption and production initiative. One Village One Product concept of China, Mega Food Park Scheme, Integrated Leather Park Scheme of India are a few of such value chain based induced cluster concepts.

**g) Emphasis on import substitution as major component of internationalization**

As policy, Federal Government needs to give priority to import substitution with specific reference to raw materials, which is a major contributing factor for trade deficit. One of the major components of GTP II is internationalization of SMEs. However, such internationalization will not happen only through exports or attracting FDIs, import substitution may also act as indirect contributor for internationalization. One of the major reasons for importing of raw material is non-availability of sufficient local technologies/ machinery, to make them.

For example, in leather product sector, the SMEs complain that they can make rubber sole and required adhesives, as natural resources are available to make them. However, making of such inputs requires machinery which is totally imported at present and beyond the reach of SMEs. Thus, concerned development institute (in this case LIDI) has to do required R&D to make such machines indigenously and transfer the technology to OEMs/ OMMs. It is to mention that sole, shoe upper and glue making require simple machinery and with little R&D effort, such machines can be developed locally.

Another strategy is encouraging input manufacturers by providing more facilities, incentives in the form of tax holidays, soft loans etc. In each induced cluster, separate provision can be made for input manufacturers, by providing them all amenities, machinery and technical inputs with the help of concerned DIs and other technical institutes like universities. Government also hires a few international sector specific consultants and links them with input making SMEs for adopting better technologies and acquiring skills.



### 6.2.3 Conclusions

- *It is a foregone conclusion that lack of raw materials is one of the major challenges Ethiopian SMEs are facing, which is hindering their growth both in terms of trade and investment. Limited local availability of most of the raw materials led to increasing dependency on imports, which in turn led to trade deficit, as such Government made restrictions on imports, which thus ultimately led to a vicious cycle.*
- *It is high time that Federal Government takes some progressive decisions related to import substitution, strengthening/ development of government/ private led input aggregators, encouraging SMEs to opt for bulk procurement by making/ strengthening conducive policies, establishment of value chain clusters etc.*
- *It is to be remembered that securing reliable and unhindered access to raw materials is important not only for the growth of Ethiopian SMEs but also to safe guard half million jobs which are depending on the manufacturing industry in the country.*

## 6.3 Access to Better Technologies

### 6.3.1 Present Status

Many countries are facing low productivity growth, weak trade and investment, and rising or persistently high inequality. In addition, major trends, including the new industrial revolution, the changing nature of work and demographic changes, call for innovative policy solutions. SMEs are key to strengthening productivity, delivering more inclusive growth and adapting to megatrends. SMEs that grow have a considerable positive impact on employment creation, innovation, productivity growth and competitiveness. SMEs can scale up and innovate at different stages of their life cycle. Fostering innovation in established SMEs can enhance aggregate productivity and narrow wage gaps. SME (Small and Medium Enterprise) is the fastest growing sector in a majority of the developing countries and is generating the most number of employment opportunities in those countries and is always looking for innovative ways to grow. Access to Technology is one of the major challenges for SME growth and Ethiopia is no different as compared to the developing countries or countries under transition stage.



- Challenges in existing environment
  - Access to the latest technology – Knowledge & Sources

In general, Ethiopia lacks knowledge in the latest technology in the sectors the local industry is working. Further, there are no professional Service providers (BDSPs) in the region to support the industry in the specific issue.
  - Cost of the Technology / Machinery

Cost of the machinery is another hurdle to the growth of the local SMEs. The Local SMEs are not able to afford the latest and high end machinery which otherwise would have improved the quality of the products. The delay in support from EDB in some cases is further discouraging the industry to upgrade.
  - Underutilization of the Machinery & its economic viability

Another factor of concern is the possible underutilization of the high end and costly machinery. The SMEs may not be able to achieve economic viability if the machinery is underutilized.
  - Skill on operation and use of Technology / Machinery

The skills required for operation of the high end machinery too are lacking in the local work force. Though Institutions like TVETS are working for development of human resources skill, they too lack the requisite knowledge in the case of machinery with latest technology.
  - Poor Infrastructure

The infrastructure for setting up such machinery too is lacking. SMEs are already complaining about the lack of adequate space for their existing setup. The availability of power too has been raised as a concern.

### **6.3.2 Strategy to Mitigate**

#### Setting up of Common Facility Centre (CFC)

Setting up of Common facility Centre is one of the most successful models for addressing the issues related to access better technology. A CFC not only addresses the common concerns of the clusters but also addresses the issues related to affordability of high end machinery and economic viability of purchasing the machinery. The CFC can form a Design Centre, manufacturing, processing and value addition, training center etc. The high end machinery which otherwise was not affordable by individual enterprise and further underutilized will now be affordable and be better utilized due to cluster approach.



### Micro & Small Enterprises – Cluster Development Program (MSE\_CDP)

MSE-CDP is a flagship program of Ministry of Micro, Small and Medium Scale Enterprise (MoMSME), Government of India and has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country.

#### *Objectives of the Scheme*

- i. To support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access, access to capital, etc.*
- ii. To build capacity of MSEs for common supportive action through formation of self-help groups, consortia, up gradation of associations, etc.*
- iii. To create/upgrade infrastructural facilities in the new/existing industrial areas/ clusters of Mses.*
- iv. To set up common facility centers (for testing, training center, raw material depot, effluent treatment, complementing production processes, etc.).*

MoMSME, through State level Implementing agency (SIA) provide and Technical agency (TA) support to MSME's for development of Cluster in form of Diagnostic Study, Soft Intervention, Detailed Project Report, Hard Intervention / CFC and Infrastructure Development.

The Scheme provides support in the form of Capital Grant (Grant-in-Aid) from 60% to 80% of the project cost (Up to USD 2.3 Million) for Setting up of CFC and from 70% to 90% of the project Cost (Up to USD 1.5 Million) in case of Infrastructure Development. The Grant-in-aid is released proportionately to the contribution of the SPV and in general in 3 to 4 installments.

(Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in) )

FeSMMIDA can also plan for similar scheme (Cluster Development Scheme) thereby supporting cluster development program and helping SMEs in setting up of Common Facility Centers (CFCs). FeSMMIDA can act as nodal agency for the scheme. ReSMMIDA can act as nodal agency on behalf of the region for the all the projects under Process. Empowered Committee (EC) should be formed both at Federal and Regional level for assessment and granting of the project. The members of the committee can be representatives of Ministry of Industries, education, Finance and Economic Development, Science & Technology etc. Business development Service Providers (BDSPs) should also be identified and empaneled so as to support in preparation of business



plan. Special Purpose Vehicle (SPV) should be formed at cluster level for implementation and operation of the project. Cluster members can be members / shareholders in the Special purpose vehicle (SPV). Scheme will support setting up of CFCs in the form of Capital Subsidy ranging from 40% to 60% of the capital cost. The cluster members (Special Purpose Vehicle - SPV) should contribute 10% to 20% of the project cost and the balance can be in the form of loan from Banks. Expenses or Professional charges for the BDSPs should be supported by FeSMMIDA or ReSMMIDA. Dedicated Funds should be allocated and provision should be made in Federal annual budget every year to support setting up of Common Facility Centre.

**Case Study:**

Malady Rice Millers Consortium Pvt. Ltd. is a Special Purpose Vehicle (SPV) constituted for setting up a Common Facility Centre for Rice Millers in the Kerala State (Region) of India, under SSI-CDP (now MSE-CDP) scheme of Ministry of MSME, Government of India. The project was set up with an investment of USD 1 Million in the year 2003 and today is known as one of the benchmarking cluster in India. The project started with Rice Bran oil extraction and testing lab for Rice and now have graduated to multiple activity which includes Common weighing bridge, Tyre & Mill store (Rice mill spare parts store) training Centre, R&D in high yield rice cultivation and consultancy in Rice Milling. Project in Anvil include A Cattle feed factory to make best use of the de-oiled bran, Silica plant to extract silica from rice husk ash, An animal feed factory, a HDP woven sack plant, A unit to produce Bricks, Tiles & Panels using Rice husk ash, rice husk based power plant, bio-methanation project to generate power and gas from rice mill effluents etc.;

**Guidelines for Operation and Management of a CFC**

The Common Facility Centre can be in form of Design Centre, Training Centre, Processing Centre, and value addition, Testing Laboratory, R&D Lab, Packaging and Common Effluent Treatment Plant etc. The Common facility Centre should be operated & managed by a Special purpose vehicle (SPV) and should function in a self-sustainable mode. The Cluster SME's can be members of the SPV. SPV members will utilize the CFC facility on a basis of a predefined user charges for each activity. CFC can have its own line of products to make it more economically viable. However first preference should be given to the members. CFC should have its own managerial staff and work in a transparent manner.

*Example for operation & Revenue generation:*



*The CFC is having a Common effluent treatment plant (CETP). A footwear industry in the cluster is having leather tanning facility and proposes to use CETP of the CFC will send its effluent for treatment. The SPV of the CFC will treat the effluent on predefined charges per Kilo Liter which forms as a revenue for the SPV.*

*Say the CFC is also having Packaging Label printing unit and a footwear industry proposes to print label for its own line of product and can hire the label printing machine for 8 Hours and hence will pay the predefined user charges on hourly basis.*

The charges thus collected will form revenue for the SPV and will be able to meet the recurring annual expenditure comfortably. The CFC should be initially conceptualized with major gaps in the cluster and should graduate to value added or ancillary activity on attaining stabilization for the CFC.

(Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in))

Technology Up gradation Fund with Subsidized interest rate or flexible lending period.

In case individual units propose to purchase high end and machinery with latest technology, machinery for value addition, it can be supported through subsidized rate of interest or flexible prepayment period. Subsidized interest rates or elongated repayment period gives the enterprise the requisite breathing time for the long term liability (Loan). Capital subsidy up to 30 to 40% can also act as an alternate solution for subsidized interest rate or flexible lending period.

**Amended Technology Up gradation Fund Scheme (ATUFS)**

ATUFS is a flagship program of Ministry of Textile, Government of India, to support Enterprise working in Textile and Garmenting sector.

*Objective of the Scheme*

*The scheme would facilitate augmentation of investment, productivity, quality, employment, and export along with import substitution in the textile industry. It will also indirectly promote investment in the textile machinery (having benchmarking technology) manufacturing.*

Under the Scheme, Ministry of Textile provides Capital Investment Subsidy (CIS) of 15% on eligible



machinery up to USD 4.6 Million for garmenting and Technical textile sector. Such CIS are 10% in case of weaving and valued up to USD 3 Million. Composite units (Multiple segment) are eligible for 10% to 15% CIS. The CIS are released at one go on satisfactory installation and commissioning and commencement of production. (source: [www.texmin.nic.in](http://www.texmin.nic.in) )

#### **Credit Linked Capital Subsidy Scheme (CLCSS)**

CLCSS is a scheme under Ministry of MSME, Government of India which provides 15% subsidy for additional investment up to USD 0.15 Million for technology up gradation by MSE's. Technology up gradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology. In the varying mosaic of technology covering more than 7,500 products in the Indian small scale sector.

Units looking to replace existing equipment/technology with the same equipment/technology will not qualify for subsidy under this scheme. Similarly, units upgrading with used machinery would not be eligible under this scheme. The funds are linked directly through 12 Banks/ agencies.

(Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in) )

#### **Technology and Quality Up gradation Support to MSMEs**

The scheme advocates the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanism.

Capacity building of MSME clusters for energy efficiency/clean development and related technologies. Funding support of up to 75% for awareness programmed, subject to maximum of USD 1150 per program;

Implementation of energy efficient technologies in MSME units 75% of actual expenditure for cluster level energy audit and preparation of model DPR;

Setting up of Carbon Credit Aggregation Centers. 50% of actual expenditure subject to maximum USD 2300 per DPR towards preparation of subsequent detailed project reports for individual MSMEs on EET projects;

Encouraging MSMEs to acquire product certification / licenses from National / International



bodies. 75% of the actual expenditure, subject to a maximum USD 23000;

25% of the project cost as subsidy by Government of India, balance amount to be funded through loan from SIDBI/banks/ financial Institutions. MSMEs are required to make the minimum contribution as required by the funding agency;

75% subsidy towards licensing of products to national/ international standards; ceiling 2300 for obtaining product licensing/marketing to National standards and USD 3000 for International standards. (Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in) )

Ministry of Industries, Ethiopian federal government can act as a nodal agency for the said scheme whereby it can support SMEs proposing to upgrade to latest or better technology. The scheme can support primarily Leather and Textile sector which sees major technological changes as compared to other sectors prominent in Ethiopia. Encouragement should be given to Machinery consuming lesser energy. The Capital Investment subsidy (CIS) should be in the range of 15% to 25% for select machinery. Ministry of Science & Technology and Ethiopian standard agency should be roped in as made members of the empowered committee for approval of the project. Credit Link Capital subsidy should also be facilitated keeping Banks and Financial Institution in loop who has key role to play.

#### Exposure Visit

The main purpose of any exposure visit is to share learning and experiences from the Technology providers (Suppliers), Industry (Users) and experts. Exposure visit enables stakeholders to interact with and learn from others, allowing them to view practical examples in the field. The advantages of exposure visit include exposure to more than one option, assess before you use, practical feedback of users, one on one interaction with suppliers, opinion of subject expert etc.;

#### Micro & Small Enterprises – Cluster Development Program (MSE\_CDP)

Exposure Visit in India is generally supported as an integral part of various program, one such program is MSE-CDP under Ministry of MSME, Government of India. Under this scheme exposure visit is supported as a soft intervention to visit to a benchmarking cluster.

(Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in) )



FeSMMIDA can be Nodal agency for this scheme, whereby it can support in identifying the needs, identifying the benchmarking cluster (having both suppliers & users) and then organizing such visits. The financial support for the exposure visit should be maximized to encourage participation. The exposure visit need not be limited to the cluster level but also to be encouraged for Machinery and Technology trade fair.

Linkage between the suppliers and Industry plays a key role in access to technologies. FeSMMIDA can further work towards linkage of industry to suppliers in two forms as mentioned below.

***Interaction meet between Industry and Suppliers:*** FeSMMIDA can organize annual or by-annual workshop so as to boost interaction between industry and supplier. The workshop can be organized sector wise with support of cluster BMO (an association) to have better participation of the industry and the suppliers. In such workshops the suppliers can understand the requirement of the Cluster SMEs and showcase the latest technologies / machinery. The one to one interaction between industry and suppliers is expected to give a better outcome. Such workshop should be fully sponsored and part of the Sustainable Development Fund should be earmarked for such activity.

***Bulk Purchase of Machinery:*** This strategy works effectively for an induced cluster. The Industry association/ BMO play a key role in the strategy by identifying the need for Technology / Machinery of the cluster SMEs and propose to purchase in bulk so as to leverage on the price of the technology / machinery. The association can further ensure technology or machinery being purchased are appropriate and adequate for the cluster SMEs. FeSMMIDA can handhold the association / BMOs in such an activity.

#### Technology & Knowledge Resource Centers

The above suggested strategy will be more effective and result oriented if a centralized agency is available with knowhow of all the development happening in the areas Technology and Machinery for the key sectors functional in Ethiopia. The objective of the agency should be to gather and disseminate knowledge about the latest machinery and technology among the SMEs. Commercialization of technologies can be another activity that the agency can take up and the role in this case would be to identify the indigenously developed technologies and then work towards commercialization of same.



### **Council for Scientific and Industrial Research**

The Council of Scientific & Industrial Research (CSIR), known for its cutting edge R&D knowledgebase in diverse S&T areas, is a contemporary R&D organization. Having pan-India presence, CSIR has a dynamic network of 38 national laboratories, 39 outreach centers, 3 Innovation Complexes and 5 units. CSIR's R&D expertise and experience is embodied in about 4600 active scientists supported by about 8000 scientific and technical personnel.

CSIR covers a wide spectrum of science and technology – from radio and space physics, oceanography, geophysics, chemicals, drugs, genomics, biotechnology and nanotechnology to mining, aeronautics, instrumentation, environmental engineering and information technology. It provides significant technological intervention in many areas with regard to societal efforts which include environment, health, drinking water, food, housing, energy, farming and non-farming sectors. Further, CSIR's role in S&T human resource development is noteworthy.

(Source: [www.csir.res.in](http://www.csir.res.in) )

India being 3 times the size of Ethiopia in terms of land mass and 12 times in terms of population, replication of CSIR in Ethiopia may not be feasible. The idea is to create a central level Technology and Knowledge Resource Centre (TKRC) wherein the information related to latest technology, machinery, products, and value addition is available for the Sectors Ethiopian SMEs are functioning in. TKRC will also support SMEs in procuring of technology / machinery and technology transfer. SMEs would find it easy to access the latest development happening across the world and source it through them. During the initial period the functioning of the agency should be fully funded till it reaches a sustainable level. The agency can upgrade to Research and Development on achieving sustainability. The new agency can function under Ministry of Science and Technology which currently supports similar program.

### **Technology development Board (TDB)**

Technology development Board (TDB) is an entity under Department of Science and Technology Government of India. The TDB provides equity capital, subject to such conditions as may be determined by regulations, or any other financial assistance to Indian industrial concerns and other agencies, attempting development and commercial application of indigenous technology, or adapting imported technology to wider domestic applications.



*The objectives are to:*

- *promote new ideas from small enterprises even at the risk of failures;*
- *encourage production of competitive consumer products;*
- *motivate industries and R&D institutions for product innovation;*
- *develop socially relevant and profitable technologies;*
- *identify and act in areas requiring strategic interventions;*
- *Invest in core Technological Strengths to Enable India Industry to Stand-up to the competitive Pressure and Become a global Player.*

Technology Development Board also provides Financial support in form of Equity participation or Capital Grant for development and commercialization of modern technologies, setting up incubators.

(Source: [www.tdb.gov.in](http://www.tdb.gov.in))

Federal Government of Ethiopia should plan for such an agency wherein part of the Sustainable Development Fund or fund from federal annual budget should be allocated for such activity. Such provision will be essential in the long run for encouragement and development of indigenous technologies. The agency should set up or support setting up of **Technology Incubation Centers** where SMEs can use the facility of the incubators (On nominal charges basis) for Research and Development of new technologies. This strategy will serve as an import substitution in the long run and put Ethiopia in a better in Global SME map.

### 6.3.3 Key Notes for the Strategy

- *Dedicated fund should be available either through Federal budget or/and Sustainable development fund for the suggested strategy.*
- *Proper framework should be established for any such activity. Learning can be taken from the scheme available in India and their success / failure.*
- *Development Banks and Financial Institutions should be involved for any capital or interest subsidy being provided for Technology up gradation.*
- *Handholding support should be obtained for preparation of the scheme, guidelines and framework from countries like India where such schemes and developmental works have already been taken up successfully.*



- *Training and workshop for the agencies suggested being nodal agency (FeSMMIDA, ReSMMIDA, Ministry of Industries, Ministry of Science and technology) to be taken up before operationalizing the suggested strategy.*
- *As a long run strategy Federal Government of Ethiopia should invest in encouraging development of Indigenous technologies for a better and sustainable economy.*

#### 6.4 Access to markets

##### 6.4.1 Consortium based marketing approach:

One of the major constraints of SMEs is their limited capacities to capture major orders either from big public-sector organizations or from large private firms (Mother units). They may also lack necessary working capital to execute such huge orders. However, these problems can often be overcome through cooperation among SMEs. By combining their knowledge, financial resources and contacts within a market consortium, SMEs can significantly improve their market potential and reduce the costs and risks involved in penetrating large markets. Under these circumstances SMEs can follow a consortium-based approach, as this is especially easy for those SMEs which are a part of clusters, due to their geographical proximity.

Any marketing consortium is a voluntary alliance of firms with the objective of expanding the market of goods and services of its members through joint actions.

A marketing consortium is a formal organization to promote medium- to long-term strategic cooperation among firms, and it organizes joint activities to facilitate access to foreign markets. Most consortia are non-profit entities, and members retain their financial, legal, managerial, and commercial autonomy. So, despite their participation in the market consortia, member firms do not give up any control over their business to others. This is the main difference between consortia and other types of strategic alliances.

**Benefits of marketing consortia:** By cooperating with other firms within a consortium, SMEs can effectively penetrate and increase their share of foreign markets, at reduced cost and risk. At the same time, members can improve their profitability, achieve productivity gains and accumulate knowledge through various types of joint action that are not directly related to marketing, such as joint management training programs, joint certifications, improve shop floor procedures, and the like.



Such consortium-based approach is especially required in natural clusters, where there are no proper associations to take care of and no proper government monitoring unlike in induced clusters.

FeSMMIDA and their regional counter parts need to take responsibility in identifying likeminded and needy SMEs in potential clusters and motivate them to form such consortia. The support institutions should also help in formalizing the consortia and capacitating the members about advantages of such collective marketing approach.

In fact, in countries like India and Bangladesh, concerned federal agencies are encouraging such consortium-based approach in tendering process for procurement. In fact, in India the federal Government has started “Consortia and Tender Marketing Scheme, where in group of enterprises can collectively compete for government tenders. The Federal Agency M/s National Small Industries Corporation is helping such SME consortia in applying and also supporting financially by providing any earnest money deposits as required by public sector units and large firms. In Ethiopia such responsibility can be taken care of either by FeSMMIDA, since it is the nodal agency for SME development or by Industry Input Development Enterprise, considering its proximity to large and public-sector units. Under such model, concerned Nodal Agency will enter agreements with cluster and regional level consortia on pre-fixed and mutually agreeable terms and conditions. As and when the demand arises from major firms, based on the sector, expertise and location, the Nodal Agency will allot order to relevant consortium.



## **NSIC - Its role in Consortia and tender marketing**

Promotion of the product of Micro and Small Entrepreneurs is one of the major objectives of the Corporation. In the present competitive scenario, a need has been felt to facilitate Micro and Small Enterprises to market their goods / services collectively through 'Consortium'. Accordingly, the scheme for promoting the products of the MSEs has been reviewed in 2011 & named as "Consortia and Tender Marketing Scheme".

### **Special features of the scheme**

1. The scheme will cover Micro & Small Enterprises registered with NSIC under its Single Point Registration Scheme (SPRS). It would also cover Micro & Small Enterprises who apply to get themselves registered with NSIC under the SPRS along with all required documents in terms of the scheme and their factory is inspected before filing of tender in terms of the Tender Marketing Scheme.
2. The scheme also covers the method of selection of the units for participation in the open tenders and single tenders on nomination basis.
3. The scheme takes cares of providing EMD and security deposit on back to back basis.
4. The scheme inter alia includes the procedures for formation of Consortium, Capacity Building of MSEs by formation of consortia of the units manufacturing similar products, participation in tenders on behalf of units in a 'consortia' to secure orders in 'bulk' quantities, distribution of orders amongst units in a 'consortia' as per their capacities, facilitate the 'consortia' members in meeting their raw materials requirements & facilitating 'Credit' for the supplies made.
5. To accommodate provisions of this scheme, the legal document such as individual agreement by the units, agreement to be executed by the consortium, board resolution, power of attorney and another related document have been revised and simplified.
6. For facilitating promotion and development of Micro & Small Enterprises, the Government of India, Ministry of MSME vide Gazette Notification No. S.O. 581(E) dated 23rd March, 2012 has circulated the Public Procurement Order 2012 for MSME. In the above Public Procurement Order, the Govt. of India has mentioned that that "Annual goal of procurement also include sub-contracts to Micro and Small Enterprises by large enterprises and consortia of Micro and Small Enterprises formed by National Small Industries Corporation".

### **Fixation of limit for each consortium member:**

1. In respect of enlisted units willing to participate in tender through NSIC, the branch office shall fix an overall limit up to which the tender(s) can be participated on behalf of such unit at any point of time. The limit shall be the higher of:
  1. 300% of the monetary limit fixed for the unit under the Single Point Registration Scheme, or
  2. Last year's turnover, (The 'Last year's turnover' should be turnover for a financial year and the same may either be as per the last audited accounts or as per the provisional results for a financial year, duly certified by the Chartered Accountants).
2. While fixing the overall limit the operating and installed capacity of the unit may also be considered.
3. The fixation of the limit shall be done by the committee consisting of the Branch Head, Accounts Head and Business Head.
4. The limit so fixed shall remain valid for a year and is subject to review/ renewal annually.

(Source: [www.nsic.co.in](http://www.nsic.co.in))



In Ethiopia, since SME development is still at nascent stage and most of the units are unable to compete with large units in tendering process for public procurement, such exclusive reservation policy may help them in strengthening their trade and investment and propel their transformation from small to medium and medium to large.

**Some salient features of such policy can be:**

- Every federal Ministry /Department / Regional Administrations/ PSUs shall set an annual target for 20% procurement from SME Sector.
- A sub-target of 4% out of 20% target of annual procurement earmarked for procurement from MSEs belonging to backward regions.
- Tender sets free of cost and exemption from payment of earnest money to register SMEs
- SMEs quoting price within price band L-1 + 15%, when L1 is from someone other than SME, shall be allowed to supply at least 20% of tendered value at L-1 subject to lowering of price by SMEs to L-1.
- There is a need to reserve certain items, which are mainly made by SMEs for exclusive procurement, like leather and leather products, construction materials, light engineering works (iron gates, grills and other scaffoldings), wooden furniture, etc.
- Ministry /Department/CPSUs/ Regional Administrations shall prepare their annual procurement plan to be uploaded on their official website.
- For enhancing participation of SMEs in government procurement, Ministry /Department/CPSUs shall conduct Vendor Development Programs or Buyer Seller Meets for MSEs, at least in back ward regions.

**6.4.3 Cluster Branding**

One of the major advantages of industrial clustering be it natural or induced, is developing a brand image for the cluster as a whole, which is relatively easier compared to developing such image for individual SME unit. The image of the place and the perception of the quality of life/quality of place in the mind of citizens and communities can be enhanced, and policy makers can use cluster marketing and branding as a powerful tool to attract skilled workforce, investors, and resources and to support the strategic development of the territory.

Cluster branding may not be possible for those, which are newly induced or non-vibrant natural ones. However, cluster like Mercato Leather and Shiro Meda Handlooms, which are well known, with reasonable infrastructure and presence of committed stakeholders, such branding can be induced, so as to improve their market base and bringing in sustainability for SMEs.



Branding strategies have to be developed by cluster organizations in order to plan and realize cooperative interventions and strategic actions, uniting more realities under a unique image. This increases opportunities and visibility.

Powerful Cluster brands can enable:

- Stronger and more profitable collaborations;
- Better visibility outside the region of cluster operation;
- More effective outreach;
- Stronger partner loyalty;
- Competitive platforms for market impact;
- An effective means for greater, faster and more reliable funding;

**Factors enabling cluster Brand:**

Branding is a time intensive exercise which requires systematic planning and collective actions by a group of likeminded entrepreneurs in the cluster. It is a cost intensive work which sometimes requires heavy development push by policy stakeholders.

It is essential to understand Unique Selling Proposition (USP) of cluster product for making right marketing and branding strategy. Targeted marketing is often considered to be better than mass marketing especially when the products are specialized products. To understand the target markets, it is essential to segment the entire market and find out the potential ones where there are comparatively higher business possibilities (For example selling of traditional handloom products to Ethiopia Diaspora is targeted marketing).

Clusters that have segmented their market and taken up right marketing and branding strategy could successfully establish their marketing channels and build a brand image.

A major critical factor for the success of the cluster brand experienced in many successful clusters has been the ability to differentiate its product from other similar product categories and product lines in the market. Clusters focused on creating a product line as per market need through creation of various mechanisms to forecast market demand were successful in creating brand image for themselves. While product specialization plays an important role in industrial/intermediary product marketing, product mix serves as key attribute for consumer product marketing.

As the initiative towards branding of the cluster as an entity must be realized, primarily from within the cluster, the presence of strong associations/ networks is an imperative parameter and also is an indicator of how receptive a clusters stakeholder is towards branding as a marketing initiative. A common platform, common vision of stakeholder, common entity makes



the branding process more effective and sustainable. It also helps enforcing the brand through legalized system and creating effective promotional measures.

Many a time, existence of known brands of manufacturing companies or trading firms makes the cluster known in the global market. This not only creates brand name for the cluster but also become known as trusted source of products. This has been proved to be a success factor in some of the clusters.

It is observed in most of the cases that, branded clusters are no accidents. They are a result of thoughtful and imaginative planning and also creation of right atmosphere. From the successful branded clusters, it is learnt that policy can play a significant role in promoting cluster-based brands through 1) Creating and promoting brand; 2) Using various regulatory measures; and 3) Brand enforcement; 4) Creating Favorable Infrastructure and Support Services (both soft and hard infrastructures); and 5) Brand Endorsement

**Cluster Branding Strategies for Ethiopian Scenario:**

**Most of the natural and induced clusters in the country are at an embryonic stage.** At this stage, the cluster has informal reputation, but no formal cluster-based brand. Branding enablers in terms of tangible and intangible capital are weak or absent. Here, MSMEs have basic capacity of production and marketing, but due to problems like improper segmentation of the market and unclear targeting of appropriate clientele, customizing and packaging the product and services as per market need, reaching out to the customer through right marketing channels, etc. the cluster is not being able to grow.

Clusters like, Mercato Leather, Shiro Meda Handlooms, Awasa Bamboo, Mekelle Wooden furniture, enjoy wider recognition and reputation in their existing market, but cluster-based branding has not been initiated. Policy support and stakeholders' cooperation can take them to the next level of branding.

The standard measure for such star clusters are; funding support for need assessment of a common brand; cost benefit analysis and preparation of road map for the future; product re-positioning assessment of related requirements for testing, quality, certification, infrastructure requirements, etc. A systematic rating process can be followed based on the parameters for branding and such potential branding clusters or star clusters can be identified and endorsed by the Government.

The vehicle to promote cluster-based brand needs to be created in the form of common business group of stakeholders and building their capacities to undertake common marketing and branding initiatives. Creation/strengthening basic business infrastructure like testing, quality checking, certification, R&D, etc. thus plugging the bottlenecks; increase popularization of the cluster products through promotional measures like buyers sellers meet, trade fair



participation, etc. A weakness in this stage implies a basic brand name creation and can be addressed through advertising and publicity to boost name recognition.

#### **Branding of Zhili Garments Cluster – An induced cluster similar to Ethiopian Modal**

Favoring infrastructure is a critical factor for the success of any cluster. However, such infrastructure like work shed, electricity, water, roads, etc. are not easy for small firms to develop. For this policy support is required. Zhili could establish itself as a successful textile cluster with able support from the state government of China.

Production process became specialized and many entrepreneurs moved their production to Zhili town center where they started production in a **three-story house that served triple purpose of living, working and selling**. The first floor was a retail outlet the second floor housed the production unit and the workers used the ground floor as a dwelling unit. Although the rent was high in the center there were lot of favorable conditions in the Zhili town center such as credible market information, reduced marketing cost, easy accessibility to the labor market etc. which promoted agglomeration.

By 1999 there were more than 1800 such “Three-in-one” workshops which were selling products that had better quality than those available in the neighboring villages. The agglomeration also resulted in establishing credibility with the buyers who came to the town in search of Quality and a Branded product. The town was able to establish its reputation by satisfying the needs of the buyer for reliable quality products.

Moreover, exports were encouraged by the government, when they gave autonomy to province in which the cluster was situated. Special facilities were extended where exporters could retain part of the proceeds of exports, subsidy in foreign exchange rate was given as an incentive, and no import duties were levied for raw materials for exports. This was a major incentive for increase in exports.

Moreover, development of ancillary industries supporting the manufacture of garments such as machinery sales, repair stores, logistic services, button zipper production workshops computer design centers etc. helped considerably in reducing input costs as all these were available in the vicinity of the cluster.

Therefore, the major thrust on the marketing of the brand was on economizing costs by making available all the required inputs in the near vicinity, providing export subsidy, incentives, no import duties on raw material, etc. All these were the major factors in making the zhilli garment brand successful.

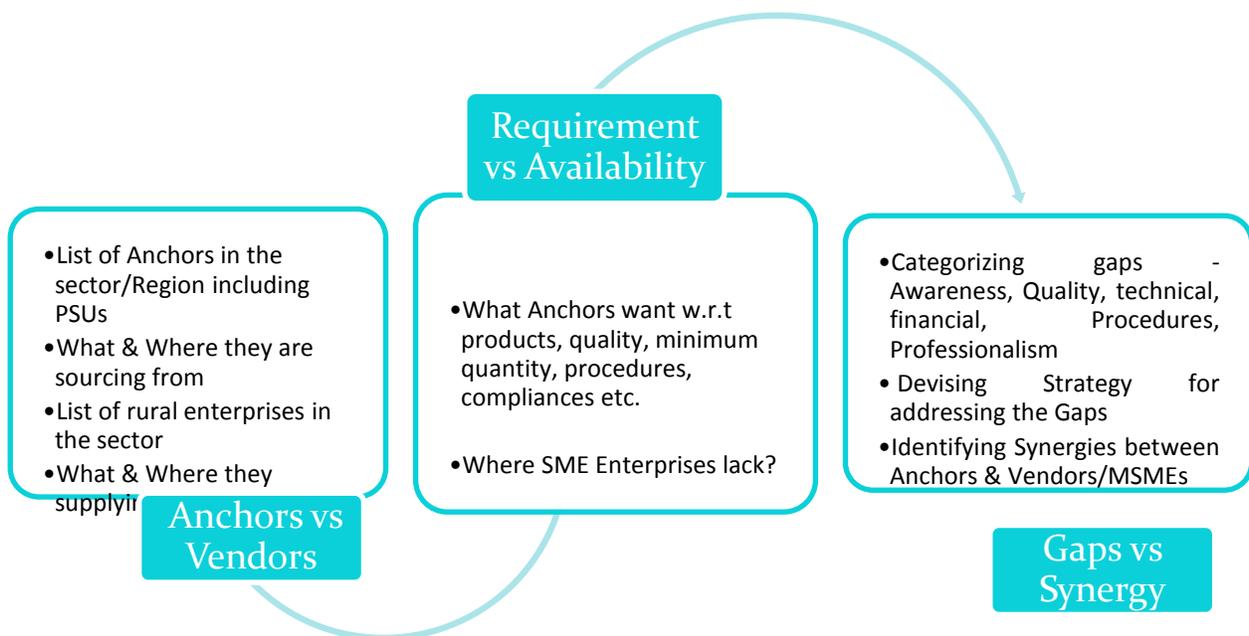
**(Source: Study on cluster branding done by FMC sponsored by SIDBI)**

#### 6.4.4 Anchor unit profiling and linkage with SMEs

One way of improving the marketing capability of SMEs is linking them with large units/ Public Sector firms. However, there is a need to map the anchor units and their requirements.

This activity involves detailed analysis of the anchor units and MSME/vendor units present at regional and at national level across focus sub sectors (Leather, Textiles, Light Engineering, Wood and Food Processing). This shall involve collection and analysis of data regarding anchor units w.r.t their list of products, requirement, procurement rules etc. This data shall be compared with the product profiling of SME cluster enterprises, their quality standards, sales volume, production capacities etc. The gaps identified during this comparison shall be addressed by way of capacity building of SME enterprises through regional support institutions before linking them to Anchor Units.

**Figure 6.1: Requirement V/s availability**



While this analysis is carried out, it is important to assess the following:

- Do all priority subsectors in the select regions have Anchor units present within their territory? If no, are the SMEs within the region selling to large units outside the region?



- Are the SMEs in the WOREDA level involved in manufacturing/ servicing of intermediate or final products?
- What are the intermediate products/sub components that SMEs procure from other SMEs operating in other States? Can we identify such products and make interventions so that such MSEs can be developed within selected regions for e.g.: The Bahir Dahr Leather sub sector for which leather is a raw material, which is not supplied by other SME units within the region and comes from Tanneries of Addis Ababa?

***Assessment of challenges faced by anchor units to synergise with rural SMEs and making a Capacity Building plan***

During the survey and in various media reports, the OEMs, PSUs, and other institutional buyers have voiced various key bottlenecks that currently exist in dealing with SMEs. Some of them are as follows:

- (i) Inability of SMEs to supply in terms of quality, quantity and timeliness
- (ii) Additional cost of buyers in dealing with larger number of smaller suppliers
- (iii) Low levels of I.T. Systems among MSE vendors
- (iv) Lack of timely technological up gradation of MSEs due to financial constraints
- (v) Weak financial systems of MSEs resulting in problems of financial reporting

Once the analysis of SMEs/Vendors & Anchor/Large Enterprises, both private sector companies and Govt. sector undertakings/agencies is complete and gaps between the expectations of anchors and the current state of MSMEs identified, the next step is to develop a detailed capacity building plan for SMES.

Case studies on how rural MSEs individually or in groups can effectively be linked to the PSUs and other large enterprises should also be prepared and disseminated as a part of the learning material for future use by various stakeholders. These case studies should be prepared based on examples that are likely to come up while implementing the project.

**Implementation protocols**

Based on the above repository, analysis can be done, of potential suppliers, buyers, aggregators, wholesalers who can be linked to SMEs across the sub sectors, with whom agreements can be reached between a consortium of SMEs with the help of FeSMMIDA/ ReSMMIDAS .



Strategies for creation of State Level Advisory Committees with representation for State level federations, technical institutions other than nominees from APDC, Trade & Industry Development Bureau, APDC can be made.

Periodic interactive meets with anchor units will be conducted with representatives from industry, concerned institutions like ReSMMIDA, APDC, so as to assess their requirement and to see whether it can be matched with SMEs enterprise consortia.

A sector wise template will be made about the requirements of anchor units in terms of quality, volume for supply/ buying, procurement/ selling conditions etc.

#### **Organising Vendor Development/ Interactive meets with anchor firms**

Once the advisory committees are firmed up, at least 8 to 10 vendor registration, vendor development, interactive meets can be done in major areas of SME cluster concentration on a pilot basis, with the help of regional support institutions in all the regions.

The basic objectives of such meets are:

- a. SMEs to understand the requirements of anchor firms, their procurement/ supply norms
- b. To instigate a sense of aggregation among rural SMEs for economics of scale
- c. To cater to bulk volume requirements of major buyers
- d. To get bargaining power in purchase of machines and materials

**The outcome of such meets is that at least 5 to 7 major anchor units (buyers/ suppliers/ wholesalers) are linked to at least 200 SMEs within a stipulated project period.**

The above programs will also capacitate the advisory committees and support institutions, whose scope of work will then result in:

- ✓ Further expansion of making ready sector-wise profiles of large anchor units within the region and nearby regions for procurement – their requirements, products, processes, vendor registration policies etc.
- ✓ Conducting regular Vendor Registration Campaigns/ Vendor Development Programs
- ✓ Guiding Vendors/SMEs on designing marketing collaterals
- ✓ Organizing Buyer – Seller meets and Handshake conferences



- ✓ Sector specific conferences followed by one on one discussions
- ✓ Focus group meetings, Lean in Circles, Quality Circles etc.
- ✓ Conducting exhibitions/Trade Fairs, wherein products required by PSUs and large industries, which can be manufactured by the rural SMEs are identified and exhibited.
- ✓ Post hand-shake meetings support for benchmarking and assistance to help draw enterprise specific road maps by connecting with relevant schemes of assistance and a range of strategic service providers.

#### **6.4.5 Digital Marketing**

During the visit many SMEs were enquired about having their own website, and it was observed that neither the individual SME has its own website, nor the associations have a common website. In fact, 75% of SME owners do not have their own email IDs also. When enquired for the reasons, 30% of SMEs informed (especially in regions) that they do not have knowledge, 40% felt that e-commerce was not a major marketing tool in Ethiopia, remaining 30% informed that they cannot afford such website creation and handling e-commerce.

Though it is a fact that E-commerce has not reached desired proportions in Ethiopia, about 25% of Ethiopians are using the internet and more than 60% are having mobile connectivity. It is a misnomer that digital marketing can be promoted only through website. There are many channels through which such digital marketing can be promoted.

##### **Strategies for promoting digital marketing**

###### **a) Creation of common cluster level website:**

The cost of creating a dynamic website may vary from ETB 40000 to 80000 and an individual SME may not afford such investment. Even if they can afford, their product range and capacity may not match the requirements of buyers. As such, the best alternative option can be, creating a cluster level website with specific reference to inducing clusters, where associations are formed and are active. The association can pool necessary fund for creation of such website from its SME members or as an alternative, the FeSMMIDA may think of earmarking a part of sustainable development fund for making of such websites.

In India almost all the cluster-based schemes floated by various ministries insist establishment of common website and cluster level brochures as one of the major interventions and provided budget allocation from ETB 30000 to 60000, where in cluster will contribute 10 to 25% and



concerned Ministry will provide 75 to 90% as grant. In this way more than 300 SME and artisan clusters in India started their own cluster level website benefitting more than 100000 SMEs so far.

### **Scheme for Development of AYUSH Clusters in India**

#### **– Emphasis on market linkages**

The Ayurveda, Yoga and Naturopathy, Unani, Siddha & Homeopathy (AYUSH) industry represents the traditional form of Indian medicine and has been part of India's socio-cultural heritage. The industry that has approximate annual turnover of 1.8 billion USD is essentially dominated by micro, small and medium enterprises (MSMEs), which account for more than 80% of the enterprises that are located in identifiable geographical clusters.

The market for traditional health medicine has been increasing steadily, the world over. Although AYUSH industry has been one of the most traditional form of medicine, it has not been able to exploit the emerging market opportunities, primarily due to constraints such as: fragmentation of the industry, lack of standardization of raw material and the finished products, inadequate R&D, slow pace of modernization of production processes and technology, absence of focused marketing and branding, inadequate emphasis on HRD and others due to which AYUSH Sciences are not recognized as Medical & Health Care Sciences.

Cluster based approach is increasingly being recognized as an effective and sustainable strategy for competitiveness enhancement of MSMEs. Such an approach, which leverages the geographical proximity of the enterprises on 'collaborating while competing' principle is participatory, cost effective and provides critical mass for customization of interventions.

It is in this context that this scheme for AYUSH clusters' development was introduced during the XIth plan and is being implemented during the XII Five Year Plan.

**Brand building and market promotion is one of the major add on activities funded under the project in 80 (by Government of India contribution: 20 (equity) ratio and following interventions are covered:**

- a. Common Marketing Brochure for classical formulations
- b. Common cluster level Website
- c. Joint Participation in National and International Exhibitions
- d. Business Delegations Abroad
- e. Brand development and promotion

**(Source: [www.ayush.gov.in](http://www.ayush.gov.in))**



**b) Making short Videos:**

SMEs at individual level or associations at cluster level can make short videos of products made and can upload in YouTube.

Video can be a great way to market your product. It is all because of the properties of videos- they are attractive and catchy, quickly engaging and convey the message in no time. The trick is to create a content that people actually want to share. The growing popularity of video can be understood from the fact that YouTube is the second largest search engine after Google.

Now in this era of new possibilities, the people are flooded with information, giving them a sense of empowerment. As a result of it, people are becoming more and more demanding from the companies, eager to reciprocate, with a gesture towards establishing a lasting relationship. Instead of making a long advertisement that turns out to be boring, SMEs should focus on the authentic content.

**c) Influencer marketing through blogger outreach**

The prospective customers are smarter now. They hunt the products to know about their fair prices being offered from various vendors in the market.

It is a known fact that the customers have comparative advantages in the world of digital marketing by selecting from a wide range of options available to them. Customers want to know about SME product from the sources they already trust. Accomplishing this task is what forms the basis of influencer marketing.

With the growth of cynicism, people prefer trusting their peers and authentic voices. Influencer marketing can be paid as well as unpaid. For SMEs, an unpaid strategy would be befitting, considering their budget constraint.

**So, spreading the word as wide as possible is very important. SMEs can also launch refer and win campaigns that will encourage people to popularize your brand to their peers and contacts. Blogger outreach can be their best economic channel to improve their marketing efforts.**

**d) Role of Support Institutions in E-Commerce**



Ministry of Industry, Ministry of Trade and any of their subsidiary departments/ institutions can also contemplate to create websites on behalf of SME Clusters at sector level which cannot be afforded individually due to their small businesses and limited capabilities like traditional furniture items, handicrafts etc. In fact, such institutions can also conduct interface of e-commerce portals like Amazon, Ahaduweb with SMEs and try to strengthen linkages. In fact, such institutions can also develop an android or Google, which can be downloaded by any smartphone user for purchase of such SMEs products.

#### **TRIFEDs Initiatives in Digital marketing of Tribal Handicraft and Village Products**

The Tribal Cooperative Marketing Development Federation of India, (TRIFED), under the Ministry of Tribal Affairs, is deep in to Digital marketing as per the vision document of the Ministry of Tribal Affairs, Government of India. is promoting and marketing tribal products, tribal art and crafts within the country and abroad by providing marketing support to tribal products. **Some of its initiatives in e-marketing of tribal handicraft and village products are:**

- The Launch of e-Tribes, TRIFED's websites includes [www.tribesindia.com](http://www.tribesindia.com), [www.trifed.in](http://www.trifed.in) and Retail Inventory Software and M-commerce app. TRIFED has developed its own e-commerce (electronic commerce) website i.e., tribesindia.com for sale of all its products and to tap m-commerce (mobile commerce) too. An [Android App](#) is also in place as well on Google store (Tribes India) which can be downloaded on any Android enabled smart phone and sale can happen from this mobile app through android smart phone.
- TRIFED has entered into agreements with e-commerce platforms like Snap deal and Amazon who will offer their customers various tribal products and produce through their portals [www.snapdeal.com](http://www.snapdeal.com) and [www.amazon.com](http://www.amazon.com) respectively to facilitate online sale.

As per TRIFED, going Digital will lead to expansion of tribal commerce and the availability of tribal products over large area, reaping greater benefits for tribal artisans. Retail Trade of tribal products would expand all over the country and the world.

**(Source: [www.trifed.in](http://www.trifed.in))**

Thus, there are many cheaper ways other than own website creation like You Tube, Face Book, Blogs and even advertisements through mobile service providers, digital marketing promotion by support institutions, which should be leveraged by SMEs to improve their marketing.

## **6. 5 Access to BDS Providers**

### **6.5.1 Present Status**



The proposition regarding the need and significance of Business Development Services (BDS) in the success and growth of MSMEs is not a recent idea. There has been a long established belief that MSMEs account for majority of the businesses (90% or more) and employment (60% to 90%) thereby exerting a major influence on the overall socio-economic growth and competitiveness of different countries. The countries make continuous efforts to recognize and encourage the establishment and growth of MSMEs by improvising policy level initiatives, promoting cluster-based setups as well as facilitating business advice, training and skill-building programs. However, there has been a limited impact of the government funded business advisory services in the sustainability and growth of MSMEs due to the dynamic market and technology trends leading to increasingly competitive and global environment. This reflects a change in trend towards the emergence and growth of private BDS providers, who have the capacity and skills to impart a wide range of business advisory services, which can enable the MSMEs to address the dynamic environmental challenges in terms of market, finance, technology, skill etc.

### Challenges in the current environment

- BDSP limited to few activities

The filed survey in Ethiopia revealed that BDSP have no or limited presence for SMEs. The presence of BDSP was felt in skill development in form of TVETs. The BDSPs for financial supports too are present but are limited to accounting and audits. BDSPs in the areas of energy savings, safety, lean manufacturing, marketing, quality and technology are not available in Ethiopia. Energy efficiency, lean manufacturing, marketing, quality and technology play a key role in economics of SMEs and have been found to be ignored in Ethiopia.

- BDSP development work never taken up

During the filed study it was further learned that no activity or development work has ever been carried out for development of BDSPs.

- No financial support for BDSP

No budgetary allocation has ever been made for BDSP function and thus has never encouraged utilization of their skills

- Lack of BDSP data base

No database is available for BDSPs for SMEs to access or reach them in case of any requirement.

- No linkage between BDSP and SME

There is no linkage or minimal linkage (Skill & Finance) between SME and BDSP and no activity has been carried out for establishing a link between the two.



### **6.5.2 Strategy to Mitigate**

Considering the ground realities of absence of BDSP in Ethiopia two approaches are suggested to mitigate the issue. First being the development of BDSPs and second being linking the BDSPs to the end user. Both the approaches need to be carried out parallel through the activities suggested below:

#### Identification and prioritization the BDSP function

BDSP requirement can be in multiple functions and the primary work that has to be taken up is identification of BDSP function and prioritizing them as per the demand of the SME. In general the BDSP requirements are in the functions of Energy efficiency, Quality, Lean Manufacturing, Process & Technology, Market Development, Finance & Credit linkage, Occupational Health Safety etc. A study is suggested to be carried out to identify the gap in the above functions and prepare a priority list of the above functions. The study should also focus the economic impact that the presence of BDSP can make in the particular function areas and thus will help in preparing the priority list.

#### Identification of BDSPs

The second step that should be taken up is the identification and assessment of the BDSPs to be presented to the Cluster. This study should be clubbed with the above suggested study for more effective result in term of demand and actual gap in each function. The BDSPs thus identified can be local or international. Identification and utilization of international BDSP will provide short term solution and can be a parallel activity to the development of local BDSP as suggested in the next section of the report.

#### Development of BDSPs

As mentioned earlier that presence of BDSPs in Ethiopia is negligible and non-effective and this strategy of development of BDSPs will be the key for long term growth of the clusters and SMEs at large. One of the best approaches for the development of BDSPs is Training and Development of BDSPs (ToBDSP) which is a successful model across the globe. AIP-NPC in India is one such facility which provides training for professionals in various functions. Bureau of Energy Efficiency is another statutory body under Government of India which assesses the trained and experienced candidates and certifies them as “Certified Energy Auditors”



**Dr. Ambedkar Institute of Productivity (AIP) under National productivity Council**

Dr. Ambedkar Institute of Productivity (AIP) is the long-term training wing of the National Productivity Council (NPC), located in Chennai City of Tamil Nadu State (Region) in India. The Institute originated in 1963 as Training Institute for Productivity and Industrial Engineering. It now plays a wider role of running postgraduate diploma programmed in Managerial and Technical thrust areas for productivity improvement identified by NPC. NPC's thrust is on providing modern and high quality productivity-related services to sectors not adequately addressed by others, especially the small-scale industry and informal sector.

AIP-NPC also conducts training programmed for the development of consultants (BDSP's) in the areas of Industrial Engineering, Energy Management, Environment Management, Plant Engineering, HRD, TPM, TQM, etc. Bureau of Energy Efficiency (BEE) under Ministry of Power, Government of India has empowered the institute to conduct the National Level Certification Examination for Energy Managers and Auditors.

NPC's major activities are primarily focused on developing human resources: people who can act as catalysts within the productivity movement of Indian economy. These training courses cover a wide range of productivity management issues in various areas including industry and service, agriculture, energy, environment, and local/regional development. The participants are domain experts, practitioners, and/or stakeholders in the area concerned. These participants are expected to create multiplier effects by disseminating their newly acquired knowledge and understanding to their respective work functions.

**Source: [www.npcindia.in](http://www.npcindia.in)**

**Bureau of Energy Efficiency**

Bureau of Energy Efficiency is a statutory body under Ministry of power; Government of India which conducts national certification program for Certified Energy Auditors. The Candidates are selected based on pre-defined criteria of qualification and experience. They further provide refresher courses for Energy Managers and Energy auditors. **(Source: [www.beeindia.gov.in](http://www.beeindia.gov.in))**

Federal government of Ethiopia should also plan a similar setup with two agencies independent of each other.

The first agency will be a training Institute, preferably under Ministry of Education, for Training of BDSP professionals. The training curriculum and course module should be carefully prepared



to meet the envisaged requirement and outcome of the SMEs. The training should be delivered by accredited trainers either available locally or hired at an international arena. The courses should be designed in such a manner that more weightage is given to “On filed” training than class room training. The shortlisted candidates for the BDSP should have work experience. Fresh students from related academic background should also be encouraged and allowed to receive the training.

The second entity will work for certification or assessment agency for the BDSPs and should be independent of the above training institute so as to maintain transparency in the training and certification process. This agency should have a transparent validation process through written and practical examination and should issue certificate to the candidates on successful completion of the assessment.

#### Funding to BDSPs

One of the major hurdles in utilization of BDSPs is their professional charges. To encourage utilization of BDSPs, Federal government of Ethiopia should allocate part of its sustainable development fund towards professional charges for BDSPs. This will motivate both BDSPs as well as SMEs to participate in the development program. Sixty to seventy percent of professional charges should be paid through SDF and the balance is to be paid by the SMEs. FeSMMIDA can be made nodal agency for the purpose. The charges can be fixed by FeSMMIDA in consultation with BDSP and cluster association. Contribution of SMEs should be there essentially for the professional charges so as to effectively utilize the service of BDSPs.

### **National Manufacturing Competitiveness Programmed (NMCP)**

National Manufacturing Competitiveness Programmed (NMCP) is one of the flagship programs of Ministry of MSME, Government of India that provides professional and financial support for development of the MSMEs in various areas.

#### Lean Manufacturing Competitiveness Scheme under NMCP

Background :-



The Scheme is basically a business initiative to reduce “waste” in manufacturing.

*Objectives:-*

*The objective of the Scheme is to enhance the manufacturing competitiveness of MSMEs through application of various Lean Manufacturing Techniques (e.g. Total Productive Maintenance (TPM), 5S, Visual control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke, TPM, etc.). National Productivity Council and Quality Council of India have been selected as National Monitoring and Implementing Units (NMIUs) for the up-scaled scheme.*

*Activities:-*

Awareness programmed and workshops are being organized in order to create awareness among the entrepreneurs and further they are motivated to form a mini cluster comprising 6 to 10 units (ideally 10 units) for availing the scheme. LM consultants are deployed in the Special Purpose Vehicle (SPV)/Distinct Product Group (DPG) for LM interventions for a period of 18 months. 80% of the cost of hiring the lean manufacturing consultant (LMC) is reimbursed through NMIUs to SPVs/Units and 20% of the cost is borne by the SPVs/units.

Government of India has spent over USD 9.3 million over the last five years where 3515 units got benefitted.

Design Clinic Scheme for design expertise to MSMEs Manufacturing sector (DESIGN)

*Background :-*

Design Clinic scheme is to enhance industry understanding and application of design and innovation, and to promote design as a value adding activity and integrate it into mainstream business and industrial processes of MSMEs

*Objectives:-*

*To assist local enterprises with engaging external design expertise in the form of consultancy  
Projects supported should lead to new design strategies, and/or design-related products.*



*Projects supported must be impactful and effectively develop the capabilities of the local enterprise*

Major Activities:-

- Setting-up of 2 new Design Regional Centre
- Operating Expenses for Design Regional Centers to be made by DC (MSME) through implementing agencies.
- Implementing agencies fees (Honorarium for hiring of Designer/consultant/scientist/professors/academicians, utilizing their services and infrastructure of different Institutes)
- Implementing agencies fees (Honorarium for hiring of Designer/consultant/scientist/professors/academicians, utilizing their services and infrastructure of different Institutes)
- Mobilization & Coordination Workshop for MSME officials
- Design Awareness Programs
- Design Clinic Projects
- Promotional Activity, Website, Publicity, Miscellaneous Expenses, etc.
- Orientation Program for stakeholders of Design Clinic Scheme
- Study of Global Best Practices and Design Clinic Program of other Countries
- National level Workshop on Design Clinic

Government of India has spent over USD 4.8 Million Over the last five years where 22311 units got benefitted.

Technology Up-gradation Scheme for Micro Small and Medium Enterprises (MSMEs)

*Objectives of the scheme*

*The first objective of the scheme is to sensitize and encourage the manufacturing MSME sector in India to the use of Energy Efficient Technologies and Manufacturing Processes so as to reduce cost of production and emissions of GHGs.*

*The second objective of the scheme is to create awareness and encourage the MSMEs to acquire Product Certification/ Licenses from National/ International Bodies.*

Salient Feature of the scheme

Major activities :



(i) To sensitize MSME Sector through conducting Awareness Programs to adopt Energy Efficient Technologies and acquire Product Certification/ Licenses from National/ International Bodies.

(ii) To provide Financial Assistance in the form of subsidy to the extent of 25% of the project cost for implementation of Energy Efficient Technology (EET). The maximum amount of subsidy will be USD 15400 for project cost of USD 61,600. This activity is implemented through various nodal banks.

(iii) To provide subsidy to MSME units to the extent of 75% of the actual expenditure incurred by them for obtaining Product Certification Licenses. The maximum GoI assistance allowed per MSME is USD 2300 for obtaining licensing/ marking to national standards and USD 3000 for obtaining international Certification.

**Similar way NMCP Scheme is providing extensive support for development and growth of MSME's in India.**

(Source: [www.dcmsme.gov.in](http://www.dcmsme.gov.in) )

#### **Case Study: Auto Components Cluster, Lucknow, India.**

A cluster named Lucknow Automotive components manufacturing Association comprised of 11 Units. The SPV was an initiative of Tata Motors Limited as part of vendor development program. The cluster was manufacturing automotive components viz; fabricated auto parts, pressed components, chassis frame, air tanks, etc. The cluster was supplying its products mainly to Tata Motors Limited, Lucknow. The unit under consideration is a manufacturer of U bolt which form important components in automobile industry. Established in the year 1996 the unit today has 46 employees and turnover of USD 1.4 Million. An ISO 9001 certified company the unit a registered vendor of Tata Motors Limited. Lean tool used were Kaizen, 5S, VSM. The overall benefits to the units are as follows

Reduction in rework: 80%

Saving in tool breakage: 500%

Capacity Increased: 25%

5S score improvement: from 22 to 66 on a scale of 100

Inventory: from 7 days to 3 days

Quality rejection: from 1000 PPM to 223 PPM



Annual Saving: USD 1088 /-

Creation of Database of BDSP

As a long term plan, it is suggested to create a database of BDSPs / BDSP Directory preferably through an online portal such that SMEs can access the information from a remote location. Information related to services provided, contact details; work experience, accreditation & credential are available for all the BDSPs. SMEs also should be allowed to post their enquiries and requirement in the same portal. Such facility will help both SMEs and BDSPs and support a holistic development. A blog attached to the portal will also help SMEs post their general queries and get response from the expert free of charges. To make it more effective and to encourage participation both by SMEs and BDSPs, the portal should be free of user charges for the first two to three years. The portal can be converted to self-sustaining one thereafter. A budgetary allocation for initial development of database and portal is essential and portion of sustainable development fund should be earmarked for the purpose. Further, a budgetary allocation should also be made for sensitization of the MSMEs and BDSPs at the time of launch of the portal.

[www.msmementor.in](http://www.msmementor.in)

[www.msmementor.in](http://www.msmementor.in) is a joint venture of SIDBI (Small Industries Development Bank of India), NSE (National Stock Exchange) and prime database group. The portal is a free online platform, for professionals to submit their profiles & credentials and for MSMEs to identify and reach experts they need, through a refined search mechanism. The endeavor is to enable optimal match-making between professionals and MSMEs and thus create a win-win for all. Over 15500 professional BDSPs have registered on this website and are providing professional support to MSMEs.

Linking the BDSPs to end-user

The first and foremost thing that has to be done is the sensitization of SMEs on utilization of BSDPs. It is suggested to organize a number of workshops/seminars on utilization of services of BDSPs. BDSPs as well as Cluster Association / BMOs should be an essential part of such workshops.

*Role of BMOs in Linkage for BDSPs and SMEs:*

BMO/ Association can play a vital role in linking the BDSPs and SMEs. The association can sign MoUs with BDSPs for bulk services for cost effective solutions which in turn helps BDSPs in locating volumetric business within a cluster. The association can further have BDSP Help Desk



in its office where all such requirement can be posted and can BDSPs can provide customized solutions to individual solutions.

SMEs should be encouraged to access online database of BDSP to make the portal more effective. The primary advantage with accessing BDSPs through portal is availability of choice of service providers which will enhance competitiveness.

Long Term BDS Development Program ( Is it BDS or BDPS?)

Federal Government of Ethiopia along with Ministry of Industries should explore a Long term cluster development program from BDS Market Development in select clusters. The primary objective of the program should be to provide need-based and demand driven BDS in the areas of energy efficiency, technology, markets development, Quality, finance & credit linkage, skills etc. in select clusters. Leather and Textile cluster would be right sector to start with and be adopted in other sectors on successful completion of the program. The suggested duration of the program is 3 years.

**BDS-Market Development Program in 18 select clusters in India**

The BDS Market Development program was jointly funded by World Bank, DFID, KFW and GTZ and was implemented in 18 select clusters across India in **7 Sectors**. The 32 month long program was implanted with an objective to improve MSME access to finance (including term finance) and market oriented BDS, thereby fostering MSME growth, competitiveness and employment creation. At the end of the program the results were seen primarily in the areas of energy efficiency, market development, credit linkage and skill development among others.

**(Source: Outcome report on BDS market development prepared by FMC)**



### 6.5.3 Key Notes for the Strategy

- *Dedicated fund should be available either through Federal budget or/and Sustainable development fund for development of BDSPs, Professional Charges for BDSPs, Sensitization of MSME for Use of BDSPs.*
- *Proper framework should be established for any such activity. Learning can be taken from the scheme available in India and their success / failure. Support can be obtained for framing of guidelines and budgetary allocation from SDF.*
- *Nodal agency for should be identified with specialized staff and handholding support for the initial years.*
- *Industry / Cluster Association should be actively involved for development program.*
- *Option of Long term BDS Development program can be explored in select cluster.*
- *As a long run strategy Federal Government of Ethiopia should invest in encouraging development of BDSPs for a better and sustainable economy.*

### Acknowledgements

- SME Financing in Ethiopia – Addressing the missing middle challenge by World Bank
- China Ceramic Tile Industrial Cluster Competitive Strategies under the Global Economy, Mei-hor Lo, Dechang Han, Business School, Nankai University, Tianjin, China
- Guidelines on best Sustainable Consumption and Production (SCP) practices for the leather sector in Bangladesh by ECOLEBAN funded by EU
- Websites of National Small Industries Corporation, Technology Development Board, Bureau of Energy Efficiency Government of India
- Ayush Scheme of Ministry of Ayush, Government of India
- Website of POWER 2SME
- Website of Ministry of MSME, Government of India
- Website of National Productivity Council
- A report on CRISIL and its activities from website of CRISIL India
- Consultant selection parameters from Website of Bank of India
- Guidelines of CGTSME by Ministry of MSME, Government of India
- Website of Association of Leady Entrepreneurs of Andhra Pradesh



## Chapter 7

# Strategy to increase international competitiveness through innovation and acquisition of technology

### 7.1 Introduction

In general, similar firms in a cluster are expected to compete with rivals. More often than not, such rivalry ends with incremental cost and/or quality related advantage, mostly for the better endowed small and medium units, who happen to think in this direction. Each such firm making some progress in this direction, reduces the relative difference in cost/quality advantage gained and that too gets dried up due to easy information flow and similar pattern of thinking among competing firms. At the enterprise level, given limited resources, SMEs are only keen to survive a today to see a tomorrow, rather than planning for a better tomorrow at the risk of compromising survival.

However, this routine pattern of existence, where an SME, day in and day out produces similar products, the learning is truly incremental. The issue is, how can this limited growth be converted into regular structural shifts through a business model that can be visualized in a medium run? Can an SME target that 'X' percent of its sales that come from new products every 'Y' years?

Thus, innovation is necessarily doing something new in whatever *big* (radical) or *medium* (adaptation – making a near similar use of a technology from a different field) or relatively *small* (adoption of an existing technology in the same field from a different or at times in the same cluster, where it is hardly being used at the time of adoption) way, such that a firm gets distinct economic advantage from such action through market growth. While for a long run advantage such momentum often comes from radical innovation, adoption and adaptations are other gainful ways for medium to short run economic



gains for a firm. Also, it is important to understand that innovation need not happen only at a product level, it can happen in the process and encompassing the following business operations – raw material usage, processing technique/machinery, finance, HR usage, management, infrastructure, market promotion, etc.

The innovation process often starts with a break through thought and out of box thinking, i.e. thinking through instances out of the realm of the industry in question. Things that lead to no-starters are issues like seeking precedence, thinking why it can't be done and looking for insights in the same place.

Box 1: In southern part of India, a retired eye surgeon was plagued with a thought of how can cataract (induced blindness) operation be done at a cost that the poorest of the poor can afford. He saw a demand side – elderly poor are becoming a burden and are getting neglected as they are getting blind for a simple cause which has an expensive solution. He found his answer during a visit to USA when a standardized McDonald burger production line caught his attention. He came back and in due time opened 11-bed Arvind Eye Care Hospital in a rented premises and his methodology was simple. All routine work will be done by low cost staff and the doctors will do operation only. Productivity of an Arvind doctor is 800% better than a normal doctor. That was the innovation to start with and several others followed.

Here the demand side is very important. “Are you afraid of what you are doing, then it is fine, if not it is a loss of opportunity across a lifetime of potential achievement” or “it is not undoable, it is just that an idea has not yet been found”. Identifying an overt or underlying (non-spelt out) challenge is very important rather than working for a fantasy and hoping that market accepts it. Also, learning from the field and a not- giving- up- attitude are crucial too.

## **7.2 Enterprise level factors**

At the firm level, several methodologies have been identified. Some of the other important dimensions are looking across strategic substitutes, addressing complementary needs, providing higher values for the customer and adapting to global trends in value. Added to this, need for connecting to lead user, creating idea bank, factor adjustment, knowing from within “Am I ready”, creating exceptional utility in buyer value chain, etc. These are suggestive issues only. Some of these include the following:

- (a) While it is a common practice to look across competitors, **strategic substitutes** are often ignored, e.g.in taxi services, Uber/Ola (taxi aggregators in India) fought it out with the auto by giving higher comfort with lower rates. Now Ola and Uber have a price and quality war among themselves, but are they fighting it out with the metro? Can taxi service give the smoothness of metro ride at a price competing with them?
- (b) While we often try to hard sell our products, we often miss our **true customer**. For example, years ago, Bloomberg understood that their customer was traders and not IT managers and it is them that they need to serve. Rest is history.



- (c) Length of a value chain generally spreads from the supplier to the customer/consumer. However, the chain can be further extended to include possibilities like **complementary needs**, e.g. medical shop giving facilities to check vitals or book chains giving a place for the people to 'relax and read', is getting much more footfall.
- (d) Further, **higher values for the customer** can be done by creating higher value in terms of ease of use (Dabur's honey packaging), additional 'needed' features (5-in-1), balancing out functional values with emotional values, adding additional features (cell phone as compared to a phone), etc.
- (e) **Adapt to global trends in value:** As the world is moving towards sustainable development, it is important that innovations respect such overarching global mandate.

### **7.3 Some Tools for promoting innovation at enterprise level**

Some suggestive tools are as follows:

- (a) **Lead user process:** Sources of major innovations are often the lead users. Some of them are willing to share. For example, the best of ideas to improve automobile brakes can come from auto sports, airlines, etc.
- (b) **Idea bank:** Ideas are told to be forgotten. Often capturing of ideas and making them available, knowing and connecting those to the right nodes at the right time is very crucial. It is often equated as old ideas made new, for example, automobiles were a long-known idea, which Ford converted into affordability. But creating a usable or intelligent repository is very crucial.
- (c) **Factor adjustment:** What factors should be reduced/raised well below/above industry standards or need to be eliminated or created, thereby giving rise to a new value curve with low price, high ease of use, more options, and all with higher speed and accuracy
- (d) **Am I ready:** Innovation is much more than resources. In fact, some of the best of innovations have come up from start-ups with no previous experience of innovation. It is often a function of the process (incremental/breakthrough) and business values of the innovating organization, which act as a gatekeeper to a typical innovation. While a normal team can manage incremental innovations based on existing values, disruptive innovation with different value paradigm might need a dedicated team in a new entity.
- (e) **Creating exceptional utility in buyer value chain:** This can be done by making purchase, selection, delivery, use, supplements, maintenance, disposal into higher customer productivity, simplicity, convenience, risk reduction, fun enhancement, etc.

Various other tools like ANSOFF, Osborn, Ishikawa method, etc. are also very well known.



#### **7.4 Cluster and Regional/National Level tools for promoting innovation**

Apart from the above enterprise level factors, innovation related case studies suggest several cluster and regional/national level factors also play important roles. Some of the roles played by these institutions are as below:

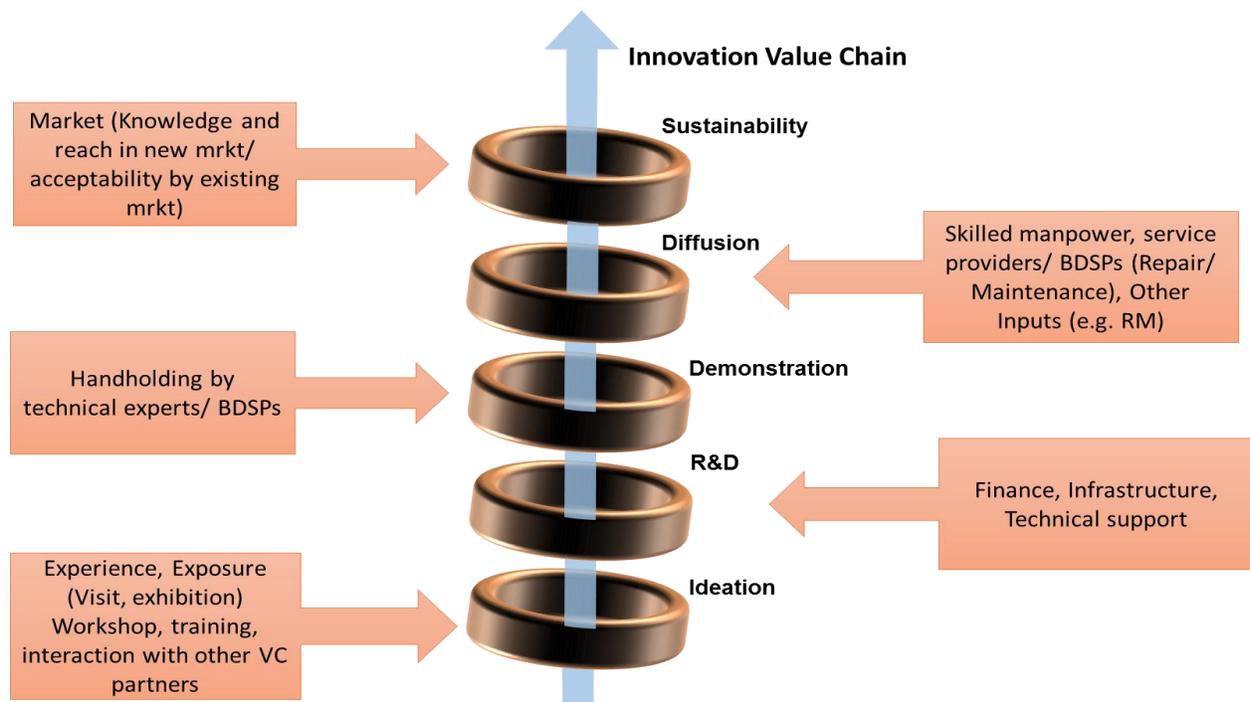
**Table No: 7.1 Roles played by various institutions in SME development**

<b>Support Institution in Cluster</b>	<b>Activity</b>
Business Member Organization	Lobbying
Technical Institution in the cluster	Training, product creation, testing, adoption
Common facility center	Partial production and liaison
BDS providers in the cluster	Training, adaptation
Idea bank	Lobbying, knowledge sourcing
Management institution	Process improvement, demand management
Financial institution	Innovation financing
<b>Support Institution outside Cluster</b>	<b>Activity</b>
Federal Ministry of Industries	Overall policy creation
Regional/Province level innovation forums (FeSMMIDA/ ReSMMIDA, Bureaus etc.)	Create innovation ideas for cluster level adoption
Technical institution outside the cluster (or Development Institutions)	Linkage, knowledge sharing
National Technology Centers	Global technology sourcing unit

#### **7.5 Integrated Approach to make the innovation sustainable at Enterprise level**

“A successful ideation may not always lead to sustainable innovation. Different inputs are required at different stages of the innovation value chain to make it sustainable (Figure 1). An integrated approach is required to support provisioning of those inputs across different intervening points. Role of policy becomes paramount here, as many a time the individual entrepreneurs lack the capacity and resource to address the needs on their own. Such integrated needs have more relevance for the micro enterprises, which have various business constraints.

**Figure 7.1: Innovation value chain assessment**



Experience, exposure to benchmark enterprises/ practices, access to service providers, inputs from other value chain partners like inputs providers are important at the ideation level. After having an innovative idea, to experiment and develop an innovative solution, entrepreneurs need primarily infrastructural and financial support. While some of the innovations can be done internally, some need external infrastructure like laboratory, bigger space, testing facility and so on. Lack of such facilities hinders the innovators to move up to the next stage. Following the successful development, the innovation is ready to be demonstrated and tried at the enterprise level for which sometimes technical and handholding support is required. And after successful demonstration, to operationalize it fully requires provisions of other inputs like raw material, skilled manpower, availability of service providers, etc. Lastly, to make the innovation sustainable, the market linkage for the innovative products, solutions and acceptability by the buyers are required. It is better if the innovative idea is taken from a demand basket created by the knowledge bank at the cluster/provincial/local level.

A systematic methodology to understand the needs at different levels of innovation and an integrated approach to plan appropriate intervention is required to support innovation and its diffusion in the sector. There is huge diversity in the sector in terms of product/ service type, market conditions, maturity of different sub-sectors, their social, economic and environmental importance, and thus a thorough methodology to analyze the value chain is crucial.



## **7.6 Strengthening Innovation Eco-system to Promote Innovations**

Innovation eco-systems at all levels need to be strengthened to promote rapid scaled up diffusion to ensure productivity enhancements, energy efficiency, consequent environmental improvements, drudgery reduction in working conditions across various sub-sectors ranging from food processing, textiles, ready-made garments, base metal & engineering, paper & pulp, glass & ceramics, rubber, leather tanning, chemicals & dyes. In most of these sub-sectors, the preponderances of micro enterprises are very high. Fortunately, there are technologies and organizational innovation models that are available within the cluster, region or nation but not diffused. Seven recommendations to the policy makers are provided herewith to diffuse available existing innovations with high potential impact.

Taking inspiration from Roger's innovation diffusion theory, the process of innovation/ diffusion context can be set for the MSMEs. Here the leaders who take the risk to innovate or adopt innovation are few. Innovation and its adoption/ adaptation progress over time through five stages of the decision making at enterprise level viz. - Ideation, R&D, Demonstration, Diffusion and Sustainability. Policy makers need to design and implement initiatives in terms of creating triggers for the enterprise's decision process and nudge it from problem recognition/ need identification to adoption and then sustainability.

### **I. Fostering Innovations**

- 1. Create local and national repository of problems in search of solutions to reach out to academic & technical institutions and enterprises:** A platform which can serve as voice to put forth the problems/ needs by the enterprises and a window for the innovators to showcase the innovations and provide innovative solutions can be created at the national level with access to the portal by the enterprises and innovators.
- 2. Challenge grant funds for identification of creative ideas to be harnessed:** Creativity is allied to innovation and is recognized as central to the growth and performance of any enterprise. Some hold that creative capacity to harness intellectual capital and to convert that into successful and sustainable innovation. Such people however are very few and most of them are not in limelight. Such creative brains need to be identified and supported with challenge grant fund to develop innovative solutions.
- 3. Create plug & play facilities to try out new ideas as incubators with select equipment, connectivity and a meeting point for complementary stakeholders to connect and mutually support:** There is a flurry of interest in innovation but the lack of support system stops them convert idea into a solution. Sometimes they have great ideas but do not know how to implement them. Collaborative approach with complementary stakeholders will help create sustainable solutions.
- 4. Ensure provision of mentor's services in local areas, drawn from academic institutions and plan long term investment for execution:** Innovation at the top of the table has long lineage of efforts below starting with engineering talent accessible to SME, knowledge generation/ knowledge acquisition, prototyping and product development. One cannot instantaneously



generate talent based on today's demand. Prior investment with linkages is essential. Pilot demonstration projects of minimum 5 years duration are required to build linkages in a replicable / scalable manner. Many short duration projects need audit of their utility to SME.

5. **Provide access to angel investors:** The problem faced by service enterprises like ICT, waste collection and recycling, printing, publishing and other services are even worse. The industry is not favored by bankers because of the perceived lack of assets in the industry. The intangible software products and services do not make for good collateral. This continues to be a challenge for small start-up. To encourage innovation in service sector, there is a need to think of innovative financial products/ models.
6. **Think out of the box:** It is time that we realize and pronounce that the technology of creativity has moved far off. Take the case of Illinois, USA. The Chicago bio-pharmaceutical cluster is endowed with 440 corporate R&D facilities and 200 public research units in Illinois. While few national institutions shine, they are a handful and too small to take care of the talent pool that exists. The states are starving not on account of presence of institutions, but on account of institutions, that can make a difference, the ones on which private sector can rely upon. Interestingly, while research is more private sector- driven globally, it is still done in silo (market de-linked) in the Indian context. It is here that the role of policy becomes critical. Taking a leaf from the book of Lee Kuna Yew (LKY), the Singapore model, a country needs to walk a difficult journey of specialization, given the limited resource and also reward outcomes. It is important to focus. It is important to choose and then link the clusters with global clusters for a step by step approach including targeted technology transfer, patent purchase, buying of micro units which are the patent creators on many occasions and creating a foothold in the Mecca of patent creation in those performing clusters. It can be a many to one model where few globally recognized clusters are targeted to interact with one-star cluster in India and set the ball rolling.

## **II. Stimulating Early Adoptions:**

1. **Support organization of exposure visits for idea stimulation:** Cognitive stimulation by organizing exposure to innovation can trigger adoption of innovation. However, information to such benchmark innovations are not known and accessed by SMEs. Here policy can play a major role in making the information known and also infusing appreciation through live exposures which can thus lead to quicker adoption.
2. **Support dissemination of new ideas through proactive BMOs, academic institutions and R&D centers:** The dynamism of an innovation eco-system is directly linked by the strength of the linkages among various stakeholders that helps faster idea spread and quicker diffusion of innovation. To improve the competitiveness of SMEs through improving their innovation capacity in different cluster ecosystem, it is important to create and strengthen inter and intra linkages. Here, the industry associations (also called as Business Membership Organizations-BMOs) can play a facilitating role along with others in the local, regional and sectorial eco-system (provider of services).



3. **Reinforce mutual linkages among stakeholders at CIS:** The cluster value chain linkages (Forward linkages like-buyers/ traders and backward like- raw material, machine and other inputs providers) play a major role in innovation during the ideation and also all along the value chain of innovation. Thus, strengthening the product value chain and creating flawless information flow between different stakeholders help trigger ideas and innovation capacities of the entrepreneurs.
4. **Support access to finance by linking up with Angel investors and social investors and banks:** Finance is another factor hindering innovation capacity and diffusion rate in SMEs in developing countries like Ethiopia or India. This problem has been experienced in both manufacturing as well as service sectors, however, reasons and severity in both the sectors are different. In manufacturing SMEs, incremental innovations rather than path breaking innovations are commonly observed. While there are financial products available to take care of the path breaking innovation where capital expenditure is high, there is no solution for incremental innovations. Service enterprises also face similar problems due to perceived high risk coupled with non-availability of tangible product as collaterals. Here angel investors, social investors and banks with innovative financial solutions can play a major role

**III. Scaling up Early Majority to Harness Benefits:**

1. **Demonstration of successful innovations through local & regional technology & innovation fairs, institution of awards:** Early majority is a big population of careful entrepreneurs who take decision the moment they are fully convinced with the benefits associated with the innovation. Their conviction is based on comparative advantage and visible profitability of the solution. Thus, to influence their decision, it is important to share the information of innovation and give live demonstration and facilitate discussion with the benefited units who have already made it sustainable. FeSMMIDA, with the help of Ministry of Science & Technology can take up such demonstrations.
2. **Create repository of Best Available Technologies (BATs) and disseminate through BMOs, social media and websites:** Fostering Identification of BAT and estimate the calculated risk of polluting industries are beyond the individual capacity of SMEs to measure lack of which sometimes leads to wrong choices for innovation and/or adoption of innovation. The state and national innovation systems can play a major role here. Universities, TVTES, and Government Department (Sectorial) can undertake studies to identify BAT based on current and future factor conditions and suggest appropriate innovation/ innovative solutions.
3. **Support adoption by way of linking up with available financial incentives from among available public schemes of assistance:** At this level, trigger can be infused with the financial incentives provided through government support schemes to reduce the perceived risk associated with the innovation by this majority of population.
4. **Support creation and strengthening of BDS market:** Innovation adoption by the majority enterprise depends not only on availability of innovative solution but also on the associated



services required for the adoption like technical and non-technical services and so on. Such Business Development Service (BDS) market has to be developed to create faster and sustainable innovation adoption.

5. **Help customize suitable financial products with banks:** Sometimes, this large majority of population, even after achieving conviction, does not opt for innovation because of lack of financial resources. Here, financial institutions can play a major role in financing the innovation through appropriate/ customized financial solutions.

#### **IV. Pushing the Late Majority**

1. **Support Handholding assistance by local BDS providers through a combination of available incentives, package of services and propagation of business cases:** The late majority are the population of enterprises who wait and watch till the majority uses it. To influence them, it is important to showcase the business cases of successful innovations. Second, if there are hindrances in terms of adopting the innovation, policy can support them through linking with incentivized schemes and supports. Here again, provisioning of need-based services for sustainable adoption is required and thus cadre of local BDS providers can be developed and linked.
2. **Facilitate linkages with banks for investments required to be made to adopt and adapt innovations:** There are many enterprises which fall into the late majority category because of lack of financial mussels. This can be solved by linking them with banks and other financial institutions for getting finance based on their assessed capacity and need.
3. **Support BMOs for outreach:** BMO can play a facilitating role here to influence the late majority by showcasing successful examples, linking them with the innovative solutions and support systems that can help innovation adoption and adaptation.
4. **Draw up national sectorial programmed through convergence of existing schemes of assistance:** Support schemes need to cover 1) Information dissemination through organizing seminar, workshops, exposure visits, etc. 2) Financial support for studies and R&D, like supporting feasibility studies, need/gap assessments, R&D projects etc. 3) Skill development/ up-gradation (technical, non-technical skills) through training and capacity building; and 4) Support implementation by providing direct or indirect financial or tangible (hard activities) support. To create enabling innovation and its diffusion eco system, the enterprises and the intermediary agencies need to be educated to avail the support schemes. Moreover, sectorial programmed through convergence of existing schemes of assistance across different ministries can be planned and coordination of ongoing initiatives by various public or private development institutions can made to address the sectorial issues related to innovations.
5. **Enforce environmental and social standards through laws and market linkages in the value chains:** The environmental innovations in SMEs are very few and are largely because of regulations. Though some of the enterprises have the capacity to innovate or adopt innovations, most of them suffer because of lack of knowledge of possible solutions and even though they



want to develop/ adopt solutions, the associated risk is high and beyond their capacity. There are several examples, where enterprises were closed down because of not being able to comply with the regulatory requirements. To reduce the risk and encourage the SMEs, the pollution control department can play developmental role along with its regulatory mandates. It can come out with acceptable low cost proven technologies and approved vendors for sourcing them. For the micro enterprises, in particular, there is a need to go a step further and help them adopt innovative solutions by providing financial and technical support.

### **7.7 Goadng the Laggards through Carrot & Stick**

1. **Enforce strict compliances of standards for unproductive enterprises:** Laggards are the entrepreneurs who are critical towards new ideas and are resistant to change unless the change is either mainstreamed or there is a compulsion imposed on them. For example, despite innovative solutions available in the market that have lesser impact on environment, there are many MSMEs in the country who are not using that because they do not see a direct business benefit out of that. To influence such enterprises, a carrot and stick approach can be used.
2. **Provide special intensive handholding assistance to the vulnerable communities:** There are relatively smaller enterprises which are constrained by financial capital and knowledge to go for innovative solutions and thus struggle for survival. These types of entrepreneurs require intensive hand holding support to innovate.”

**(Source: Assessing Industrial Innovation Process and Suggesting Policy Support Framework in India" by Galati & Agasty, 2016, NSTMIS, DST.)**



## **Chapter 8**

### **Strategy to support export markets for SMEs**

The objective of exports growth is also intricately intertwined with that of industrial growth. At present, the domestic market is insufficient to achieve the targeted growth rates in industrial production as it remains constrained by the low purchasing power dictated by low per capita incomes, within the country.

Relying on export markets opens new opportunities for sustaining an export-oriented manufacturing growth strategy. Not only will this help manufacturing enterprises enjoy economies of scale in production, but also induce them to invest in skills and quality upgrading. Export-orientation also allows domestic enterprises to join global value chains where most of global trade activity takes place. The objective is not only to increase the level of manufactured exports, but also to reinvigorate the technological structure of manufactured exports to increase the base of medium and high technology manufactured exports.



*However instigating SMEs and capacitating them for exports is easier said than done. During field survey it was observed that barring few medium units in sectors like Leather, Traditional Handlooms, more than 95% of the SMEs are not into export marketing. There may be indirect exports by agents, traders to East African countries, but this will not be more than 5% of aggregate turnover of the SMEs. Even the limited exports are mainly confined to Addis and adjacent Amhara and Oromia regions. No direct exports from SMEs in any major sectors observed in regions like SNNP, Tigray etc. More over the construction, metal and light engineering SMEs opine that they their products/ services cannot be exportable as they are mainly tuned to serve local markets.*

### **8.1 Ethiopian SME challenges to reach global markets:**

- Trade information and commercial intelligence gathering require market research and information analysis skills as well as experience with modern information technology. For most SMEs this turns out to be a tall order.
- In an attempt to differentiate a product, create a brand image or meet the latest consumer preferences, SMEs need to undertake product development, re-design or adaptation. This calls for expertise that is in short supply in all sectors cutting across the regions.
- SMEs must consider how to upgrade product quality and packaging to internationally acceptable standards.
- Most SMEs do not possess quality control laboratories nor have quality control specialists. Target market regulations or overseas buyers may demand higher quality or technical specifications. Packaging should be seen as a powerful marketing tool. New packaging regulations are being introduced to protect the environment.
- Market competition is strongly driven by price. Improving productivity and reducing cost is thus an important preoccupation. SMEs in developing countries could use advice for competitive costing and pricing techniques.
- Cost saving can be achieved by careful sourcing and inventory planning-as much as 15-20%. Few SMEs in developing countries, however, have developed the skills to achieve this level of



economy. Many are content with traditional suppliers and large inventory that keep import costs unnecessarily high.

- Outdated technology may lower quality and raise cost, making the product uncompetitive. Many old technologies are also highly polluting. Sooner or later these SMEs will face exclusion from the market.
- Knowledge, skills and experience soon become obsolete unless continuously upgraded. While opportunities for academic qualifications proliferate, SMEs in developing countries have little access to practical training they really need.

## **8.2 Strategies**

### **8.2.1 Subcontracting**

In sectors like Light Engineering, Food Processing and even leather products, SMEs may not have sufficient financial and other resource-based capabilities. However, they can become subcontractors to large units, so that they can become indirect players in promotion of exports.

Programs that link SMEs to larger firms as subcontractors have been introduced in the Republic of Korea, Taiwan Province of China and Singapore. The most successful ones help increase the response capacity of small enterprises to make them more attractive to large firms as suppliers for exports. Part of the secret of success is that all three countries have strong coordinating agencies to provide support- The Investment Development Bureau in Taiwan Province of China, the Ministry of International Trade and Industries in the Republic of Korea and the Economic Development Board in Singapore.

Intra-country measures to attract subcontracting links and direct foreign investment have proved beneficial in creating a wider network of inter-firm linkages in Japan and the Republic of Korea. It permitted firms in the latter country to penetrate international markets. These arrangements were supported by government screening of the technology transfer process from foreign investment, ensuring that local small firms benefited.



In Ethiopian context, since a decision was already taken that FeSMMIDA will take care of extension services for SMEs, the onus of linking SMEs with large firms as sub-contractors will invariably be taken care of by the institute.

Mapping the existing large units and their requirements, in all the regions, conducting vendor development meets of SMEs with large firms, providing handholding services to SMEs in registering with large units and maintaining a sustainable relation between LEs and SMEs are the major functions need to be undertaken by FeSMMIDA, in the lines of Taiwan Investment Development Bureau. In this endeavor they can take the help of sector specific development institutes and regional level support institutions.

### **8.2.2 Strengthening of trading companies and linking with SMEs:**

Some larger companies have developed models that benefit SME development. The creation of associated trading companies and trading houses by large enterprises has facilitated export marketing for SMEs. Several large company groups in Brazil, India and Turkey have created their own trading companies to act as their exporting and importing arms. While their priority is to manage trade for products of the companies within the group, they may also act as the marketing channel for a large number of SMEs.

Similarly, trading houses have been established in Japan. These trading houses are not involved in production, but often act as intermediaries between small enterprises and world markets. Governments have encouraged links with SMEs, by setting up publicly funded financial incentives (tax breaks, concessionary finance) for trading companies that measurably demonstrate SME export promotion.

Though the presence of trading companies in Ethiopia is limited, there are some private entities like DES General Trading, IZONE Trading, TRACON Trading, 2merkato.com, which are doing reasonably well and are manufacturing, exporting various products right from ceramics to coffee, though in a limited capacity.

There is a need to encourage such companies to export SME cluster products by providing more facilities like working capital at competitive interest, free container services, tax moratorium for longer periods etc. FeSMMIDA and their regional counterparts need to organize regular meets for such trading companies with potential SME clusters related to Leather, Textiles, and Food Processing so as to boost linkages.



**Mitsui & Co Ltd. – A general Trading Company which helps SMEs to grow**

- Mitsui & Co., Ltd, the second biggest trading company by market capitalization was founded in 1876, just about the time when Japan opened up their economy to foreigners and traded mainly with rice.
- Later on, Mitsui supported the rapid growth of the cotton spinning industry by importing spinning machines from Britain, and by sourcing raw cotton from China, India and the US.
- Mitsui acted mainly within light industries until the 1930s, where they shifted focus upon heavy and chemical industries as machineries and mining, which involved a substantial investment at the time.
- Mitsui received favorable tax conditions from the Japanese government when investments were made into areas which benefited the Japanese economic development, with specific reference to its support to SMEs related to light engineering, chemicals and metals in exporting their products/ service (Rauch, 1996).
- Mitsui early on diversified beyond the purchasing of raw materials into other areas such as financing or direct involvement in resource development of SMEs.
- In the 80s, Mitsui stepped up its investment in downstream areas as well, in the IT, food and fashion field.
- Company also became increasingly important to be able to address complex and sophisticated tasks, using the large global network. As the needs of the SMES customers became increasingly complex, Mitsui began creating a multifaceted business through collaborations across organizational boundaries, leading to joint ventures and other forms of partnerships.
- Today the company is helping more than 2000 SMEs in Japan to improve their export markets through their established networks in more than 30 countries. (Source: [www.mitsui.com](http://www.mitsui.com))

**8.2.3 Formation of Exclusive SME export promotion policy**

In countries like India, Taiwan, Malaysia, Japan there are exclusive SME (rather MSME) policies, guidelines and incentives for export promotion.

In Ethiopia, there is an exclusive SME development Plan in GTP II and few following measures were taken related to exports:

- A duty drawback system is made operational on a differed payment basis, allowing the exporter to import inputs at world prices up-front, though its implementation is still not efficient enough.
- Export duty, except on coffee, is long lifted.
- The exchange system, foreign exchange surrender requirement is eliminated and replaced with a conversion requirement, permitting the use of foreign exchange proceeds for current account transactions within four weeks. Exporters are now able to sell their foreign



- exchange receipts (90 percent of total proceeds) to any bank or Fore bureau at freely negotiated rates over the conversion period, holding the 10 percent indefinitely.
- An inter-bank market for foreign exchange, and hence the partial market determination of the exchange rate, is already made operational replacing the auction system.
  - Foreign investors in the export sectors are now allowed to buy foreign exchange for remittances.

Other than the above regional support institutions , bureaus were mandated with exposure visits to SMEs and participation in international trade fairs. A budget was also provisioned for visiting of officials to various countries like China, India to understand their export policies and export processing zones.

However most of these measures were done in isolation without specific systems in place and targets to achieve. There are no specific schemes or guidelines for export market development assistance to SMEs related to market studies, propagation of export packaging, participation in international fairs and providing technical services to SMEs in export market procedures.

For example, during the survey, different views were shared about the weakness of the service related to contact making. Few mentioned that it is expensive to participate in trade fairs and missions. Moreover, in most cases trade fairs and trade missions are not well-organized and targeted to specific export sector, hence difficult to attract relevant customers. Others stated that such services are not satisfactory, not frequent and timely.

In view of this, export promotion for the SME sector needs to be accorded high priority in Ethiopia's export promotion strategy, which includes simplification of procedures, incentives for higher production of exports, preferential treatments to MSMEs in the market development fund, simplification of duty drawback rules, etc.



### **Export Promotion Scheme for MSMEs – Ministry of MSME, Government of India**

Export Promotion from the small-scale sector has been accorded a high priority in the India's export promotion strategy. Apart from the number of incentives and facilities to small-scale exporters, the following plan schemes are in operation for achieving growth in exports.

#### **Participation in the International Exhibitions/ Fairs**

It is purely promotional scheme to give exposure to the products of micro, small enterprises which otherwise are not in a position to participate in the exhibitions/ fairs at their own cost. Under the scheme, exhibits of the selected export-worthy units are displayed in the exhibition that provides an opportunity to MSEs in demonstrating their capabilities before the international community. To confirm participation, the unit has to send 50% of space hiring charges of their booked space (min. 6 sq.mtr.) through MSME-Development Institutions at least 45 days advance of the commencement of the event or till space is available. The participating units will also carry/ manage their exhibits (to and fro) including custom clearance etc. If anybody wants more space, they can book in multiple of 1x3 sq.mtr. on pro-rata base and would be required to pay on pro-rata basis. 75% Subsidy on air fare of economy class will be given to entrepreneur

#### **Training Programs on Packaging for Exports**

The main objective of scheme is to generate much needed consciousness in the industry about the packaging problems of MSME exporters and to educate the entrepreneurs about the latest packaging techniques and designs of the packaging. These program on Packaging for Exports are conducted by all the field institutes in collaboration with Indian Institute of Packaging and GS1 India. The program is of One, Two & Three day's duration and 20 to 35 existing and potential entrepreneurs have been participating in each of the programs. 20-25 programs are being conducted every year throughout the country.

#### **National Award for Quality Products**

The objectives of the scheme are as follows-

- To encourage MSMEs to produce quality products conforming to national and international standards.
- To propagate a culture of quality consciousness amongst a vast section of Small Scale manufacturing units.
- To instill a sense of confidence of small industry products in the minds of the domestic consumers and to enhance the image of Indian products in export market.

These awards are given on the basis of recommendation by the State/ UT Level Selection Committee and the final selection by the National level Selection Committee for every calendar year.



#### **Technical & Managerial Consultancy Services**

Technical & Managerial Consultancy Services to the MSME manufacturers/exporters is provided through a network of field offices of this office so as to ensure higher level of production and generation of higher exports.

In addition, the scheme also provides for financial assistance up to USD 3075 for commissioning specific market studies and assistance for initiating/ contesting anti-dumping cases is available to MSME Association, limited to 50% of the total cost of USD1535 whichever is less.

Provision for reimbursement of 75% of one-time registration fee paid to GS1 India by MSME unit for adoption of Bar Coding. 75% of Annual recurring fee of bar code is also available for the 1st three years period to avail financial assistance under the scheme.

(Source: [www.msme.gov.in](http://www.msme.gov.in))

#### **8.2.4 Formation/ Strengthening of Export Support Service Providers**

**Though there are many public agencies like** line Ministries, Agencies, Authorities and Offices, including Ministry of Trade and Industry (Foreign Trade Department), Ministry of Foreign Affairs, Customs administration, Investment Authority, Coffee and Tea Authority, etc., they provide only specific mandated services which support exports indirectly, but have no exclusive role in promoting direct exports.

Ethiopian Export Promotion Agency is the only public body established for the specific purpose of promoting export. The agency was established at the end of 1998. It is not affiliated to any other international or regional body. The EEPA has no extension office in the country other than the head office at Addis Ababa.

The Agency is mandated to provide a wide range of services including product development, market research, trade information, training, export facilitation, advisory services, facilitating trade fairs, exhibition, and trade missions, match-making, enquiry reply services, trade library services and internet and awareness creation and assistance. At this moment it claims to focus mainly on foreign market information, contact making and government service facilitation. Currently it is publishing a bi-monthly newsletter 'Trade Point', which lists few addresses of importers and exporters and product specifications. Despite its claim, however, exporters' response and our own personal interview, confirm that until now very few exporters benefitted from EEPA's service. Moreover, the Ethiopian Export Promotion Agency admits that its service is not effective because of financial constraints, lack of skilled and experienced personnel and inadequate facilities. The agency remarked that the establishment of an "Export Development Fund" will greatly enhance its service in the future. It is intending to run a sort of cost-sharing program for the services it intends to provide.



**Private sector:** Professional business associations, established for mutual benefits of members do provide (to some extent) some export support services. Such associations include Ethiopian Chambers of Commerce, Addis Ababa Chamber of Commerce, and Ethiopian Coffee Exporters Association.

The Ethiopian Chamber of Commerce (ECC) is an umbrella organization for 12 city chambers located throughout the country, including Addis Chamber. Established in 1947, ECC is one of the oldest business organizations, and is also a member of the International Chamber of Commerce (ICC). Among its many objectives, those related to export services include the following:

- To find foreign markets for exportable commodities
- To exchange information with sisterly chambers in other countries
- To organize exhibitions and seminars
- To conduct studies on matters pertaining to the improvement of export products
- To prepare commercial journals, directories, and reports concerning trade

Addis Ababa Chamber of Commerce (AACC) is the single largest chamber of all city chambers in the country with about 7000 members. Alone, it represents 10-20 percent of the total business community in the country. Addis Chamber has a broad objective of promoting business ventures in Addis, with a potential to create employment for the sizeable unemployed population of the city.

Both chambers stated that their service is limited due to financial problems and lack of policy. There is a need on the part of the government to acknowledge chambers as development partners. Addis Chamber is also constrained with lack of office space and trade fair center.

As such, one of the strategies can be strengthening of existing export support service providers by earmarking an exclusive export development fund. However, a clear mandate has to be given about the number of SMEs to be targeted for exports by end of GTP II.

As long run objective it is also necessary to establish sector specific Export Promotion Councils with specific reference to major sectors like Leather, Textiles, Engineering etc. As the industry grows, it is difficult for Ethiopian Export Development Council to cater to demands of various sectors and it may not even maintain MIS on ever growing sector specific export information.

**There should separate Export Development Fund in the lines of India, Malawi and Kenya which will be mainly used to capacitate the export support institutions and maintain proper MIS. The other components for utilization of fund can be:**

- i) Setting up of pioneering/pilot projects aimed at exports
- ii) Provision of equipment and machinery for the pioneering pilot projects aimed at exports



- iii) Creation of common facilities for facilitating exports
- iv) Facility for testing and standardization as well as quality improvement of export products.
- v) Funding related to the exchange of trade delegations

The nodal agencies for such funds can be Export Promotion Agencies of federal level sector specific associations.

#### **Indian Council for Leather Exports (ICLE) – A modal EPC in India**

The Council for Leather Exports (CLE) is the single largest and Apex trade promotion organization of the strong and rapidly growing Indian leather & leather products industry. CLE is committed towards the overall development of Indian leather sector and achieve higher export growth to enhance India's share in global leather trade. CLE is functioning under the aegis of Ministry of Commerce & Industry, Govt. of India. It is the notified Export Promotion organization for entire leather & leather products industry.

Activities and Services of CLE are:

- Disseminating market information, trends, policy matters and publishing information on commercial, technical and technological developments in the Indian leather industry
- **Facilitating export-import trade through redressal of various procedural hurdles by representing to authorities concerned.**
- Participating in major international leather trade fairs & specialized trade shows across the globe.
- Organizing Buyer-Seller Meets and Mega Leather Shows, B2B meetings in potential markets etc.,
- Promoting, facilitating & attracting joint ventures, technical collaborations & strategic alliances, FDIs etc. into the Indian leather sector.
- Inviting Resource persons / Experts to the trade Fairs, Seminars & Workshops held in India, for exchange of information, knowledge, ideas and strategies.
- Mooting Delegations to overseas countries with a view to identify the sources for raw materials for augmenting availability of leather for production in India.
- Perform facilitation and Coordination activities towards implementation of various leather sector infrastructure strengthening, Human Resource Development programs of Government of India.

So far, the CLE helped more than 50000 MSMEs related to leather sector in India in developing their export market linkages across the globe.

**(Source: [www.leatherindia.org](http://www.leatherindia.org))**



### **8.2.5 Export Finance**

During the field survey, most of the SMEs voiced their concern about lack of support from banks to provide export finance facilities like Letter of Credit, foreign currency and efficient remittance services, international guarantees etc.

The main reason why banks are not willing extend any export lending facilities to SMEs, is lack of any collaterals, as exports by SMEs is perceived to be high risk category. The collaterals demanded by commercial banks in Ethiopia for providing export credit facilities vary from 150 to 200% of the consignment value, which SMEs are unable to provide.

***One strategy to overcome such problem can be creation of an Export Credit Guarantee Corporation, which can provide security cover to banks on behalf of SMEs. Such Corporation can be established at Federal Level, by Ministry of Trade and will be governed by Board of Directors comprising representatives of Federal Government, National Bank of Ethiopia, Banking, Insurance and Export Community.***

Such corporation will not only help the SMEs in pre-& post shipment credit guarantees, but also take care of risk insurance for loss in export of goods, besides helping exporters in recovering bad debts.

#### **Export Credit Guarantee Corporation of India**

The ECGC Limited (Formerly Export Credit Guarantee Corporation of India Ltd) is a company wholly owned by the Government of India based in Mumbai.

#### **Functions**

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services as well.
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan and advances.

#### **Facilities Extended by ECGC**

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with its own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debt
- Provides information on credit-worthiness of overseas buyers

Cooperation agreement with MIGA (Multilateral Investment Guarantee Agency) an arm of World Bank. MIGA provides:

1. Political insurance for foreign investment in developing countries.
2. Technical assistance to improve investment climate.
3. Dispute mediation service.

(Source: [www.ecgc.in](http://www.ecgc.in))



### **8.2.6 Formation of export Marketing Consortia**

Business consortia have been signaled as a way of overcoming an excessive industry fragmentation. But entering foreign markets is a demanding and somehow costly journey. Business consortia are legal entities that may facilitate this process.

An Export Consortium is an independent and formal entity, formed by a number of companies, manufacturing or providing products or services, aimed to enter into foreign markets by sharing the costs, generating synergies and creating value for its customers without giving up control on their respective business.

But it could also prove a good tool for those small companies, already too busy to devote time to manage their own business that, by grouping with similar enterprises, may not only get to markets beyond their individual limits but accessing to professional management personnel.

Most of consortia are considered a time limited entity but many SMEs will find the new company as a permanent way of accessing and operating in foreign markets. In Ethiopian SME induced cluster concept, even cluster cooperatives can act as consortium, provided all the members are in agreement to such activity.

Since individual units do not have necessary finance and production capacities, it is always better to be a part of the consortia, where risks and resources are shared.

The two main types of consortia are promotional and sales consortia. Promotional consortia are created to explore specific export markets by sharing promotional and logistic costs among participating firms. Actual sales, however, are the responsibility of the individual firm. Sales consortia, on the other hand, also perform business promotion activities, but they handle the sale of member firms' products, as well. In addition to the distinction between sales and promotional consortia, export consortia also vary depending on whether they are:

- Single-sector or multi-sector consortia;
- Consortia that primarily comprise competitors or those that are composed primarily of firms with complementary goods and services;
- Consortia that target exports to a specific region or those that are active worldwide.



### **Consortia formation and role of UNIDO**

Although the concept of grouping firms for export is relatively straightforward, establishing successful consortia is a demanding task. Due to a lack of knowledge and preparation, attempts to establish export groups of SMEs often fail. Developing economies, like Ethiopia in particular, lack experience with consortia and have weak institutional and regulatory frameworks for promoting SME export consortia. As a result, external assistance may be critical for developing a sound export consortia program in the country. UNIDO can assist developing countries by:

- Supporting the creation of export consortia in different sectors;
- Training national promoters of export consortia, in the public or private sectors;
- Promoting a favorable institutional and regulatory environment for the development of export consortia; and
- Benchmarking of international practice.



### **MUYU – A Moroccan Experience of Export Marketing Consortium**

The export consortium Muyu, which was founded in 2005, consists of five micro and small handicraft firms based in Cusco, Peru, all of which make and sell handmade products associated with Peruvian tradition. They are substantially similar in size, have similar profiles, and their production is complementary.

The strategy of Muyu is essentially focused because, although conceived and developed in accordance with modern concepts and forms, all of its products are strongly characterized by their ethnic profile and customers' preferences must be consistent with Peruvian culture and tradition.

Production is therefore oriented towards a narrow international segment of customers. The strategic positioning of Muyu is very clear and well summarized in its formal mission: 'to satisfy the functional, ornamental and fashion needs of demanding markets through handmade products, styled according to ancestral Peruvian tradition, but proposed in modern forms'.

The strategy of Muyu is essentially focused because, although conceived and developed in accordance with modern concepts and forms, all of its products are strongly characterized by their ethnic profile and customers' preferences must be consistent with Peruvian culture and tradition. Production is therefore oriented towards a narrow international segment of customers.

The choice of a focused strategy is also reflected in its distribution policy: the consortium uses selected channels specialized in handicrafts mainly aimed at the USA and European markets (Germany, Holland, Belgium, Spain). In foreign countries, the products are usually sold in museums, art galleries, boutiques, and the shops of fair trade associations.

The Consortium is managed by Steering committee of 3 people with one experienced entrepreneur as coordinator, who is functionally supported by a General Manager. However, system of Governance warrants involvement of all members and they meet 2 times a month.

The enhancement of the firms' marketing and promotional competences is one of the main outcomes of the participation in the consortium. The average increase in exports has been of 235% in two years.

In addition, firms also benefited from:

- an easier access to technical assistance and training programs promoted by public and private institutions;
- An improved market reputation

(Source: The Strategic Management of Export Consortium, book published by UNIDO)



### **8.2.7 Targeting Ethiopian Diaspora for Exports**

There are more than 200000 Ethiopians living in USA, 400000 in Asia and an expected 0.5 million in various parts of Africa as per SPORCLE estimates. Thus, one powerful export promotion strategy can be “to target diasporas”.

Some market savvy traditional handloom SMEs in Bahirdar are following emigrants from their homelands, concentrating on countries that host them in sizable numbers like USA. Not all the members of a diaspora are warm to companies or brands from home. Emerging SMES and related export support institutions must identify those that are likely to be receptive. They can then use those groups as springboards for growing revenue and gaining brand recognition before breaking out into the mainstream.

Many SMEs and even large firms overlook this inexpensive and low-key approach to globalization because of developing countries’ ambivalence toward emigrants, who are often thought to have abandoned their homelands. That old-fashioned attitude is giving way to the realization that targeting diasporas and capitalizing on their success abroad can be a valuable brand-building tool.

Distances have also shrunk. Once upon a time, if somebody moved to another continent, one did not expect to go back home for years or to remain in contact with that culture. However, affordable air travel, inexpensive telecommunication services, and satellite TV now allow people to stay in close touch with relatives, friends, and trends in their homelands, making it easier for emerging-market companies to tap diasporas.

However, a thorough analysis has to be done on following parameters before adopting diaspora as a strategy to tap export markets:

#### **Is the diaspora large enough?**

Companies from developing countries must start by targeting areas where bicultural and ethnic affirmers live in numbers big enough to justify investments in supply chains, distribution, and retailing, as well as in advertising and marketing. The diaspora’s size relative to the local population is critical. For instance, the Indian diaspora in the United States comprises 2.3 million people, and in England, only 1.4 million. However, Indian brands fare better in England because Indians account for 2.7% of the population there but less than 1% of Americans.



**Will the diaspora’s distribution allow the brand to expand nationally?**

From an emerging giant’s perspective, a diaspora should be spread all over a country but with concentrations in key regions. These groups, especially of bicultural, can serve as stepping-stones for brands to go national. They act as nodes through which information and product usage spreads to different regions, allowing the company to reach the mainstream cost-effectively.

That’s how Bangladesh’s largest food company, PRAN RFL, which exports soft drinks, snacks, biscuits, confectionary, and spices, is growing overseas. It started out by setting up distribution networks wherever the Bangladeshi diaspora had congregated. For example, in the UK it focused on East London, where the borough of Tower Hamlets has a high percentage of Bangladeshis. (They make up 32% of the local population.)

**Will the diaspora’s socioeconomic profile help the brand?**

Companies can answer this question by determining whether the diaspora members’ profile resembles that of the host population. People tend to socialize with those who are like them—a tendency that sociologists call homophile. If local consumers don’t identify with the ethnic consumers of an imported brand, they are unlikely to pay attention to that brand.

The Manila-based fast-food company Jollibee used the principle of homophile when it entered the United States. It targeted relatively affluent Filipinos in California, using them as a base for expansion into the rest of the country. California was a smarter choice than, say, Hong Kong, where Filipinos serve mainly as domestic workers. If Jollibee had invested in Hong Kong, Chinese consumers would have been convinced that it was a blue-collar brand and refused to pay a premium for its products. Jollibee’s selective approach has delivered growth: While its sales in the Philippines grew by 10.8% in 2012, its overseas sales rose at a faster clip of 25.7%.

**8.2.8 Product diversification/ value addition**

**Other than upgrading the quality and technology, SMEs should also give due emphasis for product diversification.**

**For Wooden furniture there is a huge scope for exporting Complete Knocked Down (CKD) Kits.** CKD is a kit containing the parts needed to assemble a product. The parts are typically manufactured in one country or region, then, exported to another country or region for final assembly. In this way cluster firms could able to reduce import taxes and increase their export market base. More than 50 firms are now making CKD kits in the cluster.



**Similarly, in Leather Products category,** the SME clusters may start purchasing non-chrome based tanned leather, so as export to EU countries, which banned CR 6 tanned leather. There is a huge scope for leather shade lamps, wall hangings in Gulf, US and European countries, which won't require any major technology.

**In textiles,** use of organic colors and dies in making of handloom products and dress materials has niche market in Europe and countries like Japan, Korea besides EU as use of ecofriendly products is fast catching up in many countries.

**In food processing,** use of Tetra Packs in packing of milk, may give relatively longer shelf life and thus can be exported to neighboring African countries. There is a good export market potential for egg powder, especially in European countries. Organic farming of potatoes, Okra, Brinjal and other horticulture produce has niche market potential in US and EU markets.

SMEs need to do such analyses on product diversification and value addition with the help of related Development Institutions.

### **8.3 Export Promotion assessment strategies at SME/ Cluster level**

In the process of preparation for the exports, the SMEs or the associations of SME clusters need to conduct a research that will help them choose a market, which will contribute to the maximization of the benefits and minimization of the risks. The same research will also help the managers decide not only on the markets to enter but also on the modes of entry. When deciding on these issues, the SMEs need to gather information on the following parameters:

**Information on the market availability:** This should be the first phase in the process of research. If the result of the research shows that there are many barriers for entry on a certain market, then the company should reconsider the decision to go on that market. This is the phase where companies should collect information on the trade policy, tariff and non-tariff barriers, regulations regarding the exports and imports of the country, developed trade relations with different countries and trade groups etc.

*For example, chromium tanning is a common phenomenon in leather industry in most of the developing countries including Ethiopia. However, recently, the EC has notified the WTO of its plan to introduce new restrictions on leather goods imported into the EU. These new rules target hexavalent chromium, or Cr (6), in leather products. If this restriction is imposed, then the*



*Ethiopian leather product SMEs need to focus more on less restrictive US and South American Markets or force tanneries to change the use of CR6 with suitable substitutes.*

**Information on the business environment:** The second phase in the process of research is analysis of the business climate and environment of the potential markets. At the same time, this is the most critical stage in the information gathering process as it helps in the development of clear picture of the markets in the selected countries and the opportunities that are offered. The most important components to be analyzed are the economic and political-legal environments and their factors affecting the operations of the SMEs.

For example, EU imports of Kenyan roses after the 2007/08 post-election violence and political instability in Kenya has gone down drastically. The estimated EU demand for roses from Kenya and other global competitors, found evidence of a structural change in the import growth rate for Kenya, approximately equivalent to an 18.6% tariff. These results highlight the importance of non-tariff barriers to trade and contribute to the growing literature on the role of insecurity and instability in hindering international trade.

**Information on the size and potential of the markets:** Referring to the wealth of the market and the purchasing power of the consumers with the following most important indicators that should be analyzed: demographic characteristics of the markets (number of inhabitants, growth rate, population density, age structure), geographic characteristics (area, climate, topography), economic parameters (gross domestic product, GDP per capita, GDP growth rate, purchasing power, income level, average salary, consumption of different category types, economy growth, industry growth), technological parameters (actual production technology, planned technological development, investments in technology, internet users, level of development of the information and communication network, investments in hardware and software), educational characteristics (educational system, students enrolled in high schools, students enrolled at faculties, foreign languages learned in schools, graduated students, graduated students according to the level of education, number of master students, number on PhD students) and socio-cultural characteristics (dominant religion, dominant values, life style, ethnical groups etc.).

#### **8.4 Conclusions:**

***The export promotion of manufacturing sector with specific reference to SMEs is at infancy stage in Ethiopia. Barring few medium units related to Leather and traditional handlooms, the direct exports were not observed during the survey in other select sectors like metal cum engineering, wood processing and food.***



*Poor quality of products, limited designs, poor access to credit, lack of exposure to international markets, limited product diversification have restricted the SMEs to cater to local markets and they are still struggling to penetrate in to national markets.*

*Thus, so much of ground has to be prepared to capacitate the SMEs so as to make them export fit and any major strategies for export promotion of SMEs, should be a medium-term objective (say after 3 years). The overall export promotion strategy should be phase wise.*

*In the first phase there is a need to strengthen the cluster specific associations and wherever required formation of consortia (especially in natural clusters). At this phase emphasis must also be given for capacitating SMEs in quality and technology up gradation so as to meet international standards.*

*The regional level support institutions then have to organize vendor meets and tried to link SMEs to large export-oriented units. In this way, SMEs will gain confidence to foray in to export markets on their own.*

*During the next phase, federal government needs to form a strong export support structure mechanism by strengthening the existing export promotion agency and sector specific associations. Access to export credit finance also needs a boost in the form of forming an export credit guarantee scheme and its system of implementation.*

*In the next phase very, selective export marketing if possible by SME cluster level associations/ consortium can be planned mainly targeting Ethiopian Diaspora and use their influence to expand the export markets. Major trading companies in Ethiopia should also be motivated by federal government to help SMEs clusters to gain linkages with international buyers.*

*Simultaneously the SMEs, through their associations/ consortia and support institutions need to do their own survey on conducive markets to capture, competitor analysis in the selected markets, customer tastes and requirements etc.*

*Thus, strengthening of export promotion capabilities of SMEs as part of their internationalization is a long-drawn process and need to be built up step by step for its long-term sustainability and is expected to take at least a decade to reach desired levels.*

#### **Acknowledgements:**

- Strategic management of export consortia, an analysis of experience of UNIDO in Morocco, Peru, Tunisia and Uruguay
- Growth & Transformation Plan II Paper
- A study on Cluster Branding Case Studies by Small Industries Development Bank of India
- Market Development Assistance Scheme of Ministry of MSME, Government of India
- Websites of Export Credit Guarantee Corporation, India and Indian Council of Leather Exports



## **Chapter 9**

# **Strategy for institutional capacity building for effective use of lease financing scheme**

### **9.1 Background & Current Gaps**

The global financial landscape underwent fundamental changes during the last two decades. The two most important drivers of change were the deregulation of the banking industry and liberalization of the financial markets (especially the opening up of national markets for international capital flows) in many countries around the globe. This led, inter alia, via mergers and acquisitions, to the emergence of huge global players with universal banking characteristics and to a rapid increase in global capital movements. Thus banking sector or financial instrument today play a key role in developing of the SMEs and in turn have increased their credit risk.

During the field survey major gaps were observed both at the level of financial institutions as well as support institution. The gaps at financial institution were observed in the areas of credit



appraisal, credit rating, and credit monitoring and credit administration. Credit appraisal of a term loan denotes evaluating the proposal of the loan to find out repayment capacity of the borrower. The process involves appraisal of market, management, technical, and financial. The bank follows an extensive process of credit appraisal before sanctioning any loan. It analyses the loan proposal from all angles. The primary objective of credit appraisal is to ensure that the money is given in right hands and the capital and interest income of the bank is relatively secured. A financial institution conducts financial appraisal by focusing on evaluating of credit worthiness of the company and future expected stream of cash flow with the amount of risk attached to them. Credit worthiness is assessed with parameters such as willingness of promoters to pay the money back and repayment capacity of the borrower. The four broad areas of appraisal by banks are market, management, technical and financial.

During the field survey it was understood that the bank staff do not have adequate knowledge of credit appraisal, do not have experience in the system and have not received any training on the subject. One of the strategies adopted in developed or developing countries is training of the banking staff for updating them on the new approaches and methodologies being adopted elsewhere for credit appraisal. Training of the staff is regulatory requirement in few countries and thus lowering the credit risk.

Further it was observed that there are no external credit rating agencies that play a key role in evaluation of the borrower on his credit worthiness in the developed and developing countries. The banks' internal credit rating system are old and do not match with the international standards.

Institutional support for effective use of lease financing instrument too was found wanted in Ethiopia during the field survey. The Industries Association or Government establishments for development of industries hardly play any role in this aspect. BDSPs too have very limited role in credit lineage.

## **9.2 Strategy to fill Gaps**

### **9.2.1 Capacity building of Banks / Staffs**

Capacity building of banks and its staff becomes very essential towards effective use of the lease financing instrument. The capacity building should primarily be in the areas of credit appraisal, rating, monitoring and credit administration followed by language capability, skills and



professional development as well as leadership and executive management development programs for professionals.

- Developing capacity is most effective when it is owned by clients; in other words, the Bank's approach must be demand-driven. It has to be based on a systematic needs assessment of the clients.
- Changes are more easily achieved through a critical mass than through the efforts of a single individual. Emphasis should be on national training in order to ensure the attendance of a reasonable number of participants and create critical mass.
- There have to be clear linkages between capacity development activities and development effectiveness. Without monitoring and evaluation, it is difficult to know what progress has been made and what improvements or changes in strategy are necessary to achieve the desired development impact.

The capacity building plan has to be done in two approaches; first with short term plan with objective of developing capacity to meet the basic requirement and second with long term goals to match the capacity (Up gradation) to international standards of banking.

The purpose of the short term strategy is to identify the key gaps in the skill / capacity level to perform the basic function and bridge the gap through a customized training. To start with, training needs assessment and human resources development strategy has to be prepared in the first place. Such study should be done by an independent consulting firm in close consultation with the banks so that the training needs are demand driven. The training module and curriculum can be developed based on the gaps that have been identified and **should include internship in banks in developing countries which will facilitate practical learning.** On successful completion of the course and passing the statutory examination, certificate should be issued to the candidates. In the long run, the courses should be standardized and can be made open for existing employees of the banks opting out of their own as well as fresh students with adequate academic qualification. This certified candidate can be termed as qualified bankers.



As a long-term capacity building strategy , Ethiopia should develop a Continuing Professional Development (CPD) Program and it should aim at systematic up gradation of knowledge and skills and the development of personal qualities necessary to the execution of professional managerial and technical duties. This program will bring in the knowledge of best industry practices being adopted across the globe and imparted as training. This CPD certification should be separate as compared to the regular certification and should be limited to bankers with minimum experience of 10 years.

As a long term strategy the EDB should plan to have at least 2 CPD certified professionals and 4 to 5 qualified bankers' certified professional in each branch. This strategy of staffing will help in capacity building of each branch and the whole banking system in lease financing.

Key to the above strategy lies in bringing in the regulatory changes in the existing system. Ministry of Finance & Economic Development, Government of Ethiopia should act as the nodal agency for the strategy and bring in capacity building as a regulatory requirement to be adopted by Ethiopian Development Bank (EDB) or any other banks in lease financing for its existing staff. It is further suggested to bring in regulatory norms to make capacity building of banks at regular interval mandatory. Certification by a statutory body can also be made mandatory for any recruitment for key position in SME financing. **National Bank of Ethiopia** can act a regulatory body to ensure the above-suggested intervention.

#### **Capacity Building of Bankers/Banks: India**

Reserve Bank of India had constituted a committee called “Committee on Capacity Building” during July 2014. The objectives of this committee are capacity building of bankers, banks and non-banks institutions; Streamlining the training and certification of staffs in banking & non-banking financial sector. The Committee had recommended many things related to HRM function, training of staffs, certification of staffs etc.,

Among those recommendations, one of their key recommendation is staffs who are working in the following specialized areas should have completed certification courses.

- Treasury operations – Dealers, mid-office operations.
- Risk management – credit risk, market risk, operational risk, enterprise-wide risk, information security, liquidity risk.
- Accounting – Preparation of financial results, audit function.



- Credit management – credit appraisal, rating, monitoring, credit administration.

Further RBI has advised IBA (Indian Banking Association) to include certificate course for who are working in Foreign Exchange Operations on 31.05.2017. Now the RBI has advised that with effect from 01.04.2018, to post only those employees who have acquired certification in the above areas. It also advises the Bank to prepare comprehensive policy for implementing the above recommendations.

**(source: iibf.org.in)**

### **9.2.2 Establishment of Training and Certification Bureau**

As suggested in the previous section, for the purpose of capacity building of financial institution, government of Ethiopia should identify an institution like Ethiopian Institute of Financial Studies or a new institution can be established for the purpose of capacity building. The same body should also act as a certification body to certify candidates after completing the courses satisfactorily. The certificate should be issued after clearing statutory exams. The courses should be designed to facilitate capacity building both for entry level and professionals with experience.



### **Indian Institute of Banking & Finance (IIBF)**

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counseling and continuing professional development programs.

#### **Objectives of IIBF**

- To facilitate study of theory and practice of banking and finance.
- To test and certify attainment of competence in the profession of banking and finance.
- To collect, analyses and provide information needed by professionals in banking and finance.
- To promote continuous professional development.
- To promote and undertake research relating to Operations, Products, Instruments, Processes, etc., in banking and finance and to encourage innovation and creativity among finance professionals so that they could face competition and succeed.

Key Courses offered by IIBF are presented below.

#### **Flagship Courses**

Junior associate of IIBF  
Certified associate of IIBF

#### **Diploma Courses**

Diploma in Banking Technology  
Diploma in treasury Investment & Risk Management  
Diploma in International Banking & Financial examination

#### **Blended Courses**

Certified Banking Compliance professional  
Certified credit officer  
Risk in financial services

#### **Certificate Courses**

SME finance for bankers  
Certificate in trade finance  
Certificate examination in microfinance



Details of one of such program offered by IIBF is presented below

**Advanced Management Program (AMP)**

The program covers the entire spectrum of Banking / Financial Management subjects and, currently, consists of the following:

- Principles & Practices of Management
- Macro-Economics
- Organizational Development & Organizational Behavior
- Strategic and Change Management and Integrated Marketing Management in Banks
- Banking Resources and Products
- Impacts of Business Laws and Regulations on Banking
- Information Technology in Banking
- Data Management and MIS in Banks and Quantitative Techniques for Managers
- Business Analytics
- Credit Management and Financial Analysis
- Credit Monitoring and Recovery Management
- Leadership in Banking
- International Banking and Foreign Exchange Markets
- Treasury Management
- Corporate Banking, Financial Advisory and Merchant Banking Services
- Investment Banking, Valuations for Mergers & Acquisitions, Valuation of firms & Venture Capital
- Investment Analysis and Derivatives
- Integrated Risk Management in Banks
- Business Ethics and Corporate Governance

Total course duration: 245 hours

**(source: iibf.org.in)**



### **9.2.3 Capacity Building of the Association**

An association can play a critical role in the effective use of the lease financing instrument introduced to enhance the emergence and strengthening of SMEs. Under a normal procedure, an SME seeking to avail a lease financing scheme submits its application directly to the bank with all necessary documents. In general, SMEs do not have a proper understanding of the credit appraisal procedure and lack the required documents when the loan application reaches the bank, and this lacuna in the documentation leads to rejection or delay in sanctioning of the loan. The idea under this strategy is to identify and capacitate an entity which can act as a credit facilitation center on behalf of SMEs in the cluster, and an association will be an ideal agency for the said activity.

The step-by-step procedure for the said strategy is explained below.

#### **a. Capacity building of Association for Credit facilitation**

In this stage, a capacity building program should be organized for the members of the cluster association on general understanding of the lending procedure of the banks. The program can be done through a workshop or classroom training program. To have a better understanding of the whole credit facilitation procedure, one of the sessions should be conducted by bank staff on credit appraisal, whereas the other program can be through BDSPs. Involvement of bankers as trainers for one session of the program will be a more practical approach. The capacity building program should include sessions on preparation of project reports, documentation requirements by bankers for sanctioning of loans, major gaps that are found today in loan application (preferably by bankers), credit appraisal system, etc. This capacity building should be carried out for all key staff and executive body members of the association.

#### **b. Hiring of BDSPs during initial phase of development of credit facilitation Centre**

Once the above capacity building program is successfully completed, the association should be encouraged to start a credit help desk in its office to facilitate and encourage its members to take support of the association in availing a loan under a lease finance scheme. As credit appraisal is a long-drawn process and requires immense knowledge in the areas of technical, financial, and market analysis, it is very unfair to expect the association to carry out all the activity from the very first day. Hence, it is suggested to hire BDSPs during the development phase. The BDSPs should preferably have an ex-banker who has worked in



SME credit. The key identified staff should be involved with the BDSPs on day to day basis for a practical learning and capacity building. This procedure is to be adopted for the first 5 to 10 loan applications.

c. Development of in-house capability for credit appraisal as a long run strategy

As a long term strategy it is suggested that in-house capability should be developed to play the role of BDSPs. The association, based on the response of the SME and the bankers can now hire staff to prepare and scrutinize the application of its own. This initial scrutiny / credit appraisal by the association staff reduces the gaps or lacuna in the application and thus reduces the loan processing time in banks.

d. Entering into MoU with banks for credit facilitation

As a long-term strategy, the association should be capacitated to enter into Memorandum of Understanding with EDB / other banks for credit facilitation whereby the scrutinized application reaches the banks and thus reduces the cycle time for sanctioning of the loan. Involvement of bankers in this capacity building will play a key role for the strategy to be successful. These capacity building programs should invariably be conducted with the support of EDB / Banks.

e. Other Activity

Collateral security provided by SMEs forms an integral part of the loan sanctioning procedure. A possibility should be explored on successful accomplishment of the above strategy to have common pool of collateral security whereby the association will be able to provide necessary security to the banks on behalf of the SMEs. This however is a long drawn process and should be carried out with due trust building among the SMEs.



**Integrated Association of Micro Small and Medium Enterprises of India**

**I-am-SME-of-India**

It is an Institution created and run by entrepreneurs to facilitate and promote the growth and development of Small businesses across India through various services like Credit facilitation, Technology transfer, IT Solutions (ERP, e-Commerce, CRM, Mobile Apps, and more) Skill development, Energy Efficiency, Mentoring & Advisory Services, Lean Manufacturing, International Exhibitions & Trainings, Best Practices sharing, Strategic Sourcing, Export-Import Facilitation, Cluster Development, Solar Power, Sustainability, Risk Management, Electronic Surveillance, International Trade Facilitation, etc.

Among other activity Credit Facilitation Centre is one of the core activities of the association and key highlights are presented below.

Unique arrangement with SIDBI (Government of India bank for MSME)

- Collateral free loans facilitated (approval given by Iamsme)
- Present limit of approval rights enhanced from USD 77000 to USD 115000
- Key to success was free Credit counseling and continuous assistance provided for success of the enterprise
- All disbursement thru Iamsme = 0 Nonperforming assets
- Similar models being tried by SIDBI across India in line of Iamsme.
- Model being tried out in other developing nations like Bangladesh( led by central bank) with learning's of Iamsme

MoUs for facilitating other financing gaps exist with other banks

- Axis bank
- Indian Overseas Bank
- Citibank
- Royal Bank of Scotland

(Source: [www.iamsmeofindia.com](http://www.iamsmeofindia.com) )

FeSMMIDA can act as the nodal agency for the above activity with the support of Ministry of Finance and Economic Development. Separate fund should be earmarked for the suggested capacity development program from Sustainable Development Fund. On achieving success in one cluster, replication can be made in other clusters across the country.



#### **9.2.4 Capacity Building of SMEs**

During the field visit it was also understood that SMEs are not aware of the loan processing procedure and hence face difficulty in getting a loan sanction on time and it would be a right strategy to strengthen the whole ecosystem rather than individual stakeholders. FeSMMIDA can facilitate in capacity building of SMEs with the support of Cluster Association through workshops and interaction meet with bankers. This should be a continuous process and should be carried out twice a year as the loan processing procedure gets updated very frequently due to change in regulatory framework.

#### **9.2.5 Empanelment of Consultant**

The lease financing instrument deals with a lot of activity / process which include valuation, legal, techno-economic appraisal, inventory audit, forensic audit etc. The banking institution in developing countries empanel consultant for the above purpose. EDB / Banks dealing with lease financing instruments should adopt the strategy of empaneling such consultants into its system to take up such work. The third party (empaneled consultant) evaluations in the above aspects are transparent and have been working effectively in other countries. The selection criteria for empaneling of consultant should be strict and should include, manpower available, qualification of the manpower, past experience, empanelment elsewhere etc.

#### **Acknowledgements:**

- Paper on SME finance in Ethiopia – Addressing missing middle challenge by World Bank
- GTP II paper
- Website of Indian Institute of Bank Finance
- Website of IAMSME of INDIA

## Chapter 10

### RM strategy for donor's coordination

#### 10.1 Status of Official Development Assistance (ODA in Ethiopia):

Total development assistance to Ethiopia was USD 3.9 billion in 2013, the latest year for which OECD/DAC data is available. Since 2004, ODA to Ethiopia has increased by 66% in real terms. The five largest providers of development assistance to Ethiopia are the World Bank, the United States, the United Kingdom, the African Development Bank, and the Global Fund. The table below shows the top bilateral and multilateral partners for 2012-13.

**Table No. 10.1: Top bilateral and multi lateral partners for Ethiopia**

Top Bilateral Partners (in USD million)	Top Multilateral Partners (in USD million)
United States - 610.30	1. World Bank (IDA) – 847.60
United Kingdom – 466.30	2. African Development Bank – 222.0
European Union – 170.80	3. The Global Fund - 182.70
Japan – 146.60	4. GAVI - 101.00
Canada – 128.90	5. UN Funds & Programs – 80.10

(Source: dagethiopia)



In the past decade, two main trends in development of co-operation in Ethiopia can be discerned. The first is the marked decrease in the share of humanitarian aid. Whereas in 2005 humanitarian aid amounted to 20% of gross ODA and in 2009, 17%, in 2013 it represented only 10%. This corresponds to a decline in the absolute volume of humanitarian assistance from around USD 700 million in 2009 to USD 400 million in 2013. The move from humanitarian to development assistance reflects the fact that the country has built some resilience in large part, thanks to safety net programs for the most vulnerable, in order to sustain some of the worst humanitarian emergencies (an example is the 2011 Horn of Africa drought where the country fared well compared to its neighbors).

The second trend refers to the increased share of development assistance provided in the form of concessional loans compared to grants. In 2004, loans made up only 14% of total development assistance, in 2009 they were 25%, and in 2013 the share of loans reached 32%. According to the World Bank/IMF debt sustainability exercise conducted in 2011/12, Ethiopia is able to assume external public debt at relatively low risk. Concessional loans from multilateral partners – and increasingly from bilateral partners – offer a way to expand Ethiopia's development assistance portfolio at a relatively low cost for providers of development assistance. As the country moves towards lower-middle income country status and accesses international financial markets (as demonstrated by Ethiopia's sale of Eurobonds last year and its plans to start an equities and secondary debt market), one would expect the ratio of ODA loans to grants to continue to increase.

According to the Ministry of Finance and Economic Development (MoFED), aid on-budget reached USD 2.9 billion from July 2013 to June 2014. The government also receives grants and financing from other sources, including from non-DAC donors such as China, India; philanthropic organizations including the Bill and Melinda Gates Foundation; and new 'social impact investors' such as the Shell Foundation and the Acumen Fund. MoFED recorded USD 161 million from China provided and USD 31 million from India in EFY 2006 (July 2013 to June 2014).

In the absence of bilateral general budget support in Ethiopia, large multi-donor programs support the government's efforts in alleviating poverty. A few of the largest multi-donor programs (pooled funds) currently in place include the Promotion of Basic Services Program (PBS); the Productive Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQIP); the Agricultural Growth Program (AGP); and the Sustainable Land Management Program (SLMP). Development partner contribution to these five large programs account for over one-quarter of official development assistance, or an estimated USD 806 million in 2014.



## **10.2 SMEs and ODAs**

Since last 4 years, with GTP II in place, the concentration of donor agencies on industrial development with specific reference to SME development as a part of poverty alleviation is growing. In fact, the World Bank and European Union have now given USD227 Million as sustainable development fund, which is mainly earmarked for SME development.

The concept of SMEs in Ethiopia was introduced more than two decades ago. However, the interest in the sector from different stakeholders, government agencies, civil societies, business people and donors has drastically increased over short period of time, given the importance of SMEs in national economy.

In Ethiopia, there is still no robust regulatory framework for donor coordination, though few coordination efforts were done by different government agencies in isolation. However, in response to consolidate interventions in SMEs sector, the government set up an agency for SME development which is FeSMMIDA. The agency is expected to align the government and donor objectives further and ensure that the donor and corresponding national resources fit the right places where highest demand is reported like promoting cluster concepts among SMEs. Improving the business environment of SMEs has been given priority by the donors like World Bank and EU and development of natural and induced clusters has become one of the major objectives for their sustainable pace of growth.

## **10.3 Strategies for better coordination and RM enhancement with donors in harnessing resources**

### **10.3.1 Capacitating SME support framework:**

FeSMMIDA was established as the focal body for all SME development policies, to oversee all the government funded SME support programs as well as the counterparts in ODA projects and programs in the SME field.

However, the FeSMMIDA is mainly an implementer and at apex level there is a necessity for formation of SME Promotion Council. The council can be chaired by Minister of Industry and can draw membership from other ministries like Education, Trade, Science & Technology and Urban Development & Housing. Though such proposal was planned long time ago, it is high time to formalize the same. The council should also have members from major regional/ city authorities,



associations and development institutions. Such council is expected to take care of all SME policies besides making strong regulatory framework for ODAs. Hence the focal points in the process of SME development are federal government bodies including FeSMMIDA, the council and regional administrations. *These institutions indeed need an intensive capacity building, with specific reference to donor management and sustainable implementation of ODAs at regional, sectorial and thematic area level of SME development.*

### **10.3.2 Adopting SWAP Approach:**

Like in any developing country, SMEs in Ethiopia are facing many internal and external constraints such as difficulties in access to finance, utilities, and land for premises, technology, BDS, discouraging business culture etc. Therefore, it is difficult to meet all SME needs under single support intervention and to get some concrete results. As such, the federal government with the help of donors has to gradually shift from holistic development approach to sector wide approach. Though the government has already started implementing such approach in the form of lease financing for technology development of SMEs, sustainable development fund scheme to meet requirement of land premises, there are still many areas like BDS linkages, market development, energy efficiency, environment management that are not touched upon and this is where many donor agencies are now inclined to contribute.

For example, in India, EU has contributed to promote energy efficiency, occupational health and safety, association capacity building under its Sustainable Consumption and Production (SCP) program. Such SWAP approaches are now followed in many countries and multilateral agencies are keen to invest sector/ area specific programs so as to achieve desired results.



**Scaling Up Sustainable Development of MSME Clusters in India, a European Union Project  
- Through SWAP Approach**

The Project was funded by European Union mainly to promote sustainable consumption and Production. The EU appointed M/s Foundation for MSME Clusters as Implementing Agency, with GiZ, UNIDO, SIDBI, Global Reporting Initiative (GRI), Small Industries Development Bank of India (SIDBI) as knowledge partners.

**Objectives**

The project 'Scaling up Sustainable Development of MSME Clusters in India' seeks to enhance competitiveness of less sustainable MSME clusters together with reduced environmental and social impacts. In order to achieve this overall aim, it also seeks to enable adoption of sustainable environment and social business practices across select foundry clusters, up-scale interventions through Training of Trainers (ToT) and institutionalization, develop and implement voluntary Aggregate Reporting (AR) framework, design, develop and link financial instruments for sustainable production and strengthen policy dialogue and dissemination.

The main target groups of this project are MSMEs in the foundry clusters located in Batala, Howrah, Jaipur, Jalandhar in the states of Punjab, Rajasthan and West Bengal, their employees and the population living in the surrounding region.

The major outcomes of the program are:

- 474 Foundries adopt energy efficiency measures resulting in 16000 MT of coke saving per annum.
- 375 foundries improve their working conditions through Occupational Health and Safety Measures impacting 5000 workers benefitted.
- Capacity building of 54 BMOs on Sustainable Business Practices
- Financial linkages to 92 MSMEs making them access institutional finance.

**(Source: outcome report on SCP project prepared by FMC)**

**Transition from Donor Execution Modality to National Execution Modality:**

In Ethiopia for many years, most of the donor agencies followed donor execution modality, where in donors like UNIDO used to play greater responsibility in executing SME development projects, including project planning, financial management, recruitment of project staff etc. However, now a days, most of the donors are moving away from directly planning the projects and execution, but are mainly depending on local stakeholders to take such responsibilities. They are trying to strike a balance between their interests and needs of beneficiaries proposed



by local stakeholders. The major reason for decline in donor execution modal is the blame from the local stakeholders that such projects are supply -driven and is imposed by donors in a hardline way.

So, the best option is national execution modal, where the mantle lies with local stakeholders, who know the problems of SMEs in a better way. However, such modal can only show better results if local implementers like FeSMMIDA and regional administrations have enough capacity and human resources. Thus, better capacitated local support agencies will definitely enhance the reputation of Federal Government among the donor community.

**Capturing donor interests:**

By interests, donors greatly vary. Their interests can be categorized in many ways such as technical approach, location, counterparts, types of beneficiaries, sector, gender etc.

Technical approach may be business enabling environment, access to BDS, or access to finance. Again, under these broad categories, there may be sub categories like interventions directly related to policies through dialogue facilitation and research, institutional capacity building, policy lending or a mixture of both of them.

Similarly, there is also a shift in locations. If keenly observed, most of the donors were confined to important locations like Addis city administration till early 2000 and now they are keener to enter into various parts of Ethiopia. This again depends on emphasis of the government, whether they want SME development in major areas of existing concentration or removing regional imbalances by inducing SME clusters. In addition to this, some donors especially bilateral ones, focus more on urban areas, as they want their interventions to be commercially viable and show quick results.

Similarly, some donors may target gender like women empowerment through SMEs or export-oriented SMEs or sector specific like leather, ceramics etc.

So, mapping of donors and submitting the proposals as per their areas of interest may improve the chances of better harnessing of resources.



### **Presence of Strong Associations and Public Private Partnerships**

In recent times, majority of the donors understood the importance of role of private institutions be it associations, NGOs, implementing agencies for effective implementation of the projects in which they are investing, with specific reference to SME development. Such donors are insisting government institutions to have some sort of partnership with associations or professional private implementing agencies so as to provide financial assistance.

For example, when the World Bank planned to sponsor development of linkages between BDSPs and SMEs in India, they followed national execution model, and appointed Small Industries Development Bank of India as Nodal Agency. However, they kept a rider that the entire implementation part will be taken care of by professional private agencies, which have prior experience in SME development. Thus, the project was implemented under PPP mode with active participation of private institutions and associations.

However, unfortunately in Ethiopia though there are many federal, sectorial, regional and district specific associations operating, their capacities are very limited. During field survey it was observed that most of the association executives do not possess sufficient managerial skills and a strong secretariat. Even to organize fairs and buyer seller meets, they depend on regional bureaus and ReSMMIDAs. There are no professional NGOs or consultancy firms which have sufficient experience in SME development and the onus of any implementation will invariably fall on state institutions. Thus, there is a need to capacitate select associations both at federal, district and cluster level besides select NGOs and consultancy firms, so as to partner with government institutions in effective leveraging of donor funds and implementation. Presence of such private institutions will also improve the reputation of the government in leveraging ODAs.

### **Listing out priority ODA programs and projects through consultative/ coordination meetings:**

Ministry of Industry and FeSMMIDA should organize sectorial and regional aid coordination conferences/ workshops periodically, where in donors will be invited along with associations, regional administrations to understand sector specific and regional specific issues and accordingly list out the areas of interest for ODA assistance. This sort of involvement of donors right from planning stage will boost their confidence.

Consultative Group meetings (CGs) may also be organized by bringing in all the bilateral and mufti lateral donor agencies operating in Ethiopia. Such full CG meets can be done every year, usually at the end of third quarter of financial year. Other than such annual meetings, informal CGs can also be organized on need basis. These meetings will provide a forum for discussions



between government of Ethiopia represented by senior officials from key government bodies including FeSMMIDA, Ministry of Trade, Development Bank of Ethiopia, development partners on economic policy issues, and its development partners. Such CGs can be co-chaired by Minister of Industries and Country Director of World Bank.

There is also a need to form Government -Donor-Association Partnership groups, under CG to give sectorial focus to inputs and to improve coordination.

All the above groups and their meetings are mainly done with the prime objective of listing out priority SME development projects and identification of likely donors and their schemes.

In fact, Vietnam leads the way in leveraging of donor funds with good RM strategies. In fact, the government has developed an ODA master plan for leveraging of bilateral and multilateral funds.

#### **Sectorial Aid Coordination Conferences – Vietnam Model**

The Vietnam ODA master plan states that “sectorial aid coordination conferences shall be organized to enhance the effectiveness in ODA mobilization and utilization based on sectorial approaches and in line with national socio-economic development strategies, sectorial development master plans and strategies, five-year sectorial development plans”.

Ministerial level agencies and sectorial management agencies take the lead in the preparation and organization of sectorial aid coordination conferences while MPI (apex council) will play a coordinating role and its co-chair.

The Core statement of ODA master plan states that “the Government of Vietnam further strengthens its leadership role in coordinating aid at all levels and the Government of Viet Nam and donors work together to share other views and to carry out more joint reviews”, through such aid coordination conferences.

In addition to the above initiatives, there are some other attempts that can be aimed at simplifying the work of donors or reducing transaction costs among donors, such as Like-Minded Donor Groups (LMDGs). This may be an ad hoc grouping of bilateral donors like US, UK, Japan, Canada, who are drawn together by a common commitment. The LDMG is based on the single donor taking the lead with pooled financing, significantly reducing the transaction costs among donors and providing faster and more flexible responses to the Government.



#### 10.4 Conclusions:

*The government needs to firm up its unified SME strategy, with a clear strong focus on donor coordination in line with increasing aid effectiveness. This will facilitate much of the government work and be certainly appreciated by the donor community.*

*In parallel to orient donors' resources to fit its priorities, the government should consider its alignment for harmonizing with international best practices for utilizing ODA and other financial assistance in order to minimize transaction costs for both Government and donors.*

*Government may not need to intervene too deeply in the work of donors. General guidelines in the field of donor coordination may yield better results than "forced directions" in coordination since donors also follow market rules.*

*There should be strong support structure framework to be developed by the government of Ethiopia and FeSMMIDA preferably developing PPP modes, for donors to accept national execution model, which means accepting government reputation in effective implementation.*

*Involvement of donor agencies right from planning and prioritizing areas of SME development through making groups, committees and collaborations always provide necessary motivation and confidence among donor community.*

*The concept of integrated/ holistic SME development approach may not be comfortable for many donor agencies as they may be keen to invest in particular areas and sectors. It is the responsibility of the government specially FeSMMIDA to understand and map donor specific interest areas and submit the proposals accordingly.*

*Associations play a vital role in sustainability of any interventions and their capacity building should be top priority for any ODA plan to be developed by the government. Association capacity building is now perceived as major RM strategy for ODA leveraging in many countries like India, China, Vietnam, and Thailand .*

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## Chapter 11

# Monitoring and Evaluation system for Implementation of planned activities and results

Monitoring and Evaluation (M&E) of cluster development programmes (CDP) need to be done for each stage of cluster development, i.e. Diagnostic Study, Trust Building, Action Plan and Implementation. It should be done both through formal processes as detailed below as also through informal tools like cluster visit, unstructured informal discussion with stakeholders, etc. The M&E given is for both natural and induced clusters.

### Monitoring

Monitoring of CDP is the process of gathering data for an on-going project during its lifetime and comparing it with corresponding targets as laid down in various formal documents like log frame, action plan, project documents . Monitoring is generally carried out on a continuous basis during the project lifetime. The framework for monitoring that appears below is meant for being done by the project team. However, summary parameters can be prepared for policy level monitoring too. Frequency of monitoring depends on the stage and length of the project. However, project level monitoring is expected every quarter and policy level monitoring is expected annually, for a 3 to 5-year cluster development project.

## Evaluation

Evaluation takes place both during the lifetime of a project and also once a cluster development project is concluded. For a 3 to 5-year CDP, it is at best carried out twice, once preferably mid-way through the project; and once after project completion.

In what follows, we present the process of monitoring and evaluation for the different stages of CDP.

### 11.1 Monitoring & Evaluation of Diagnostic Study (DS)

#### 11.1.1 Monitoring of DS

The process of DS can be sub-divided in the following stages and the corresponding tools for monitoring are as detailed in table 1 below.

**Table 11.1: Monitoring of Diagnostic Study**

	Stage	Tool for Monitoring
1	Preparedness of the team	<ol style="list-style-type: none"> <li>1. Does the team have a technical expert or is it taking the guidance of technical expert?</li> <li>2. Does the team's expert formally train in DS?</li> <li>3. Is the person who will actually carry out the study trained by an expert?</li> <li>4. Is the cluster place and product broadly (to be finalized later) defined?</li> </ol>
2	Questionnaire finalized	<ol style="list-style-type: none"> <li>5. Has an analysis of benchmark clusters and/or benchmark value chain been done?</li> <li>6. Has the available secondary literature on previous interventions in the cluster studied upon?</li> <li>7. Is there a detailed section (or separate questionnaire) for technology study?</li> <li>8. Is there a detailed section (or separate questionnaire) for market study</li> </ol>
3	Samples selected	<ol style="list-style-type: none"> <li>9. Has a broad overview of the typology of firms and their distribution done?</li> <li>10. Is the poorest type of units identified and included in sample?</li> <li>11. Has a list of informed samples (preferably cross-section) been identified?</li> <li>12. Have the different types of stakeholders been broadly identified?</li> <li>13. Have stakeholders outside the cluster (especially buyers) also identified?</li> <li>14. Is there an appropriate mix of stakeholders?</li> </ol>
4	Finalization	<ol style="list-style-type: none"> <li>15. Is an experienced expert guiding or monitoring the process for the first 7 to 10 cross-section samples?</li> <li>16. Are the answers showing the micro nature of investigation?</li> <li>17. Does a mid-way quick (one-month post study) analysis of AOBO show promise?</li> </ol>



### **11. 1.2 Evaluation of DS**

**Step 1:** Firstly, an expert should approve of the following:

1. Products and places of the cluster defined unambiguously
2. Vital statistics of the principal firms including types, number, concentration, turnover, employment and other project related variables appropriately estimated
3. Map of the cluster - area-wise concentration of firm types done
4. AOBO prepared in a way that each issue is identified to a set consisting of the following elements: thematic area, type of firm, relevant BDS type which will address this issue, set of current and likely BDS providers, to be done through joint action (and network) or passive cooperation, likely sustainable model for promotion, etc.
5. SWOT is one-to-one mapped into AOBO, value chain analysis and benchmarking exercise
6. Current pressure points and linked short run objectives for the current action plan are based on the current trust level.
7. DS is completed on time.

**Step 2:** Secondly, it should be validated by cluster stakeholders both factually and for their acceptance and commitment to the action plan and their recommendations included in the final DS Report.

## **11.2 M&E of Trust Building (TB)**

### **11.2.1 Monitoring of TB**

The process of trust building can be monitored through a co-operation matrix. Co-operation matrix represents the associations and networks of principal firms of a cluster on the vertical axis. The horizontal axis includes (a) the same associations and networks and (b) also various technical and financial stakeholders. Each non-diagonal cell represents the linkage between support stakeholders and the respective networks of principal firms. The diagonal cells (in light shades) represent the internal level of cooperation within a network of enterprises. The process can be monitored by considering two situations – status of linkage in current period (situation B) as compared to situation on some previous occasion (situation A). For trust building purpose a periodicity less than a quarter is not meaningful.

**Table 11.2: Co-operation Matrix**

Type of network	N1		N2		N3		Venture Fund		Pharma College	
	A	B	A	B	A	B	A	B	A	B
Association of firms (N1)										
Network of exporters (N2)										
Network of local suppliers (unregistered)										

The scoring for each cell can be as given in table 3 below. For further micro scoring pattern please refer to **Annex 1**.

**Table 11.3: Scoring**

Scores	Characteristics
0	No linkage, no impact on cluster
1	Poor linkage, very little impact
2	Fair linkage, some impact
3	Good linkage and significant impact
4	Very good linkage and very good impact

### 11.2.1 Evaluation of TB

The process of TB refers to creation of social capital, i.e. the governance structure of the cluster. Social capital is embodied in various formal and informal networks created and technical and financial institutions and service providers introduced or energized and their level of maturity. This can be measured by making a comparison of their active numbers and their maturity level. This process of trust building takes place either directly, that is through initial handshake activities (without any direct results), or indirectly, that is through hard core implementation, and together they ultimately result in sustainability of the cluster to implement these joint activities even beyond the Project life span.

Thus, we can evaluate the process of trust building through a Sustainability Index. Such a sustainability index worked out during mid-term evaluation will provide vital directions for taking corrective measures. Sustainability index calculated at the end of project suggests the chance that the cluster through its various networks, technical and support institutions and BDSPs will continue to promote joint actions and passive cooperation in the cluster. Thus, if sustainability index is 30, we can broadly say that there is 30% chance that the cluster will continue to promote targeted joint activities in the cluster, even after CDP programme is concluded.



### **Sustainability Index**

With regard to sustainability of efforts, it should show higher capacity in governance as described below:

- Cooperation among firms in the form of networks, joint activities, consortia, and associations;
- Cluster management/administration units that may have been created and thriving;
- New support institutions/private entities that have joined the cluster, or have been created in it
- Emergence of specialized support service providers (if missing before the intervention) and their active involvement in the development process.
- In all above cases the volume of stakeholders involved is also important.

Presence of these intermediaries in sufficient numbers and their capacity will vary over the period of intervention. Even at the conclusion of a programme of say 3-years duration by an implementing agency, these intermediaries might not mature fully.

As mentioned above, the intermediaries can be grouped into (a) networks/associations and (b) support institutions and service providers and (c) brokering institutions. In a demand driven methodology, the importance of networks/associations will be the maximum, as demand from their side will make the other intermediaries move. The support institutions like FeSMMIDA, ReSMMIDAs and the service providers will have to address those needs promptly to keep the momentum of business cooperation going. The brokering institutions will need to coordinate these mechanisms and create an atmosphere of smooth operations.

We can thus provide highest weightage to networks/associations – 60 per cent, followed by support institutions and service providers – 30 per cent and brokering institutions – 10 per cent to demonstrate their importance in the sustainability index. In each group one can divide a total weightage of 100 for that group among various group members as per their importance with respect to criticality and cluster coverage.

A weighted value of each member of a group can be derived by assigning a weightage pattern as given in annex 1. The sum total of weighted index of each group can then be further weighted by 60 per cent for the group of networks/associations, 30 per cent for the group of support institutions and service providers and 10 per cent for the group of brokering institutions. The gross value of the sustainability index will indicate the preparedness of the cluster with respect to self-governance. The higher this sustainability index the higher is the level of trust created in this cluster.

It is assumed here that all the stakeholders are covering the requisite number of principal firms as they are supposed to cover.

**Table 11.4: Sustainability Index for the Cluster ABCD**

	Weight	Score		Weighted Score	
		Jun-03	Jun-06	Jun-03	Jun-06
<b>Networks/Associations of stakeholders</b>					
Association of firms	30	3	4	5.4	7.2
Association of Start-ups	20	0	7	0	8.4
Association of mentors	10	0	4	0	2.4
Network of service providers	10	0	7	0	4.2
Network of Pharma students all over Ethiopia	10	0	3	0	1.8
Likely networks	20	0	0	0	0
<b>Total</b>				<b>5.4</b>	<b>24</b>
<b>Support Institutions</b>					
Local pharmaceutical college	5	5	6	0.75	0.9
Local R&D centre	10	3	10	1.8	3
Local medical devices college	5	2	2	0.6	0.3
Associations of venture capital fund	10	6	7	3.6	2.1
Local venture capital fund	10	0	5	0	1.5
Local BDSPs	10	0	5	0	1.5
Likely future service providers and institutions	50	0	0	0	0
<b>Total</b>				<b>6.75</b>	<b>9.3</b>
<b>Brokering Institutions</b>					
Cluster Innovation Centre	100	0	3	0	3.0
<b>Total</b>				<b>0</b>	<b>3.0</b>
<b>Grand total</b>				<b>12.15</b>	<b>36.3</b>

The weights for inter group and also intra group can be changed as per the need of the cluster. It is important that the weights which are once given for a cluster are not changed or if changed then sustainability index needs to be recalculated from the beginning. Also, the scorer needs to be pragmatic in giving scores, least as situation may arise, when the need is improving but not score to give higher score. The scoring patterns are detailed in **Annex 1**.

### 11.3 M&E of Action Plan (AP)

#### 11.3.1 Monitoring of an AP

Monitoring of an AP is to be done by simplifying an activity. Any activity, however simple, can be broken down into even simpler activities. This can be explained as follows. Let there be an activity (numbered 2.5 in AP of a year) creating a new design and linking with a buyer. This activity can be divided into various sub-activities.



1. Identification of new buyers
2. Identification of a designer
3. Discussion with them about desired products and costing
4. Agreement on cost sharing
5. Creation of networks
6. Development and selection of designs
7. Creation of production plan
8. Creation of linkage through first set of order
9. Follow-up support
10. Dissemination of learning

Thus activity 2.5 has ten sub parts. Similarly let us assume that activity 3.1 (mentioned in table 5 below) has seven sub parts out of which 1, 2, 3 were completed by September. Similarly let us assume that activity 4.1 has six sub parts and one to four have been completed by September, and sub part five will be completed by October and sub part six will be completed by November or December. Again, assuming that activity 5.1 has eight sub parts and part one and two will be done simultaneously and will be completed by February and March. Accordingly, we will have the flowing activity timeline detailing.

**Table 11.5: Activity Timeline**

		OCT	NOV	DEC	JAN	FEB	MAR
2.5	Creation of new design and brochure	12	34	56	67	8	9,10
3.1	Workshop on Technology Up gradation of Furnace	45	67				
4.1	NDA for SPV/ association	5	6	6			
5.1	Workshop on Importance of pollution abatement					1	2

In the absence of such detailing, monitoring cannot be objective. Monitoring of activity needs to be done on a monthly basis.

**For monitoring a new facility being created the following may be looked into: (If cluster stakeholders establish on their own and not by IPDC, which should be ideal case)**



	<b>Step</b>	<b>Source</b>	<b>Time</b>	<b>Competency</b>
<b>Pre- Establishment</b>				
<b>1</b>	<b>Characteristic of the SPV/ Cluster level association</b>			
1.1	Objective of the cluster building			
1.2	Composition of SPV/ cluster association			
1.3	Willingness of would be entrepreneurs in terms of fund commitment for machinery purchase			
1.4	Share of likely firms with varying turnovers			
1.5	Technical Knowledge of SPV/ association for running the cluster			
1.6	Appointment of SPV/ association manager			
<b>3</b>	<b>DPR attachments/ Permission for intent of establishment</b>			
3.1	Quotations for P&M taken from 3 reputed suppliers			
3.2	Civil estimates taken from Govt. approved person			
3.3	Soil testing report taken			
3.4	Land Development done			
3.5	All permissions obtained for build and operate			
3.6	Availability of water			
3.7	Availability of electricity			
3.8	Availability of labor locally			
3.9	Contribution of SPV/ cluster association deposited			
<b>4</b>	<b>DPR Technicalities</b>			
4.1	Competitors identified			
4.2	Competitor services and pricing analysis done			
4.3	Details of raw material sourcing included			
4.4	Capacity utilization measured			
4.5	Land Cost (within the prescribed limit)			
4.6	Provision for compound wall			
4.7	Availability of skilled manpower justified			
4.8	Contingencies (as per the guidelines)			
4.9	Miscellaneous Fixed Assets included			
4.10	Preoperative Expenses included			
4.11	Insurance Cost (Insurance+ Freight +CIF +VAT +Correction)			
<b>Establishment</b>				
5.1	Advertisement in newspaper for civil construction			
5.2	Procurement norms (e-tender, region rules, history) for civil work			

5.3	Civil Tender Completion and work order issue			
5.4	Civil work completion			
5.5	Advertisement in newspaper for supply of plant and machinery			
5.6	Procurement norms (e-tender, regional level rules) for plant and machinery			
5.7	P&M tender process completed and work order issued			
5.8	Inspection of machinery before shipment to CFC site			
5.9	Installation of machinery			
5.10	Joint inspection of the CFC site by FeSMMIDA, IPDC and Regional Administration			
<b>Post Establishment</b>				
8.1	Role of Project Management Consultant If any)			
8.2	Operation and Management Policy Defined			
8.3	Recruitment of manpower			
8.4	Break even attained			
8.5	Annual surplus			
8.6	Capacity Utilization (%)			
8.7	Maintenance			

### 11.3.2 Evaluation of Action Plan

Evaluating the action plan will not only help in understanding the progress of activities, it will also help in verifying realization of the immediate output as per the annual action plan, identifying the successful implementing agencies and their respective areas of operation (implementing agency and activity name), the participating and non-participating institutions (support institutions involved). Various new activities will surface (fall outs) and previously identified joint activities or proposed areas of primary co-operation will drop out as they turn out to be of little use. This will help to identify and help prepare the cluster for likely problems (problems faced).

**Table 11.6: Status of action plan**

S.No. as per AP	Activity name	Completed/Moving as per time	Numbered networks involved	Number of technical institutions involved	Number of new joint actions identified
1					
2					
3					
4					
5					

**Note:** AP = Action Plan, UP = Un planned, there are 5 planned and 3 unplanned activities in this quarter



Once the table is created, the action plan can be evaluated based on:

- a) Percentage of planned activities carried out and moving as per time, the higher the better.
- b) Number of actual as against planned involvement of technical institutions and networks the higher the better.
- c) Number of new joint actions identified, the higher the better.

Evaluation of action plan can be done annually. Based on these inputs the action plan for the next year can be made more practical with higher realization of planned activities.

#### **11.4 M&E of Implementation**

This needs to be done for (a) output and outcome, (b) expenditure and (c) system in place

##### **11.4.1 M&E of Output/Outcome**

M&E of output and outcome needs to be done for targeted outputs and outcomes as written in the log frame or action plan or any other standard project related document. This needs to be done quarterly for output and annually for outcome. Table 7 describes a sample case, where firms are expected to benefit from innovation related intervention. The parameters can change depending on project targets.

**Table 11.7: Quarterly/Annual Project Output/Outcome**

Activities (for this month only)	Unit	No. of firms benefited	
		Target	Actual
<b>Output</b>			
Exposure visit			
Training			
Innovation awards done			
Firms linked to schemes			
Start-ups created			
Start-ups linked			
Networks created			
Business plan competitions done			
Number of new facilities created			
<b>Total</b>			
<b>Outcome</b>			



Increase in employment		
Increase in turnover		
Innovations done		
Technology transfer done		
Persons benefited		
Technology developed/promoted		
Capacity utilisation of new facility		
Technology marketed		
Productivity increased		
Pollution reduction		
<b>Total</b>		

#### 11.4.2 M&E of Expenditure

Apart from monitoring output and outcome, there is a need to monitor desired level of expenditure as detailed in the following tables. Monitoring needs to be done every month. Evaluation can be done annually or during project mid-term and also at the end of the project.

**Table 8: Monthly/Annual/Mid-term/End of Project Expenditure Table**

S. No	Activity	Amount Spent (Value in Rupees), Period							
		<i>Promoting Agency</i>		<i>Cluster Stakeholders</i>		<i>Support Institutions</i>		<i>Total</i>	
		<i>T</i>	<i>A</i>	<i>T</i>	<i>A</i>	<i>T</i>	<i>A</i>	<i>T</i>	<i>A</i>
1									
2									
3									
4									
5									
UP1									
UP2									
UP3									
	<b>Total</b>								

Note: 1. AP = Action Plan, 2. UP = Unplanned, 3. There are 15 planned and 10 un-planned activities in the quarter, T= Target and A= Actual



#### **11.4.2 M&E of System in Place**

Similarly, one also needs to monitor as to whether the system that is to implement the project is in place or not. This also needs to be done every month for monitoring and its trend value can be used for evaluation purposes. This is detailed in table 9 below:

**Table 11.9: Monthly/ Quarterly Systems in Place**

<b>SI No</b>	<b>Issues</b>	<b>Status (Yes/No)</b>
1	CDA trained in CDP methodology	
2	CDA visiting the cluster as per plan	
3	Network Expert trained in CDP methodology	
4	Network Expert working full time for the CDP	
5	Network Expert stationed in the cluster	
6	Subject Expert visiting the cluster as per plan	
7	TA/ ReSMMIDA/ Bureau visiting cluster as per plan	
8	Facilitating agency has independent office	
	<b>Overall: Structure in place (Yes, if all are yes, else NO)</b>	



**Sustainability Index**

**Allocation of weightage among groups**

1. Enterprises: 60%, to be sub-divided according to importance (criticality/coverage) among, e.g. consortia, self-help groups, associations, etc.
2. Support institutions/service provider: 30%, to be sub-divided according to importance (criticality/coverage) among, e.g. technical/financial institutions, an BDS providers
3. Brokering Units: 10%, to be sub-divided according to importance (criticality/coverage) among, e.g. coordination body, umbrella organization, etc.

**Allocation of score for an intermediary in each group**

*1. Enterprises' Representatives*

Score	Features
0	Not existing
1-2	Just established and/or dormant
3-4	Regular meetings being held; discussions on provisional agenda; limited commitment of funds by participants; office bearer selected
5 - 6	Short-term agenda endorsed by members; some activities started under near complete support of implementing agency (financial and/or technical); positive feedback form members that increasingly contribute financially; growing membership
7 - 8	Medium-term agenda endorsed by members; overall activities partially sustainable financially; capacity to network with support institutions/BDS providers without implementing agency support; target membership achieved
9 - 10	Full financial sustainability; complete endorsement of cluster development approach; long-term agenda endorsed by members; full networking capacities; participation in coordinated cluster-wide activities



*2. Support/Service Providers (FeSMMIDA, ReSMMIDA, IDPC, Bureau, TVETS etc.)*

Score	Features
0	Not existing locally; totally detached from potential consumers
1 - 3	Provider created locally; preliminary discussions with potential customers coordinated by UNIDO
4 - 6	Pilot services along new format launched; significant funding support from implementing agency; feedback form users acknowledged as guide for further customisation of services
7 - 9	Pilot services turned into routine and increasingly sustainable commercially; autonomous networking for funds/expertise; new services launched on a regular basis
10	Fully endorses cluster development approach; high demand among customers, fully proactive with other local support institutions; investment of own funds for cluster development, open to introduction of new services

*3. Brokering Institution*

Score	Features
0	Not existing
1 - 3	Preliminary interactions with CDA; limited interactions with cluster actors
4 - 6	Coordination of pilot activities under CDA guidance; linkage with sponsors through implementing agency; linkages with policy makers established
7 - 9	Autonomous dialogue with policy-makers and support institutions; legitimised with majority of cluster actors
10	Fully acknowledged as coordinating agent by most cluster actors; economically sustainable and own contribution to cluster development; long-term coordination capacities created; fully competent on cluster development methodology.

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## Chapter 12

### Selection criteria of SMEs

#### 12.1 Selection Criterion for identification of potential SMEs to fit in to clusters

Selection criterion for SMEs to fit in to a particular cluster/ industrial park may vary to some extent from sector to sector and region to region. While presence of technocrats, prior experience is more important in knowledge-based clusters like pharmaceuticals and mining, strong linkage with exporters, quality of products may be important criterion for export-oriented clusters like leather shoes, minimum net worth capabilities of promoters, degree of innovation may be major criterion for handicrafts and handlooms. Similarly, to be a part of vertical integration may be a criterion for SMEs in urban regions with complex value chains and being horizontal may be for ancillary units and degree of employment potential for rural based clusters. However, there is no dispute that there should be certain set of criteria for selection SMEs in cluster development approach especially when clusters are going to be induced in a big way in countries like Ethiopia.

Following are the criterion for selection of SMEs to be a part of Ethiopian clusters, carefully chosen based on the type of sectors and local dynamics:



**1. Whether the enterprise fit in to SME definition:**

The first and foremost criterion is whether the enterprise to be selected really fits into SME definition as given by government of Ethiopia. The recent model adopted in Ethiopia is:

**Table No: 12.1 SME classification as per GTP II**

<b>Size/ Category</b>	<b>Employment</b>	<b>Assets (in ETB)</b>
<b>Small</b>		
<b>Manufacturing</b>	Between 6 to 30	Between 100000 to 1500000
<b>Service</b>	Between 6 to 30	Between 50000 to 500000
<b>Medium</b>		
<b>Manufacturing</b>	Between 31to 100	Between 5000001 to 75000000
<b>Service</b>	Between 31to 100	Between 500001 to 75000000

During the field survey it is observed in many regions that some of the micro enterprises are not even having 3 full time workers and still got approval for their request for allotment in clusters, which actually falls under micro category. Similarly, in some regions, there are a few tanneries and readymade garment units, whose investment is more than 7.50 million ETB, but still accommodated in the cluster structures as small/ medium enterprise. In fact, some of these units are now complaining that the space given to them is not sufficient and planning to move out. In one such case at Bahir Dahr, the garment unit has taken 2 floors for not only making traditional garments but also established a huge handloom unit as backward integration and is still complaining that the space is insufficient and kept lot of machinery idle. Such large units need to be avoided in cluster structures meant for SME units, as it will deprive the space for deserving ones.



## **2. Duration of lease:**

At present the maximum duration of stay by an SME in cluster structure is 5 years, and if they need an extension, they need to re-apply. However, such minimum period can be extended to 15 to 20 years, which is a common practice in many countries like India and China. It was also observed in some instances that, few medium units after operating for a year or two are shifting their base citing that the space given is not sufficient. Such instances are a demotivating factor for other small enterprises in the cluster, as they depend heavily on job works from the medium enterprises. As such there should also be a penalty clause, if any SMEs desired to move out of cluster structures, without proper justification. There should also be a severe penalization for SMEs, which are misusing the given space either by informally letting out to another entity or doing other businesses not mentioned as per the lease contract.

SMEs which assure longer duration of stay and committed to use the space for the business purpose, for which it is allotted, should be given priority.

## **3. Multiplier Effect:**

In every sector and region, there may be key players who can be given priority. The success of SMEs floated by such key persons will have multiplier effect and may encourage more and more potential SMEs to be a part of the cluster. This is especially the case with artisan-based clusters, where degree of influence by individual key persons will be very high. However, caution must be taken to assess their potential to make the SME a successful one, which otherwise will have negative multiplier effect and may prevent others to be a part of the cluster. **“If he cannot how can we”** attitude is very high in small and artisan clusters.

## **4. Adoptability of SME for Cluster Concepts:**

In a cluster approach SMEs cannot work in isolation and they are expected to share knowledge, cooperate among each other on need basis, willingness to be a part on any networks (like raw material/ marketing consortia)/ cluster level association, ready to contribute for any common interventions, be it soft or hard. So, the enthusiasm and commitment of an SME to be a part of cluster development process need to be assessed. Any trouble makers need to be spotted at the beginning and avoided to be a part of cluster.



**5. Entrepreneurial capabilities of SME promoters:**

Assessment of the financial and operational management skills of SME promoters is an important criterion. The past experience in the identified sector, previous establishment and management of such units must be given priority. In some of the developing countries like India and Thailand, undergoing Entrepreneurship Development Program is mandatory prior to considering them to be a part of any Cluster Development Project or availing any public support schemes. For technology and knowledge intensive clusters like pharmaceuticals, chemicals, mining, priority will be given to those SMEs, which were floated by technocrats, with relevant educational background and past working experience. If SME promoters are not technocrats, the next best option is appointment of a technical person with strong experience in relevant field as in-charge of operations. SMEs promoted by persons with low entrepreneurial skills and lack enough experience and technical background in relevant sector should be given least preference.

**Preference needs to be given to those entrepreneurs who have clear-cut short term and long term plans and objectives in planning, establishment and management of the unit.**

**6. Financial strength of the promoters:**

It is a known fact that financial resources among SME unit owners are scarce and heavily dependent on credits and subsidies. However, instances of high success among SMEs, which received 100% subsidy in allocation and establishment of units in Industrial agglomerations is very rare. For example, in India there are schemes for handloom and handicraft artisans to establish/ upgrade their units and to be a part of cluster and avail benefits like common facilities where 100% of the investment is borne by the Government. However, success of such schemes is very low as sustainability of such SMEs post establishment has become a challenge as they cannot manage working capital and meet market demands (such as credit facility for buyers). Thus, government of India now is seeking minimum investment of 25 to 50% from SMEs in most of its development initiatives. Net worth of each SME/ its owner will be assessed before making them a part of cluster/ scheme.

**7. SMEs with proven track record:**

If any SME was already allotted land elsewhere and they have fully utilized the space, made the unit viable and now applying for another unit, higher weightage should be given to such SME promoters, as they have proven track record in making the projects viable. In India under various industrial park schemes, 10% weightage is given to SMEs which have proven track record in utilization of space already allotted and are applying now for expansion.



**8. Whether SME can be fit in to part of integration (Vertical/ Horizontal):**

In economic theory there are two types of business entity integration: horizontal and vertical. Cluster environments may include both types of integration—companies producing the same products are interconnected as well cooperating with the suppliers and supporting entities.

When the government plans to form a cluster for engineering units, which are catering to large mother units, an SME must fit in to such integration. The presence and concentration of large organizations in a location attracts ancillary enterprises, infrastructural amenities and clusters aimed at leveraging on the synergy and economies of scale to sustain their continued existence, innovation and growth. Horizontal integration strategy is a set of coherent, long-term objectives and action programs aimed at identifying and exploiting interrelationships across distinct but related SME units. Under such circumstances the criterion for selection of SMEs is:

- Their strong willingness to be a part of horizontal network of ancillary units, catering to mother units. For example, if a mother unit gives a bulk order, should SME be willing to be a part of network/ consortium of units to execute a part of such order?
- The degree of specialized skills, the SME possesses so as to withstand competition from other horizontal units
- Strong resource (human and financial) commitment to execute orders/ part of the orders given by mother firms, which otherwise may affect the entire network.

Similarly, when we are planning agglomerations for mining or pharma sector, vertical integration is important as collaboration between buyer and supplier has increased in recent years to become a natural part of the operations of any company that develops complex products. The direction of vertical integration recognizes two different ways of adding value to the inputs and outputs of the firm, respectively: backward, which means getting closer to suppliers by incorporating into the firm a given input to the current core; and forward, which involves a greater proximity to customers by putting a given output of the core under the firm's umbrella. These two forms of vertical integration are sometimes referred to as upstream and downstream extensions. The major criterion for selection of MSMEs here are:

- Is the unit expecting high cost reduction? (cost to internalize economies of scale and scope, and avoid transaction costs from imperfect markets)
- Whether SME expects defensive market power? (provides autonomy of supply or demand, as well as protection of valuables assets and services)
- Or offensive market power (allows access to new business opportunities, new forms of technology, and differentiation strategies)



- Any administrative and managerial advantages expected? (arising from a more simplified managerial infrastructure when basic tasks are brought inside as opposed to left outside the firm)

If any SME is not interested in any of the above results to be a part of the cluster initiatives and want to self-intervene to achieve said results, such SMEs need to be avoided to be a part of the cluster.

#### **9. The degree of innovation:**

In highly competitive sectors like handicrafts, handlooms, leather products, the degree to which SME is capable enough to innovate in terms of design, technology, market positioning, value addition, product diversification must be an important selection criterion. Strong rivalry among firms in such clusters either breeds imitation or innovativeness in the long run, though this is moderated by available factors and local demand conditions. Only those SMEs, which are innovative, will sustain in the long run and those which try to thrive on imitation of products made by others will collapse. The SME should have strong urge to move from imitative, low quality products and services to competition based on differentiation and product innovation. SMEs with outdated machinery, equipment and obsolete technology need to be given least priority.

#### **10. Reservation for certain segments:**

SMEs promoted by women, ex-servicemen, tribal people can be given priority by reserving certain percentage of accommodation in clusters, in order to meet certain social inequalities and encourage youth participation in military services. In India, in most of the industrial parks, 10% of total plots will be reserved for women, ex -servicemen and tribal people. They will also be given more grants/ subsidies in establishment of units. For example, under Prime Minister Employment Generation Program (PMEGP) Scheme, which is to encourage start-ups in rural areas, 25% of total project cost will be given as back end subsidy for general micro entrepreneurs, whereas for women, minorities, ex-servicemen and tribal people, 35% of project cost will be given as grant.

#### **11. Degree of eco friendliness:**

The SMEs which follow eco-friendly production process/ technologies, adopt proper effluent treatment methods, willing to use alternative energy resources like solar, use eco-friendly dyes and colors (in case of handicrafts and handlooms), should be given priority in selection process. The higher the presence of SMEs which don't follow green standards, the more will be the unrest from nearby residential areas and threat of closure of entire industry. This is the



major problem in many of industrial agglomerations not only in developing but also in developed countries like USA and Italy. In fact, in countries like Thailand, China and India first priority will be given for SMEs which follow eco-friendly norms. In India 10 to 30% of plots/ work sheds are reserved for green category SMEs in industrial parks and induced clusters. In fact, submission of entire production process is mandatory prior to allotment of land/ Work shed.

**12. Type of market segments SMEs are catering to:**

Selection of an SME in a particular cluster/ industrial park will also depend upon the type of market it is catering to and the purpose for which the cluster/ park is induced in such region. For example, in Addis Ababa Leather Export Processing zone, any SME, which is catering to export markets, will be given top priority with little/ no priority for SMEs catering to domestic markets. Similarly, allotment of land to an export-based SME in a semi urban/ rural based cluster/ park may not yield desired result, because when the value chain of any SME is totally different, it may not have requisite backward and forward integration facilities with in the region of agglomeration, leading to poor economies of scale. Many at times it is observed in developing countries that SMEs will try to opt for industrial parks where cost of land is cheaper, grossly ignoring other important factors like presence of forward and backward linages. Such allotment may also lead to backlash from SMEs catering to domestic markets as they are deprived of such privileges. Similarly, extent of market/ work orders in hand, past experience in marketing of chosen products can also be given weightage in allotment.

**13. Quantum of land requirement:**

Scarcity of land is a major hurdle in majority of urban/ semi urban clusters. So, one important selection criterion can be priority for SMEs, which require limited space. This is especially the case when number of applicants is more and plots are limited. In industrial parks in China and India, where availability of land is a major concern within/ surrounding many of urban areas, 10 to 20% weightage is given for SMEs which require less space.

**14. Nativity may be a criterion:**

Considering nativity as one of the criterion is a double-edged sword. On the one side every country is striving for foreign investments as they will bring in forex, new technologies and products, however on flip side there may be a backlash from SMEs promoted by natives, if priority is not given in allotment of plots/ work sheds in induced clusters/ industrial parks. Such balancing is becoming a major bottleneck in many developing countries. However, nativity may be given due weightage at regional/ rural areas and artisan specific clusters, where penetration of foreign investors is any way poor as they are mainly interested in settling around urban areas and high-end sectors like leather, pharmaceuticals etc.



**15. Employment Intensity:**

The size of employment that SME can generate, may also be the criterion with specific reference to clusters/ agglomerations related to capital intensive sectors like Construction, Textiles and Chemicals. The more the employment the more the weightage. However, such criterion may not hold good for artisan-based clusters like handicrafts and handlooms, where more than 90% of SMEs are household units.

**16. Willingness to share cost of hiring BDSPs with other SMEs in the cluster:**

BDSPs are very important for sustainable development of any industry. However, hiring of services of most of the BDSPs, be it designers, marketing/ finance consultants, GMP/ GAP practitioners, quality, energy & environment consultants is very expensive and beyond the reach of individual SMEs. So, SMEs need to share cost of hiring such BDSPs. For example, in India there are schemes for hiring of lean/ quality consultants, where in groups of 10 to 15 SMEs have to come forward and form an SPV. The Government of India then finances 75% of cost of hiring such BDSPs on group mode. However, in some of the clusters in India, few SMEs are unwilling to be a part of such networks fearing that their business secrets will be revealed and shared among competitors, this is in spite of BDSP's willingness to enter in to confidentiality agreement. Such behavior from SMEs may trigger collapse of trust, may demotivate other potential SMEs for any future cooperative initiatives. So willingness of SMEs to share BDSPs, is very important criterion with specific reference to artisan and micro enterprise dominant clusters.

**16. Presence of basic documents with SMEs:**

SMEs are expected to maintain certain documents and statutory clearances, which are not only required as per Government of Ethiopia norms, but also required by buyers. For example, certificate of incorporation/ investment certificate, Tax Registration Certificate (TIN), VAT registration (if transactions within calendar year are more than 500000 Birrs) are some of the obligatory requirements, which SMEs are expected to possess. Similarly having Export Authorization Certificate from the Quality and Standards Authority of Ethiopia, Export permit by commercial banks are few documents that international buyers expect SMEs should possess. This is especially the case with export dependent sectors/ clusters like leather shoes, coffee and rubber. Thus, if an SME is willing to be a part of a cluster, formal registration of the unit and having necessary documents should be made mandatory. In India most of the cluster schemes are now insisting that all the SMEs including artisans have to be formally registered with Ministry of MSME and obtain Udyog Aadhar (business identity) number. Any SME, which does not possess such UA number cannot become a beneficiary in any of public support schemes. Such registration will also help Central Government to maintain proper data base of MSMEs at country level.



**17. Sustainable Consumption and Production (SCP):**

SMEs willingness to follow SCP norms is one of the important criteria for selection of SMEs in any public support schemes followed in European Countries. Even in developing countries like India, Bangladesh, Thailand, Vietnam are now rigorously implementing SCP norms in MSMEs.

SCP is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and better quality of life for workers. Its implementation helps to achieve overall development plans, reduce future economic, environmental and social costs, strengthen economic competitiveness of MSMEs. Increasing net welfare gains from economic activities by reducing resource use, degradation and pollution along the whole life cycle, while increasing quality of life are the basic aims of SCP.

How far an SME is willing to adopt safety standards, provide occupational Health welfare measures to workers, implement energy efficiency measures which are part of SCP can be a selection criterion cutting across the sectors and regions.

**Table No. 12.2: Criterion for selection of SMEs in Industrial Parks/ Induced Clusters followed by AP Industrial Infrastructure Corporation, a provincial industrial development body in India:**

Sl. No.	Criterion	Weightage (in %)
1	Women, Minorities, Tribal People	10
2	Land Losers (Person who lost land because of establishment of industrial Park/ induced cluster )	10
3	EDP Trainees	5
4	Experience in field / technocrat	15
5	Project Investment (net worth of the promoters)	10
6	SME Generating employment	10
7	Innovative line of activity	10
8	Land Sort for expansion	10
9	Green Category SME	10
10	Quantum of Land required	5
11	Nativity of SME promoters	5
12	<b>TOTAL</b>	<b>100</b>



12.2 Conclusions:

- *The problem of competition among SMEs to apply for cluster structures is more rampant in Addis Ababa and other major cities, where as in sub cities, Woredas and Kelebls, in many places, the existing spaces were not even filled. In rural areas, space is not a constraint but access to markets and inputs are major bottlenecks.*
- *For many medium enterprises owning a space is not a constraint as they have financial resources, still they apply and getting allotment in cluster structures, as the lease premises are very cheap compared to buying land. Such greedy entrepreneurs need to be discouraged, which otherwise may send wrong signals to deserving SMEs.*
- *The major criterion should be whether SMEs to be slotted in a particular cluster are willing to cooperate with each other or not, as trust is the major factor for sustainable cluster development.*
- *Value chain approach of cluster development is very important as principal firms of any cluster cannot work in isolation, as such, authorities need to ensure that a part of each induced cluster is allotted to raw material suppliers, machinery suppliers, trader, BDSPs, so as to complete the value chain.*
- *Present criterion of five years lease duration is too short and it needs to be enhanced to minimum of 15 years to attract committed and potential SMEs into induced clusters. Every SME may not be in a position to grow to next level with in such a short duration so as to relocate them into an industrial park, which is a norm now. This is especially the case in backward regions and traditional sectors like handlooms, traditional garments, where lead time to grow significantly may be 10 to 15 years. The limited period of stay in the government created clusters (a maximum of 5 years) also raises a question of how enterprises would be able to maintain their market linkages with input suppliers and output buyers, when they move to another location after the five-year period.*
- *Overall any selection criterion to be used must be practical, SME friendly and need strong evaluation mechanism post establishment of cluster structures for their long-term sustainability.*

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- Selection Criterion of AP Industrial Infrastructure Corporation, [www.apiic.in](http://www.apiic.in)
- Paper on GTP II, Federal Government of Ethiopia
- Promoting responsible business by BMOs, a book published by FMC
- Fostering business responsibility in clusters book published by FMC



## Chapter 13 Case Studies

**Given as separate Volume**