

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA  
MINISTRY OF TRADE AND INDUSTRY**

**MICRO and SMALL ENTERPRISES  
DEVELOPMENT STRATEGY**

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## Short Summary of chapter 2 and 3

### Chapter 2: Objectives and Principles of the Strategy

- **Objectives:**
  - Overall objective:  
create an enabling environment for MSEs
  - Specific objectives:
    - Facilitate economic growth
    - Bring equitable development
    - Create long-term jobs
    - Strengthen cooperation between MSEs
    - Provide the basis for medium & large-scale enterprises
    - Promote export
    - Balance preferential treatment between MSEs & bigger enterprises
- **Fundamental Principles:**
  - MSEs operate under ADLI strategy and market economy principles
  - Government committed to develop MSEs via support services
  - Support given on cost sharing basis (short-run) and on fee basis (long -run)
  - Emphasis given to advancement of women
  - Training & skill upgrading to staff of MSE support institutions vital
  - Private sector expected to play important role in the supply of commercialized services for MSEs
  - Regional State recognizes the diversity of legal and organizational forms
  - Principles underlying this strategy are not static.
- **Stages of Strategy Formulation and Implementation:**
  - Awareness creation
  - Needs identification and implementation planning
  - Resource identification
  - Training of the agency staff
  - Strengthening the business and entrepreneurial culture
- **Criteria for Prioritizing MSEs for support:**
  - Local resource based
  - Intra and inter sectoral linkages
  - MSEs- import substituting or potential for exports
  - MSEs engaged in or facilitating tourism
- **Targeting Support Measures and Beneficiaries:**
  - Small manufacturers in food, textiles, leather, clothing metal works, crafts, etc.
  - Self employment (focus on school leavers, disabled and unemployed youth)
  - Start-up and expanding firms (focus on women-owned)
  - Small enterprises in nomadic and disaster areas
  - Agro-business and small scale farming and fishing
  - Small builders/contractors
  - Small exporters
  - Small-scale tourism operators

### Chapter 3: Elements of MSE Support Framework:

- **Creating & Implementing an Enabling Legal Framework**
  - A Law on Institutional Arrangement for MSEs
  - Interlinkage Promotion Law
  - Cooperatives Promotion Law
  - Chamber of Industry and trade Proclamation
  - A Micro and Small Enterprise Finance Proclamation
  
- **Streamlining Regulatory Conditions (Establishing user-friendly environment for the simplification and standardization of documents such as the following:)**
  - Business registration and licensing
  - Financial and loan application
  - Purchasing and sub-contracting (tender) document
  - Export documentation and other commercial documents
  - Registration of contracts with municipalities
  - Authentication of contracts at notary public
  - Simplified tax declaration forms for small businesses
  
- **Other Specific Support Areas/Programs**
  - Facilitate access to finance
  - Incentive schemes
  - Encouraging partnerships-Training in entrepreneurship, skills and management
  - Access to appropriate technology
  - Access to market
  - Access to information and advice
  - Access to physical infrastructure
  - Institutional strengthening of private sector associations & chambers

## **Introduction**

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs.

The strategy paper is organized into six distinct but interrelated parts. Part one gives an overview of the MSE sector, its diversity, role and contribution to the economy and the main constraints facing the sector. This section highlights the findings of the recent survey conducted by the CSA.

According to the survey, over 89% of the informal sector operators are concentrated in manufacturing, trade, hotel and restaurant activities. Of the small scale manufacturing industries 85% are engaged in the manufacture of food, fabricated metal furniture and wearing apparels. The survey also revealed that the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments.

The survey also indicated that the increased role and contribution that the MSE sector could have provided to the national economy is largely constrained by the various policy, structural and institutional related problems and bottlenecks. Lack of smooth supply of raw materials and working premises were reported to be the major bottlenecks facing small scale manufacturing industries, while lack of sufficient capital and working premises were the leading problems of the informal sector operators to start their businesses.

Part two presents the key objectives and fundamental principles that underpin the national strategy and its different elements. The primary objective of the national MSE development strategy is to create an enabling legal, institutional and other supportive environment for the growth and development of MSEs.

In order to achieve this objective, fundamental principles that should be adhered to are also indicated in the section. The fundamental principles emphasize the advancement of the most vulnerable group of the society (the women), the provision of support services on fee basis, and training support needs.

Due to the vastness and complexity of the sector and the limited financial and human resources available for the support programmes, this section also discusses the need to focus on specific target beneficiaries. In principle, selecting target beneficiaries is left for each region to set its own criteria depending on its own

development priorities. However, MSEs, which are based on local raw materials and labour intensive technologies, which have greater sectoral linkage, those engaged in import substitution and with a potential for export and those engaged in tourism activities are indicated to serve as important yardsticks to select the beneficiary MSEs.

Part three of the strategy covers all the elements of support programmes considered necessary at federal, regional and local levels, with the private sector, business associations, NGOs, and parastatals as important implementing agencies parallel to the various government structures.

The elements of the support programmes include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the coming up of new and expansion of existing MSEs. In addition, the specific support programmes also include measures related to facilitating access to finance, provision of incentives, promotion of partnerships, training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers.

Part four outlines the institutional arrangements required for the implementation of the strategy. In this section, institutions which will be responsible for the implementation of the strategy, at federal and regional levels are indicated (existing and new ones). It is also indicated that a board shall be established at federal and regional level with members comprising relevant public and private sector institutions and prominent individuals that have the know-how and experience on the sector.

## **PART ONE**

# **AN OVERVIEW OF THE MICRO AND SMALL ENTERPRISES SECTOR IN THE ETHIOPIAN ECONOMY**

### **1.1 Size and diversity of the sector**

- 1.1.1 The sample survey, conducted in 48 major towns, by the Central Statistical Authority (CSA), in May 1997, showed that there are 584,913 and 2,731 Informal Sector activity operators and Small Scale Manufacturing Industries respectively, that absorb 739,898 labour force.
- 1.1.2 The survey revealed that a micro enterprise on an average engages one person, and the average annual operating surplus is about birr 1300.
- 1.1.3 Regarding the diversity of the informal sector activity (Micro Enterprises), the survey indicated that a large number of informal sector operators are concentrated in a limited area of activities, i.e., 47% in manufacturing, 42% in Trade, Hotel and Restaurant activities, about 6% in Community and Personal services and the rest 5% are involved in Agriculture, Hunting, Forestry & Fishing, Mining & Quarrying, Construction and Transport activities.
- 1.1.4 On the other hand, the survey on Small Scale Manufacturing Industries showed that the small manufacturing industries are mainly engaged in the manufacture of food, fabricated metal, furniture, and wearing apparels. These sub-sectors constitute more than 85% of the surveyed small scale manufacturing industries.
- 1.1.5 The small scale manufacturing sector engages, including owners, on average 3 persons per industry and the average employee per industry is 2 persons, while the average annual wage per employee is birr 1914. The average operating surplus per industry is birr 18,934 which shows that income generated by the small manufacturing activities is much better than those engaged in the informal activities.
- 1.1.6 The average capital per Informal Sector activity during the survey period is birr 3,528 while the average capital per Small Scale Manufacturing Industries is found to be birr 38,354.
- 1.1.7 As highlighted above, the MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job

seekers and self-employment a direct intervention and support of the government is crucial. Hence, in order to channel the support facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

1.1.8 The Central Statistics Authority for the purpose of its survey on Urban Informal Sector Activity Operators and Small Scale Manufacturing Industries has set a definition on different sectors, viz., Informal Sector, Cottage/Handicrafts, Small-Scale Manufacturing Industries, and Medium and Large Scale Manufacturing Industries.

1.1.9 The Authority based its definition on size of employment and automation for small, medium and large-scale enterprises and a combination of criteria for informal sector operators. However, this definition could possibly incorporate some capital-intensive establishments, which could fall solely under medium or large-scale categories. Thus, in order to exclude those capital intensive enterprises which will not be entitled for the support services and address the real target MSEs, it is advisable to use a definition that can take this into account. Hence, a definition that is based on capital and which takes into consideration the level of technical and technological capacities is adopted.

1.1.10 Since there are limited resources available to address all the needy enterprises, it is also recommended to narrow the definition at this stage and expand it later as resources permit. Thus the following definition is used to categorize the sector for the purpose of this strategy at this stage.

1.1.10.1 **Micro Enterprises**<sup>1</sup> are those small business enterprises with a paid-up capital of not exceeding birr 20,000, and excluding high tech. consultancy firms and other high tech. establishments.

1.1.10.2 **Small Enterprises** are those business enterprises with a paid-up capital of above 20,000 and not exceeding birr 500,000, and excluding high tech. consultancy firms and other high tech. establishments.

## 1.2. Role and contribution of the sector

1.2.1 In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the

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<sup>1</sup> Due to the similarity of their characteristics, informal sector activities and micro enterprises are often lumped together and in this strategy, they are also treated as micro enterprises.

skill and talent of the people without requesting high-level training, much capital and sophisticated technology.

- 1.2.2 The Micro and Small Enterprises sector is also described as the national home of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain their goals. In all the successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress at large.
- 1.2.3 The small business sector is also seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development.
- 1.2.4 While the importance of large industrial and other enterprises for the growth of the Ethiopian economy can not be denied, there is an ample evidence that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing our country.
- 1.2.5 According to the result of the sample survey mentioned above, the whole labour force engaged in the Informal Sector activities and Small Scale Manufacturing Industries is more than eight fold (739,898 persons) to that of the medium and large scale manufacturing industries (90,213 persons<sup>2</sup>).
- 1.2.6 Moreover the Informal and Small Manufacturing sector contributed value added of Birr 8.3 million in 1996. Based on the 1992/93<sup>3</sup> data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year.

### **1.3. Constraints facing the sector**

- 1.3.1 In most developing countries, small businesses face a wider range of constraints and problems and they are unable to address the problems they face on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environments, access to markets, finance, business information, business premises (at affordable rent), the acquisition of skills and managerial expertise, access to appropriate technology, access to quality business infrastructure, and, in some cases discriminatory regulatory practices.

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<sup>2</sup> Survey of Manufacturing and Electricity Industries (1994/95)

<sup>3</sup> Statistical Abstract 1995

- 1.3.2 In Ethiopia's situation, since there have not been any organized policy and support systems that cater for the sector, MSEs have been confronted by various problems which are of policy, structural and institutional in nature. To start with, lack of smooth supply of raw materials and lack of working premises were the major bottlenecks for small scale manufacturing industries to commence their activities. On the other hand, lack of sufficient capital and working premises were the leading problems facing the informal sector operators from the start.
- 1.3.3 Serious marketing problems, shortage of supply of raw materials, lack of working capital are the first and most pressing problems facing small manufacturing industries for not expanding their businesses. Whereas lack of capital, market and working premises are affecting informal sector operators not to expand their businesses.
- 1.3.4 For instance, the result of the survey on Urban Informal Sector activities showed that out of the 584,913 Informal Sector Activity Operators, about 50% replied that their first major difficulty when starting their operation was lack of sufficient initial capital. According to their responses, this problem has become more critical when they intend to expand their businesses.
- 1.3.5 Alike the informal sector operators, out of 2,731 Small Scale Manufacturing Industries covered by the survey, about 36% have replied that their first problem when starting their operation was lack of sufficient initial capital.
- 1.3.6 Although the economic policy of the country paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment, and many others, which therefore need proper attention.

## **PART TWO**

### **OBJECTIVES AND PRINCIPLES OF THE STRATEGY**

The need for a well established national strategy for MSEs should follow from the prevailing situations of the sector in Ethiopia. Currently, there is an urgent need for a national strategy framework and coordinated programs at Federal, Regional and Local levels to address the issue of MSEs. Such a national framework is also a precondition for setting up priorities and appropriate allocation of scarce government resources. Furthermore, the framework will facilitate and distinctly articulate the delegation of tasks and responsibilities concerning MSE support among all stakeholders and the channeling of government resources.

#### **2.1 Objectives of the National Micro and Small Enterprise Strategy**

- 2.1.1 The primary objective of the national strategy framework is to create an enabling environment for small and micro enterprises. Given such an enabling environment, it is expected that hundreds and thousands of MSEs will themselves be responsible for the operation, growth and progress of their enterprises.
- 2.1.2 In addition to this basic objective of the national MSE strategy framework, the following specific objectives underlying the support are stated here:

##### **Facilitate economic growth and bring about equitable development**

MSEs by making use of predominantly local resources engage in the production of goods and services of mass consumption and stimulate the growth of the economy. The expansion of MSEs also contributes towards a more equitable regional development and distribution of income and wealth.

##### **Create long-term jobs**

While small and micro enterprise activities have absorbed a large number of unemployed people, they are not always in a position to generate remunerating long-term jobs. Therefore, support for MSEs has to include skill upgrading programs for MSE operators and strengthening the use of appropriate modern technologies that boost their capacity to create long-term jobs.

##### **Strengthen Cooperation between MSEs**

It is everyday phenomena that there are many constraints that limit the growth of MSEs, the most pressing of which is shortage of resources. MSEs individually lack the skills and resources to improve their capabilities. Therefore, it would be very important that the small and fragmented enterprises within sectors, regions or other localities be supported to network more effectively in order to jointly

address hindering obstacles, take up opportunities and build collective efficiency. In addition to this, inter-sectoral linkage would also be crucial for their development.

### **Provide the basis for Medium and Large Scale Enterprises**

MSEs provide the seed-bed for growth and stimulate indigenous entrepreneurship. They provide training for entrepreneurs and managers and through this learning process MSEs grow in to medium and large ones.

### **Promote export**

The strategy will also focus on designing and developing mechanisms that will help MSEs participate in export market especially in leather and leather products, textiles, horticulture, etc., in which the country has comparative advantages.

### **Balance preferential treatment between MSEs and bigger enterprises**

The support strategy will help to correct the preferential treatment accorded in favour of bigger enterprises. At the same time, it aims at bringing the greatest possible cooperation and interaction between the segments (Micro, Small, Medium and Large) of the economy.

## **2.2 Fundamental Principles**

There are a number of general principles underlying this strategy elements and which will in general, guide government involvement in this sphere. The principles should also help orient the private sector, parastatal, NGOs and the stakeholders as to the role of the government vis-à-vis those of other players.

- 2.2.1 The strategy framework is designed based on a logical and integrated vision of our country's economic development process. This vision sees the MSEs to play an important part in the national economy. Most important, the vision is based on the country's overall development strategy of ADLI and the adoption of the market economic system, where the private sector will take the lead.
- 2.2.2 The government on its part, is committed to develop MSEs via different support service programs. These services will be dynamic, demand-driven, participatory and creative. All the services will be designed to be instrumental in enhancing the performance of small firms by providing all round support (financial, technical, training, etc.).
- 2.2.3 To make the program effective and sustainable, the support services to be provided will be on fee basis as much as possible.

2.2.4 The demand side of the small business is an important factor for the growth and development of MSEs. Hence, the national framework will include steps that improve access of MSEs to large business purchase and export markets.

2.2.5 Emphasis will be given to the advancement of women.

2.2.6 Training and upgrading skill of the staff of different MSE support institutions is critical and will be given higher consideration in order to provide effective and sufficient service.

2.2.7 The following institutions are seen as vital for promoting the MSE Sector.

- The Ministry of Trade and Industry, in consultation with Regional Governments will be the primary institution responsible for the formulation, coordination and monitoring of national policies related to MSEs.
- The Federal Agency will be responsible for the assistance to be given to the regional agencies or the designated regional organs<sup>4</sup> and provide common services. It will also encourage and serve as a backstop to promote the development of MSEs support agencies at regional levels which will be the main bodies to develop and promote MSEs at regional and local levels.
- The regional bureaux and the regional agencies or the designated organs will be responsible for the implementation of the programs.
- Side by side, NGOs and chambers of industry and trade as well as trade and industry associations are expected to play an increasingly important role in the implementation of support programs and the shaping of policies.

2.2.8 The private sector has to play the most important role, through the supply of commercialized services for small and micro enterprises, cooperation, sub-contracting and partnership between small and bigger enterprises.

2.2.9 Furthermore, the government recognizes the diversity of legal and organizational forms in which small enterprises can be structured. Cooperatives are one of these forms, distinct from proprietorships, partnerships, etc. The government is therefore, committed to facilitate cooperative ventures within the strategy.

2.2.10 Finally, the principles underlying this strategy are not static, nor is it

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<sup>4</sup> The designated regional organs are those regional organs that takeover the activities of regional MSE development agencies, where these agencies are not established.

possible to implement all of them from the start. Hence, dynamism and gradualism would be inevitable.

## **2.3 Stages of Strategy Implementation**

Experience from other countries reveals a logical sequence in the establishment of a support framework. This applies in particular to the early part of the process, where the following stages can be distinguished.

### **2.3.1 Awareness Creation**

Taking into account the significant contribution of MSEs to the national economy, the government is committed to provide all rounded assistance to MSEs. The government therefore will undertake activities to create public awareness regarding the need for MSE development.

The process of awareness creation and commitment to goals will include the responsible agencies, public sector officials at federal, regional and local levels, the private sector, NGOs, business associations (Trade & Industry), research and training institutions, chamber of industry and trade, all business support institutions and the mass media. In this regard, it should be mentioned that a general awareness and government commitment has been reflected by establishing MSE Promotion Committee in the Prime Minister's office.

### **2.3.2 Needs identification and implementation planning**

Conducting need identification surveys to identify the pressing needs of MSEs would be very crucial for evaluating and prioritizing the specific needs within the overall support framework. This will include, inter-alia, the linking of needs, action plans and efficient supply systems, the establishment of monitoring and feedback systems, the commitment of key actors to specific support areas and the strengthening of coordination and networking systems. In this connection, studies have already been carried out to identify problems of MSEs in the spheres of finance, marketing, infrastructure, etc., in order to design appropriate programs to address the constraints. Moreover, a national base line survey which indicates problems and assistance needs of informal activity operators and small manufacturing industries has been conducted by the CSA.

Furthermore, region specific studies should be conducted in order to properly address region and sector specific problems.

### **2.3.3 Resource identification.**

This includes surveys of resources available for MSE support at federal,

regional and local levels, the establishment of data bank for MSE related statistics, an evaluation of the physical infrastructure currently available for MSEs and an assessment of the capacity of existing MSE support agencies.

#### **2.3.4 Training of support agency staff**

The MSEs development and promotion agencies at Federal and Regional levels need to be staffed by highly skilled and experienced personnel.

#### **2.3.5 Strengthening the business and entrepreneurial culture**

This will include nation-wide educational and sensitizing efforts, increased cooperation between MSEs and higher learning institutions, and further encouragement and assistance to women.

### **2.4 Criteria for prioritizing MSEs for Support**

2.4.1 As the MSE sector is highly diversified and characterized by an enormous number of problems of varied degree and complexity, it is not possible to address the whole range of MSEs operating in different sectors at the same time. Thus, it is necessary to target a certain group of MSEs for the support programs.

2.4.2 Even though the identification and selection of priority target beneficiary MSEs depend on the specific condition and potential of regions, it is believed that the following points shall be the main yardsticks for prioritizing the target MSEs.

- MSEs which are based on local raw materials and/or labour-intensive (local resource based),
- MSEs which have greater intra-and inter-sectoral linkages, (particularly those having higher linkages with agriculture),
- MSEs which are engaged in import substitution and with a potential for export,
- MSEs engaged in activities that facilitate and promote tourism, etc.,

### **2.5 Targeting support measures and beneficiaries**

2.5.1 The vastness and complexity of the small and micro enterprise sector combined with serious financial and human resource constraints with respect to support programs and policies, make it essential to focus on target measures and beneficiaries. This implies that support measures have to be sectorally differentiated and packaged (in terms of finance, technology, information, training, export facilitation, market outlet, etc.)

to address the various problems of the MSEs described in the constraints section of this strategy.

- 2.5.2 Such targeted support package will be designed by the regional agencies or the designated organs involving the private sector, NGOs and other partners/stakeholders and the public at large.
- 2.5.3 It would be futile to develop a final list of sectors or target groups warranting support packages, since circumstances may change overtime, funding constraints will influence the range that can be considered and needs vary between the different regions. However, the following areas and/or target groups seem particularly relevant.
- small manufacturers with focus on food, textile and leather clothing, metalwork, crafts, etc.
  - self employment (with focus on school leavers, disabled and unemployed youth),
  - start-ups and expanding firms with particular emphasis to those owned by women,
  - small enterprises in nomadic and disaster areas,
  - agro-business and small scale farming and fishing ,
  - small-builders /contractors,
  - small exporters revealing comparative advantage,
  - small scale tourism- industry operators.

## **PART THREE**

### **ELEMENTS OF MSE SUPPORT FRAMEWORK**

In recognition of the socioeconomic role of the sector and its potential contribution to the country's economic development, the development of the Micro and Small Enterprise sector is becoming a subject of national importance. Small business is to be designated a priority sector for the government, in terms of policy formulation, direct support from its own resources and in the mobilization of external resources.

The active promotion of the sector depends on the interaction of a wide range of actors in an equally wide range of support areas. It ranges from self-help activities of groups of small enterprises and the abolishing of regulatory obstacles to the better cooperation between small and bigger enterprises with respect to sub-contracting and other forms of interlinkages and the granting of or tax concessions by federal or regional government.

In this section, the strategy addresses the major constraints which have made it difficult for small business growth on their own, and hence it focuses on support areas, with greater or lesser degree of government involvement/intervention. The sequence in which the support areas are presented here, however, does not imply a ranking of their significance.

#### **3.1 Creating an Enabling Legal Framework**

Perhaps, the most important principle is that of market orientation, where all measures of support for small enterprises should aim at creating viable business which can successfully compete in the market place.

In order to formally recognize the importance given to the micro and small enterprises sector and to facilitate policy implementation in different areas, the government is committed to pass a number of enabling proclamations. In this regard, therefore, the following areas warrant serious attention:-

##### **3.1.1 A Law on Institutional Arrangement for MSEs**

This law will establish the government's institutional arrangement to provide the appropriate support services.

##### **3.1.2 Interlinkages Promotion Law**

This law will provide the necessary legal and regulatory frameworks to facilitate and promote sustainable business linkages.

##### **3.1.3 Cooperatives' Promotion Law**

This law will incorporate an appropriate legal framework for cooperatively organized or to be organized small enterprises which currently fall outside existing legislation on cooperatives.

#### **3.1.4 Chamber of Industry and Trade Proclamation**

As per the new economic situation and the federal arrangement, the chamber system needs to be revised and reorganized to address issues related with MSEs development assistance from the grass root levels upto the federal level. Hence, a proclamation for the establishment of restructured Chamber of Industry and Trade shall be issued.

#### **3.1.5 A Micro and Small Enterprises Finance Proclamation**

Special banks and non-banking financial institutions that cater for MSEs will be promoted, in particular, a leasing industry law will be promulgated.

### **3.2 Streamlining Regulatory Conditions**

Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on micro and small enterprises access to market and as obstacles to their growth. Since the federal and regional governments are responsible for the legislative and regulatory framework and its ongoing adjustment, it is also their role to assure the appropriateness of these rules and regulations for the micro and small enterprise sector at all levels.

The government is committed towards appropriate regulations, which are the result of transparent, consultative processes, with all the interested groups having a chance to state their interests and concerns, and with national economic growth and job creation framework as its overriding objective.

Based on this approach the MTI, in co-operation with the regional bureaux, the Federal Agency and Regional MSE development and promotion agencies, or the designated organs will closely monitor and, where necessary, co-ordinate and assist the regulatory reform process, with particular emphasis on the following spheres:

- Assessments by different Federal government ministries and Regional government bureaux and consultations with relevant stakeholders about the appropriateness of existing and proposed legislation and regulations in the fields of tax assessment, registration and licensing, tendering procedures, and how they can be made more suitable for small enterprises;
- Assessments by the Federal Agency and Regional Agencies or designated organs about possible micro and small enterprise constraints inherent in

our present competitive structure and how these could be overcome, through legislative changes.

It is generally known that micro and small enterprises often find it difficult, financially or for other reasons, to avail themselves of the due process of law in order to defend their interests. In this regard, the existing Kebele and Wereda Courts shall be strengthened to entertain small claims and disputes by MSEs.

The government, in this regard shall also establish a user-friendly environment for the simplification and standardization of documents. This includes:

- business registration and licensing;
- financial and loan applications;
- purchasing and sub-contracting (tender) document;
- export documentation and other commercial documents;
- registration of contracts with municipalities
- authentication of contracts at notary public
- simplified tax declaration forms for small businesses

In this regard a task group will be appointed from among relevant government departments and concerned parties to study and make recommendations about the simplification of existing systems and to suggest improvements. Progress in this area will also be documented in the annual MSE Review Report.

### **3.3 Other Specific Support Areas/Programs**

Active assistance by the Government will be provided to help small businesses to overcome the various constraints to their development. These businesses need to be equipped with the business tools with which to build their commercial features. Therefore, in addition to creating a favorable legal environment for the sector, the Government will launch a series of support programs to help these businesses to overcome the specific commercial obstacles they face and exploit available opportunities effectively. By launching such a package support program the Government will be in a position to take decisive action to stimulate the development of the sector. These programs include the following:-

#### **3.3.1 Access to Finance**

MSEs cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. The financial needs of different types of micro and small enterprises vary widely, with access problems particularly severe for start-up enterprises.

In this regard, the formal financial institutions are reluctant to avail credit facility to the sectors. Their standards of operation, the long waiting time they take to sanction loans, unfavorable disposition towards small loans

due to high administrative costs involved in financing them and the stiff and limited collateral requirements are some of the problems that are found to be discouraging micro and small enterprises from approaching them. Thus, the portion of informal sector business operators with access to formal financial institutions is very low. Hence, one of the areas of intervention to ease the problem of MSEs in this regard is to facilitate accessibility to capital.

The Government of the Federal Democratic Republic of Ethiopia is committed to strengthen the link between micro and small enterprises and existing as well as evolving financial institutions.

In line with this, there are areas for direct or indirect government involvement in the financial sphere, which includes the following:-

### **3.3.1.1 The Formal Banking Sector**

The stiff and limited nature of collateral requirements that are currently being requested by the formal financial institutions should be relaxed in order to create more access to small borrowers.

### **3.3.1.2 Micro and Small Enterprises Focused Financing Institutions**

Although the formal financial institutions have taken various measures to strengthen their operation and expand their services, they could not address the financial needs of micro and small enterprises satisfactorily. It is thus necessary to design special instruments and mechanisms to meet the financial requests and thereby promote the development of MSEs. For instance, amongst other options, the establishment of leasing industries for creating easy access to secure capital goods might be an alternative solution to solve the financial problem of the sector, particularly for the new startups. In this regard, a micro-financing proclamation has been promulgated, which specifically caters for the financial requirements of MSEs. There are also some ongoing programs that witness encouraging developments in the area of micro financing. These include, the Relief Society of Tigray (REST) in Tigray, the Ethiopian Relief Organization (ERO) in Amhara, the Ethiopian Social Rehabilitation and Development Fund (ESRDF) and other NGOs that have already included in their activities the financing of MSEs both in rural and urban areas. Therefore, Government will further encourage and create the enabling ground for the establishment of such MSEs targeted financial institutions.

Given its own constraints and with due recognition of the goals and priorities stipulated in this strategy, the government will continue to encourage other donor agencies' efforts to help micro-enterprise funding agencies.

### **3.3.1.3 Information on Access to Finance**

In as far as lack of knowledge about available financing programs or the process of application constrains access for individual micro and small enterprises, the envisaged Micro and Small Enterprises Development Agencies or the designated regional organs are expected to play a significant role as a forum for joint action between financial institutions, NGOs and local authorities or community groups.

### **3.3.2. Incentives Schemes**

In order to alleviate some of the financial problems and encourage the growth of MSEs, the government will also consider the provision of some incentives. These measures would improve the competitiveness of MSEs by reducing the cost of inputs and making their outputs competitive in price. In this connection, the following measures will be taken in to consideration:-

- 3.3.2.1 Further investigation on the possibility of initiating incentives for investment in small firms,
- 3.3.2.2 In the industrial sector, the industrial development incentives (tax exemption) granted under the Investment Code of Ethiopia largely exclude micro and small enterprises (with investments below birr 250,000). More recently, an adjusted set of simplified incentives have also not considered the issue. Therefore, in the future such privileges will be considered for the sector,

### **3.3.3. Encouraging Partnerships**

The need of micro and small enterprises are often so complex that even a comprehensive range of support services can not do justice to all the requirements. The most effective mechanism for small enterprises to acquire experience and skills, enter new markets, secure additional financing and meet market competition is quite often the entering of joint venture with an experienced local or foreign partner. This can happen among small numbers of cooperative partners, or a big business/small enterprises link-up, or a franchise relationship. Lack of experience and the effect of economic stagnation in Ethiopia have discouraged the development of such joint ventures in the past.

The Federal Agency, Regional Agencies or the designated organs and the Chambers of Industry and Trade at different levels will be responsible to channel information about partnerships and other forms of business undertakings, and facilitate networking at all levels. In addition, the Federal Agency and Chamber will explore the need and scope for an appropriate promotional mechanisms to

ensure both local and foreign business undertaking initiatives give due attention to contribute effectively to capacity building, among emergent enterprises.

### **3.3.4. Training in Entrepreneurship, Skills and Management**

The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important requirements to enable people to advance lower level activities into larger and better earning enterprises.

Responsibility for education, training and experience transfer rests on a wide range of institutions, including the federal and regional governments, NGOs and the private sector. This also applies to the sphere of entrepreneurship sensitizing, training in skills relevant to micro and small enterprises in different sectors and industries, and the acquisition of management experience by small-business owners and staff. During the past years, the range of relevant training programs made available to micro and small businesses have been very minimal. In fact, a general lack of awareness about the spread of already existing facilities and what they offer to the small enterprises sector or to those interested in a business career, constitutes one of the shortcomings of the whole training program.

Taking into account the diversity of MSEs and the wide range of training suppliers, the government considers the following as core elements in a national training strategy for micro and small enterprises:-

- 3.3.4.1 Information on available types and possibilities of training has to be disseminated more effectively to reach entrepreneurs all over the country. Such information should also help match particular needs and specific training programs. The Federal Agency and Regional Agencies or the designated organs will play a significant role in this process.
- 3.3.4.2 School curricula and other school related activities should give more scope for the inculcation of entrepreneurial attitude and a general awareness about self employment opportunities.
- 3.3.4.3 All suppliers of training have to reconsider the nature, content and effectiveness of their programs, taking into account the small business environment in the different sectors of the economy and working closely with the business sector. Thus, training has to become far more sector specific, focusing on the particular needs and practical problems of small enterprises. Such as:-
  - Micro enterprises in rural areas
  - Women entrepreneurs
  - Construction, manufacturing, small-scale agriculture, tourism

- Youth seeking self employment

3.3.4.4 Training programs have to be modular, so that trainees can combine theoretical with practical training. Linked to this is the need for certification of small-business training institutes in order to protect trainees and allow training paths. A two pronged strategy will be considered:-

- Restructuring of training programs of existing training institutes to serve the training needs of MSEs.
- The establishment of a national industrial training council which will be responsible for setting standards, giving acknowledgment and certification to competent MSE training centers in the Regions.

3.3.4.5 Another important avenue for intensive experience exchange is business internships for MSEs. This approach, which is comparable to apprenticeships shall be encouraged in our country. Franchises joint investments and other types of partnership agreements can play a similar role and should be expanded in the country. Although the main thrust in all the above spheres has to come from the private sector, government will undertake some support interventions.

### **3.3.5. Access to Appropriate Technology**

Another major constraint and handicap that influenced the success of MSEs is inaccessibility of appropriate technology. This applies to both ends of the technology spectrum, viz. sophisticated or appropriate. Identifying and selecting appropriate technology for MSEs operating in the labor intensive, and low skill spheres deserve more attention and justify some government support. A structural process of appropriate technology development involves such activities as technology search, assessment, transfer, absorption, adaptation and replication.

In countries where the manufacturing sector is better developed, the government's role has been confined to the dissemination of the results of search, assessment and evaluation of transfer mechanisms. Entrepreneurs then take over and effect the actual transfer, absorption, adaptation and replication.

However, in Ethiopia, micro and small businesses have problems in getting information on appropriate technology and the process of transfer. To execute these crucial stages of technology transfer, the government will play catalytic role and lay-down the basis for technological development and transfer. Measures for assisting MSEs in this area, will focus on:-

3.3.5.1 Strengthen the relevance and effectiveness of existing R & D institutions and centers to support MSEs.

3.3.5.2 Disseminating R & D outputs to MSEs through extension agents.

3.3.5.3 Establishing a technology data base

### **3.3.6 Access to Market**

Small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This assertion also holds true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector.

Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses which have to compete with others for the same clients, regional governments, chambers and business associations who should see to it that there are no hindrances to market access of new comers, and big enterprises who should re-orient procurement towards small suppliers and subcontractors.

The government will undertake the following measures to facilitate this complex process in order to ease the marketing problems of MSEs:

- 3.3.6.1 Put in place the necessary legal and regulatory frameworks necessary for implementing inter linkage mechanisms, such as franchising.
- 3.3.6.2. Consider steps to provide incentives in terms of training, etc. to motivate the big business sector to systematically expand its links with small and micro enterprises. In this respect sector-specific and localized efforts are likely to bear better results and minimize confrontation, compared to national rule or guidelines.
- 3.3.6.3. Encourage cooperation between relevant government institutions as well as private sector organizations and NGOs to reach MSEs and to mobilize training and mentoring support for small enterprises, so that they are able to manage inter linkage activities and contracts.
- 3.3.6.4. Facilitate the development of more appropriate small-enterprise export-support programs. Such programs could cover exhibition facilities, export trading houses, promote export credit schemes, an expansion of the export marketing assistance scheme and special training efforts with regard to quality development systems.
- 3.3.6.5. Closely associated to marketing and supply problems of MSEs are issues related to reasonable access to raw materials and quality services at affordable prices. Associations of MSEs and cooperatives play an

important role to address such problems by way of bulk purchase arrangements and group service requests. Chambers of Industry and Trade and the envisaged Federal MSE development Agency and regional agencies or the designated organs shall encourage the establishment of Sectoral MSE Associations and cooperatives and provide assistance to individual firms through extension networks.

- 3.3.6.6. At present there is no market information center and/or system that would furnish market related information, in such areas as, information on prices, source of inputs, existing and potential markets, consumer needs, etc. for MSEs. One possibility to address this problems is to establish a marketing information center and/or system or integrate the activity in already existing or in the envisaged Federal MSE development Agency and regional agencies or the designated organs. The MTI, respective regional bureaux, chambers of industry and trade and sectoral associations of MSEs, etc. shall assume the task to create and support such a center and/or system.
- 3.3.6.7. Most Ethiopian MSEs lack adequate marketing channels through which they could market their outputs. Marketing channels could serve both as means through which marketing information is made available and sales outlets created for the products and services of MSEs. Chambers of industry and trade, sectoral associations of MSEs, government promotional institutes, NGOs etc. shall be actively involved in establishing and organizing emporia, display centers, exhibitions, trade fairs, rural business centers, open markets, etc.
- 3.3.6.8. It is believed that there are many potential users of MSEs products and services, who would buy if they new about them. Most of the time the quality, quantity and price would suit the needs of many, and potential suppliers would also be willing and able to provide what is required, but neither side is aware of the existing possibilities. This problem, therefore, calls for launching aggressive awareness campaign about MSEs to the public. The Federal and Regional governments shall consider the use of Radio, TV, magazines and newspapers, etc. to advertise the range of products and services offered by MSEs and introduce outstanding MSEs as role models to share their experiences to others. Moreover, group advertisement efforts will be made through cooperative associations.

### **3.3.7 Access to Infomation and Advice**

Lack of access to appropriate, relevant and understandable information and advice is one of the most important problems of small enterprises, in particular micro enterprises and small start-ups. This problem is encountered by Ethiopian MSEs, first due to the fact that information system is not developed to enable proper collection, organization and dissemination in the country as a whole.

There are also a few consultancy and advisory firms which are inaccessible to MSEs. Secondly, the small and micro business operators often don't recognize the crucial importance of business information services and are not in a position to receive information on fee basis, particularly micro enterprises and small business start-ups.

There are, however, some efforts and activities in information and advice rendering by chambers and associations. But, most of the activities of these bodies are restricted/limited to bigger enterprises operating in urban areas. Thus, most urban and rural MSEs are seldom reached by the existing information and advisory services.

To improve MSEs access to information and advice, steps including the following shall be taken:-

3.3.7.1 As a principle, information and advice should be as focused and sector-oriented as possible and it should be supplied at grassroots level wherever this is possible. The responsibility for the preparation and dissemination of relevant materials falls on all agencies, which are directly or indirectly involved to support the MSE sector. These include: public institution like Ministries of Trade and Industry, Education, Culture and Information, Central Statistical Authority, respective Regional Bureaux, regional agencies, or the designated organs, Chambers of Industry and Trade, Sectoral Associations, NGOs, etc.

3.3.7.2 The Ministry of Trade and Industry through its Trade Point service will compile, consolidate and disseminate foreign business information to the needy MSEs through the Federal Agency and the respective regional bureaux.

3.3.7.3 Reliable statistical information is important for the small business sector, for small-enterprise support agencies and for the federal as well as regional governments, to monitor policy effectiveness and facilitate planning. The existing statistical base is inadequate with respect to most aspects of small and micro-enterprise development in Ethiopia. The task to upgrade and regularly update relevant trends cannot be the responsibility of the government alone. The most effective approach will need the cooperation of the following parties:-

- The Ministry of Trade and Industry, which after consultation with all relevant parties, determines the range of statistics to be prepared or monitored by the federal government;
- Central Statistical Authority, who should collect as much of the relevant data as is possible within the framework of its resources and techniques;

- The regional MSEs development agencies or the designated organs which should focus, in particular on support programs and related trends;
- The Federal Agency, which organizes and disseminates information to regional agencies or the designated organs;
- Regional governments and development associations, who will be encouraged to closely monitor regional and local trends, within the broad national framework set by the Ministry of Trade and Industry;
- The private sector, who should respond to data needs or supply statistics for those who need it.

### **3.3.8 The Physical Infrastructure**

Infrastructure is one of the basic factors required to enhance the pace of industrialization in any country. The development of business and industrial premises (shops, offices, factories, market stands, etc.) and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage systems, etc. are crucial infrastructural facilities and utilities which warrant the growth and expansion of business enterprises.

The mentioned physical infrastructure elements are not adequately developed and expanded to meet the growing demand of business activities in Ethiopia. The main factor for such underdevelopment is due to the obvious nature of infrastructural projects which entail huge investment cost outlays. Hence, most enterprises particularly the small and micro enterprises are facing serious problems in this regard.

To address the problem, the government has drawn various programs with regard to developing road networks, power, water, telecommunication, etc. and concerted efforts are being made to carry out such programs. In addition, the private sector is also encouraged to participate in the development of certain infrastructures to augment government's endeavor in this area. Regional governments, development associations, NGOs and community development efforts are increasingly involved in infrastructure development, complementing the efforts of the federal government. The government efforts shall be focused in the following areas:

- 3.3.8.1 The establishment of industrial zones, incubators, commercial premises and other common facility centers is believed to ease the existing problems with regard to utility and other infrastructural facilities, through sharing installation costs among beneficiaries and making efficient use of resources. Such services could be given to the needy and emergent enterprises at affordable rents. The implementation of such activities will be as follows:

- The incubator (or business start-up premises), if not established by the private sector, a support program will be developed by the foreseen Federal MSE Development Agency and Regional Agencies or the designated organs.
- Regional development associations and private investors shall be encouraged to establish incubators, develop industrial zones, construct commercial premises and provide them on rental basis.

3.3.8.2 Besides the tender, some special procedures of land acquisition at affordable rates shall be devised to facilitate accessibility of land particularly for micro enterprises and small business start-ups.

### **3.3.9 Institutional Strengthening of Private Sector Associations and Chambers**

As in other areas of the socio-economic development process, business associations have an important role to play in the strengthening of small business interests. This relates as much to business organizations operating at federal and sectoral levels as it applies to those focusing on the regional, zonal and wereda levels. Of particular concern are those organizations that represent the interests of emergent, small and micro-enterprises.

In Ethiopia, the existing business associations are financially weak and most of them have a very limited capacity to actually support and strengthen their members. Most small businesses and virtually all micro enterprises have not also been embraced by the existing business associations and chambers, thus excluding them from any form of support that could be obtained from them.

The government now has recognized the necessity of appropriately restructured business associations and chambers that will embrace small and micro enterprises to make effective and efficient intervention to support the sector. To this effect, a new organizational structure will be worked out to replace the existing chamber of commerce. Like wise, associations are also expected to be formed sectorally, starting from zones, up to the federal level with the fundamental principles of autonomous associations, voluntary membership and demand driven services.

Against this background, the government will consult with all relevant stakeholders about the developments among others, in the following directions:-

- 3.3.9.1 Each MSE voluntarily be a member of at least one business-related association of their own choice,
- 3.3.9.2 Accredited business associations can also supply other services qualify like training programs for particular target groups, micro-enterprise support schemes, raw material acquisition schemes, etc.

3.3.9.3 The Ministry of Trade and Industry, the respective Regional Bureaux, the foreseen federal agency and regional agencies, or the designated organs can use accredited business associations to implement any of the support policies. Such involvement will make the associations and chambers of industry and trade eligible for capacity-building support.

All accredited business associations will be encouraged to actively involve in the planning, implementation and monitoring of MSE related development activities at regional and local levels, with particular emphasis on the needs and capacities of the different economic and business sectors.

## **PART FOUR**

### **INSTITUTIONAL ARRANGEMENT**

The responsibility for support and assistance to MSEs falls upon a wide range of organizations, associations, and agencies. These include all levels of government, parastatals, NGOs, community based organizations, development and business associations, private institutions and foreign donor agencies. The commitment of these institutions and the degree of cooperation among them largely determines the effectiveness of the support system and the successful implementation of the strategy.

The Federal Government is fully committed to support the sector and will create and strengthen supportive facilities and allocate the scarce public resources to be channeled in the most effective way to bring about rapid sectoral change and growth. Moreover, special attention will be given to the development of effective implementing institutional arrangement for MSE sector support programs and strict controls in the use of funds. The major organs to be involved in the implementation of the strategy are as follows: Ministry of Trade and Industry, Regional Bureaux, Federal MSE Development Agency, Regional MSE Development Agencies, or the designated organs, NGOs, and Business Associations.

#### **4.1 Ministry of Trade and Industry**

The Ministry of Trade and Industry is the organ of the Federal Government for the formulation of the country's industrial and trade policies and strategies. The Ministry will also promote the expansion of enterprises, facilitates the provision of assistance to micro and small enterprises.

Moreover, inter-alia, the following will be the main duties and responsibilities of the Ministry to effect the implementation of this strategy.

- The Ministry will define the size of micro and small scale enterprises in order to identify the right target groups for the right type of promotional support
- The Ministry will support and create conducive environment for the development of private promotional institutions.
- The Ministry will establish and maintain coordinated work relationship with Ministries, Regional Bureaux and other stakeholders for the promotion of MSEs.

## 4.2 Regional Bureaux

The Regional Bureaux that are delegated to develop and promote the MSE sector in the respective regions, inter-alia, will be responsible to;

- set criteria for prioritization of MSEs for support and identify and select the right target groups,
- coordinate all activities related to the promotion and development of MSEs within the region.
- create proper networking within business associations, regional chambers, and other stakeholders to strengthen the flow of information, and
- assess and evaluate the development of MSEs within the regions and initiate policies.

## 4.3 Micro & Small Enterprises Development Agency (“The Federal Agency”)

The absence of clear institutional arrangements between the various public agencies established at federal and regional levels for the promotion of MSEs have resulted in, among others, the lack of effective coordination and utilization of resources. In view of this and other short comings, the establishment of a Federal Agency is a matter of top priority.

- The Federal Agency will be autonomous, not a profit entity and will be financed by the Federal Government in addition to the modest revenue it generates.
- The Agency will be managed by board of management consisting of government ministries, private organizations, other organized institutions and prominent personalities involved in MSE activities.
- The Agency will assist, encourage and support the regional MSE development agencies or the designated organs.
- The Agency will have its own Training and Technology center at the federal level and will be equipped with skilled personnel and other required facilities.
- The Agency will focus on training of trainers, dissemination of developed prototypes, information and consultancy, facilitation, marketing, technology data base, to be used by regional agencies or the designated organs and other concerned institutions.

#### **4.4 Regional Micro and Small Enterprises Development Agency or the Designated Organs**

In order to design and implement MSEs support programs at regional and local levels, it has become imperative to establish regional agencies or designate appropriate organs in each region of the country, which will be considered as independent to the Federal Agency.

- The regional agencies or the designated organs will provide extension services to MSEs at regional, zonal and wereda level.
- The extension service packages to be provided by the regional agencies or the designated organs include inter-alia; human resource development, information and consultancy, facilitation, technical and marketing services.
- The regional agencies or the designated organs will be working in close cooperation with the regional bureaux delegated to promote MSEs within the regions and will be financed by the regional governments in addition to the modest incomes they generate from the services to be rendered to clients.
- Each regional agency will be managed by a board of management consisting of bureaux, private organizations, other organized institutions and prominent personalities involved in MSE activities.

#### **4.5 Micro and Small Enterprises Support Service Center at Local level (Zonal and Wereda Level)**

As per the need and requirement of the specific regions, MSEs support centers will be established at zonal and wereda levels.

- Small business support service centers will be established under the respective regional agencies or the designated organs at Zonal and Wereda level in order to provide promotional support services at grassroot levels.
- All local support service centers will be responsible for providing information and advisory services to MSEs within their vicinity.
- The centers will report to the respective regional agencies or the designated organs about their activities and will be funded mostly by the regional governments.

#### **4.6 NGOs Involvement in Micro and Small Enterprises Support**

Experiences have shown that government institutions engaged in supporting MSEs have succeeded in providing limited services due to resource constraints.

In order to solve the problems as exercised in other developing countries, (NGOs) specially local ones, with funding coming from local or foreign sources will be encouraged to provide their support. Those wanting to be eligible for MSE support will be accredited with the concerned organization.

#### **4.7 Business Associations**

It is evident that sectoral associations and chambers do play a role in the support of MSEs. Therefore, all concerned business associations in the country will be encouraged to participate in promoting and developing MSEs.

## **PART FIVE**

### **ACTION PROGRAM**

So far the fundamentals of the strategy and the different elements of the national MSE support strategy and the evolving institutional framework through which the strategy should be implemented are outlined. It is also timely to set a time frame for the implementation of the strategy.

While general support, like better access to finance, training, marketing, etc., would benefit all MSEs as far as practically feasible and financially possible, specific target activities will be prioritized on the basis of tailor-made support packages. The elements of these packages will depend on the particular needs and problems of the target groups as well as resources available.

It should be clear that all sort of supports institutions and systems mentioned cannot be provided or developed overnight. Even with a vigorous will and systematic approach by government, it will take a few years to address all problems and the aspects mentioned in the enabling environment and to establish or designate all the support agencies. Hence, a systematic time frame should be set to reach all the target groups.

Given the diversity and complexity of issues, problems and support needs required by MSEs, the government in cooperation with the private sector, NGOs and parastatals will facilitate its support action. Hence, the following action program summarizes the government's commitment for the road ahead with time framework.

### 5.1 Short and Medium -Term Programs (1998 - 2000)

Ser. No.	TASKS	IMPLEMENTING AGENCY	TIME AND SCHEDULE
1	Elaborate and approve MSE Development Strategy	MTI	January 98
2	Establish Technology Data Base	ESTC	May 98
3	Define Marketing support programs	MTI/Reg. Govt.	March 98
4	Define Infrastructural support programs	MTI/Regional Govt.	March 98
5	Establish MSE Development Agency at Federal level	Federal Govt.	February 98
6	Put in place Private sector institutional arrangements	MTI/Regional Govt.	January 98
7	Work out Training program for training of trainers	MTI/Federal MSED A	March 98
8	Establish Monitoring and evaluation system	MTI	March 98
9	Establish Regional MSE Development Agencies or Designate Organs	Regional Govt.	July 98
10	Select Target towns for the programs	Regional Govt.	May 98
11	Start implementing training of trainers program	Regional MSED A	July 1998 onwards
12	Start implementing the program	Regional MSED A	July 1998 onwards
13	Undertake midterm review	MTI/Reg. Govt.	June 1999
14	Start implementing the expanded program-more towns covered	Regional MSED A	July 1999 onwards
15	Redefine micro, and small scale enterprises to expand the target group	MTI Reg. Govt.	1999/2000
16	Implement the expanded program	Regional MSED A	2000 onwards

## PART SIX

### FUNDING THE NATIONAL STRATEGY

The main goal of the national strategy for MSE development across the country is to achieve a significant and enhanced role of MSE development in general. For this purpose, a substantial financial resources will be needed to implement the strategy, much more than the resource available.

It should be clear that government funding will not be sufficient enough to support the implementation of the strategy. Hence, in order to mobilize all the available resources and coordinate programs optimally, it will be necessary to closely work and cooperate with all stakeholders. This calls for close cooperation among federal and regional governments, NGOs, parastatals, and the private sector at large.

In the different strategy sections of part three and four, emphasis was placed on the diversity of support programs and institutional arrangement. In order to get this diversity and its significance into perspective, it is important to list the full range of funding sources for MSE support programs. To stress the fact that government budget funding is only a small portion as compared to the financial requirement, this category is shown last on the list and self-help programs first.

- Self-help activities by groups of small businesses, operating as co-operative or in loose associations (e.g. to facilitate marketing or experience exchange).
- Community self-help programs to facilitate self-employment or the start-up of enterprises (e.g. youth schemes in rural villages or urban neighbourhoods).
- Private-sector- funded (profit-orientated) services to MSEs. (e.g. credit through micro banks or specialized institutions partnerships, franchises, sub contracting).
- NGO involvement in support programs, funded from own revolving funds or grants from other aid agencies. (e.g. mini-loan schemes, training schemes, marketing support, etc.)

- Services provided by business associations to MSEs, fully costed or from external support (e.g. the Chamber of Industry and Trade).
- Local support services to MSEs, provided at cost, or funded from external sources (e.g. shops, stands, open markets, information centers).
- Parastatals or statutory bodies involved in MSE support (fully or ad hoc)
- Use of own revolving funds, capital, (e.g. the regional development associations).
- Functionally specialized associations offering services at cost or on a subsidized base with funding from local or external sources (e.g. export support, universities providing tailor-made training for MSEs)
- Wholesale funding agencies for MSE loans or other programs (e.g., concessionary loan finance, grant fund). These agencies can tap government funds as well as capital-market sources and foreign donor funds.
- Regional governments fund from regional sources, loans or federal government transfers to support regional MSE-support programs and regional agencies or the designated organs and local support service centers operating cost.
- Foreign technical or financial assistance, grant or loan, (e.g. government-to-government programs, multilateral aid, funding or assistance to other implementation agencies)
- Federal government funding of MSE-support programs, (e.g. Federal Agency operating cost, operating cost for programs handled via the Federal Agency).

The funding of support programs in an economically responsible way constitutes the biggest challenge of the whole national strategy. Throughout this strategy paper, emphasis has been placed on ways to reduce the cost of support programs or to spread it over a wider range of support agencies. Similarly, the benefits of support programs will be disseminated as widely as possible, in order to reach MSEs in all corners of the country. What is more, wherever feasible and possible, the beneficiaries themselves will be encouraged to contribute to the cost of support services. In this way the funding capacity will increase as the coverage and comprehensiveness of the support program expands.

Moreover, the following fundamental principles are put forward to meet the financing challenge and undertake the task ahead for the implementation of this national strategy.

- Funds will be mobilized from the widest possible range of sources, including local, public and private sources as well as foreign assistance.
- MSE support will be closely integrated with all other development support programs.
- All programs will be based on strict financial discipline and will be structured in a way that self-help and own financial contributions by entrepreneurs are encouraged and gradually increased.
- All targeted assistance will include **sunset clauses** and safeguards against built-in cost escalation.