



Addis Ababa University
College of Business and Economics
Department of Public Administration and Development
Management

**Assessment on the Major Challenges and Economic Contribution of
Small and Medium Enterprises for Local Economic Development: The
Case of Addis Ketema Sub City, Addis Ababa**

By Tamirat Ertiro

May, 2019

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**A Thesis Submitted to the Department of Public Administration and Development
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for the Degree of Masters in Public Management and Policy (MPMP)**

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This is to certify that the thesis prepared by Tamirat Ertiro entitled “Assessment on the major challenges and economic contribution of Small and Medium Enterprises for Local Economic Development: the case of Addis Ketema sub city, Addis Ababa” which is submitted in partial fulfillment of the requirements for the Degree of Masters in Public Management and Policy (MPMP). Complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
TABLE OF CONTENTS.....	ii
LIST OF TABLES	viii
LIST OF FIGURE.....	ix
LIST OF ABBREVIATIONS.....	x
ABSTRACT.....	xi
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background	1
1.2. Statement of the Problem.....	2
1.3. Research Objectives.....	4
1.3.1. General Objective	4
1.3.2. Specific Objectives	4
1.4. Research Questions.....	4
1.5. Significance of the Study.....	5
1.6. Scope of the Study	5
1.7. Limitation of the Study	5
1.8. Organization of the Study	6
CHAPTER TWO	7
LITERATURE REVIEW	7
Introduction.....	7
2.1 Conceptualization of SME and LED.....	7
2.1.1 Conceptualization of SME	7

2.1.2	Conceptualization of LED.....	9
2.2	Conceptual Approach and Situation Analysis of MSE Development in Ethiopia.....	10
2.3	SME: The Case of South Africa.....	17
2.4	SME in Europe.....	18
2.5	The Case of OECD Countries.....	19
2.6	The SME Contribution for LED in Ethiopia.....	21
CHAPTER THREE.....		24
RESEARCH METHODOLOGY.....		24
3.1	General Description of the Study Area.....	24
3.2	Research Design and Method.....	26
3.3	The Sampling Process.....	26
3.4	Sampling Method.....	27
3.5	Sources and Types of Data.....	27
3.6	Data Collection.....	28
3.7	Questionnaire Design.....	28
3.8	Operationalization of the Causes Effects of the Study.....	29
3.9	Data Analyses.....	29
3.10	Ethical Consideration.....	29
CHAPTER FOUR.....		31
DATA PRESENTATION, RESULT AND DISCUSSION.....		31
4.1	The major Challenges of SMEs.....	31
4.1.1	Percentage and Rank of Major Challenges that Affect Productivity of SME.....	31
4.1.2	Frequency Results of Respondents who Select Lack of Market Linkage as a Major Challenge.....	32

4.1.3	Frequency Results of Respondents who Select Lack of Capital as a Major Challenge.....	33
4.1.4	Frequency Results of Respondents Who Select Lack of Infrastructure as a Major Challenge.....	34
4.1.5	Frequency Results of Respondents who Select Lack of Raw Material as a Major Challenge.....	35
4.1.6	Frequency Results of Respondents Who Select Lack of Skilled Man Power as a Major Challenge	35
4.2	The Economic Contribution of Manufacturing SMEs in Related to Employment Opportunity and Innovations.....	36
4.2.1	The Economic Contribution of Manufacturing SMEs Obtained by Employment Opportunities.....	36
4.2.2	Frequency Result of the Economic Contribution of Manufacturing SMEs by Innovation of New Products	38
4.3	Presentation and Discussion of Secondary Data Secondary Data’s Collected from Secondary Sources in Addis Ketema Sub City.....	40
4.3.1	Total Number of SMEs in Addis Ketema Sub City Related to Number of Employee and their Innovation	41
	CHAPTER FIVE	43
	CONCLUSION AND RECOMMENDATION	43
	Introduction.....	43
	5.1 Conclusion	43
	5.2 Recommendations.....	44
	REFERENCE	
	APPENDICES	

LIST OF TABLES

Table 4.1.1: Rank of challenges of Manufacturing SMEs of this research	32
Table 4.1.2: Frequency results on Lack of Market linkage Source: Own survey (2019)	32
Table 4.1.3 Frequency result on lack of capital	33
Table 4.1.4: Frequency result on lack of infrastructure	34
Table 4.1.5: Frequency result on lack of raw materials	35
Table 4.1.6: Frequency result on lack of skilled man power	35
Table 4.2.1: Result of grand mean and standard deviation for creating job opportunity	36
Table 4.2.2: Result of mean and standard deviation for innovation of new products	38
Table 4.3.1: Registered unemployed	40
Table 4.3.2: Total number of SMEs.....	41

LIST OF FIGURE

Figure 3.1: Addis Ababa city government land administration office.....	25
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LIST OF ABBREVIATIONS

BFED	Bureau of finance and economic development
EEA	Ethiopian Economic Association
GDP	Gross Domestic Products
GoE	Government of Ethiopia
GOs	Governmental Organization
GTP	Growth and Transformation Plan
ILO	International Labor organization
LDC	Less Developed Country
LED	Local Economic Development
MRLGHRD	Ministry of Regional and Local Government, Housing and Rural Development
MSE	Micro and Small Enterprises
MTS	Ministry of Trade
NDPs	Namibia Development Program
NGOs	Non-Governmental organization
NSBO	National Small Business Office
OECD	Organization for Economic Co-operation and Development
RLED	Regional and Local Economic Development
SARS	South African Revenue Service
SBC	Small Business Cooperation
SE	Small Enterprise
SME	Small Manufacturing Enterprise
ULGs	Urban Local Governments
UNESCO	United Nation Educational Scientific and Cultural Organization
UNIDO	United Nation Industrial Development Organization
USAID	United State Agency for International Development

ABSTRACT

The main goal of this research was to assess the challenges and economic contributions of Small and Medium Enterprises (SMEs) for the local economic development (LED) in Addis Ketema sub city, Addis Ababa, in related to the provision of employment opportunities and innovation of new products in the study area. For the sake of achieving the objectives of this study, mixed methods research design was employed, both primary & secondary data were used; primary data were collected using questioner & interviews. The information gleaned through pretested questionnaire from sample respondents of 120 operators of small manufacturing enterprises. The respondents were selected using quota sampling technique, 40 respondents each from metal work, wood work & textile manufacturing SMEs in purposive manner. The data are analyzed by using table, percentage, pie chart, grand mean and standard deviation. The study focused on the effects of Capital, raw materials skilled labor, infrastructure & market linkage, on productivities, employment opportunity and innovation created by manufacturing SMEs in the study area. The finding of the study ranking major challenges that affect performance of small manufacturing enterprises are lack of market linkage, capita, infrastructure, row materials and Skilled man power resulted in poor creation of employment opportunity and innovation for the local economic development. Based on the above findings, the key recommendations made to government bodies are like; government institutions at different level should able to create sufficient market linkage, provide affordable source of capital or finance, production spaces or shades, strengthening of SMEs by regular and continues training for SMEs to enhance innovation; as a result SMEs will play crucial role in LED.

Key Words: Employment opportunities, Innovation, Local Economic Development and Small and Medium Enterprises.

CHAPTER ONE

INTRODUCTION

1.1 Background

A healthy Small and Medium Enterprises (SME) sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills (Bashir Ahmad, 2008).

Small & Medium Enterprises (SMEs) are very important for the development because they have multiple comparative advantages; they have ability to innovate or freedom to create. This freedom makes them more tendencies to create new product, improve the process and way of doing, and add service varieties etc. which place them in comparatively advantageous position (Bandura, 1997:210).

The private sector is the engine for the sustainable economic growth of many countries. The role of the local government is to create an enabling environment in which entrepreneurs can explore opportunities and increase productivity, contribute to the nation's economic growth and facilitate the operation of the local authorities and the creation of jobs for local residents. In his book titled *A Strategy for Development*, Stern(2002) identifies two pillars that form the foundation of any sustainable economic development strategy, namely the building of an investment climate that facilitates investment and growth, and the empowering of poor people to participate in that growth.

Ethiopia has sustained a high annual growth since 2004 and it is among the fastest growing non-oil producing economies in Africa. It is implementing the second phase of Growth and Transformation Plan (2015-2020) which aims to foster high and broad based growth. The national policy seeks to strengthen public-private partnerships at regional and local levels in order to stimulate investments, generate employment and create an enabling environment for private sector and entrepreneurial development.

Addis Ababa city government promote and support SMEs in all sub city due to their great potential in ensuring diversification and expansion of industrial production as well as the

attainment of the basic objectives of development. SMEs utilize local raw materials and technology thereby aiding the realization of the goal of self-reliance. Also, governments at various levels (local, state and federal levels) have in one way or the other focused on the performance of Small and Medium Scale Enterprises for economic gains. Addis Ababa city governments had formulated plan aimed at facilitating and empowering the growth and development and performance of the SMEs, in one hand and assisting the SMEs to grow through soft loans and other fiscal incentives in order to enhance the socio-economic development of the economy like alleviating poverty, employment generation, enhance human development, and improve social welfare of the people on the other hand.

To sum up among ten sub cities in Addis Ababa, in Addis Ketema sub city there are 1169 different small and medium enterprises in five different types of activities among such types enterprises manufacturing enterprises take the lion share,467 SMEs. However, these enterprises could not exercise effectively in promoting economic development and supporting the local population.

1.2. Statement of the Problem

Promotion and incentives to the creation and development of small and medium enterprise activities are essential for the economic growth and poverty reduction effort. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. SMEs are the first step towards development in economies towards industrialization. One of the significant characteristics of a flourishing and growing economy is a vibrant and blooming SME sectors (Bashir Ahmad Fida, 2008).

SMEs contribute to socio-economic development in various ways; namely, by creating employment for a rural and urban growing labor force and providing desirable sustainability and innovation in the economy as a whole.

However, manufacturing enterprises in Addis ketema sub city lacked creating employment opportunities, innovation and diversification; they are mainly focused on limited activities like metal work, woodwork and textile products. The major challenges have been shortage of capital,

market linkages, infrastructure and raw materials.

Among all small and medium enterprises manufacturing enterprises have greater number (467) in Addis Ketema sub city. However, they were not providing significant employment opportunities for the higher demand of labor force. It in turn affects the contribution of manufacturing enterprises for the local economy development.

SMEs have been the means through which economic growth and rapid industrialization accelerated. However, business development has high rate of failure in developing Countries than developed world (Brigtte, 1991). It is also essential to understand the problems facing small business development in developing country like Ethiopia. There are different researches made on SMEs in Addis Ababa city level (Abera Demsiss, 2007) and Bahir Dar City (Getenet Tenaw, 2010). The findings of those researches shows that the major obstacle that face SMEs are lack of sufficient financial resources, lack of management experience, poor location, law and regulation in general economic condition as well as critical factors like poor infrastructure, corruption, low demand for products and services and poverty. However, their findings provide general information for all SMEs rather than assessing small and micro manufacturing enterprises at a particular topic of study. Based on the above reasons this study was assessed the contribution of small and medium manufacturing enterprises on local economy development in Addis Ketema Sub City, Addis Ababa Ethiopia.

1.3. Research Objectives

1.3.1. General Objective

The main objectives of the study was to assess the challenges and contribution of small scale manufacturing enterprise in local economic development in innovation and employment opportunity the case of Addis Ketema Sub-city, Addis Ababa.

1.3.2. Specific Objectives

The specific objectives of the study to:

- ❖ Assess the major challenges of small manufacturing enterprises in Addis Ketema sub city.
- ❖ Assess the contribution of Manufacturing SMEs for LED related to the provision of employment opportunities for in the study area;
- ❖ Assess the contribution of Manufacturing SMEs to the LED by innovating or creating of new products.

1.4. Research Questions

In order to achieve the objectives of the study the researcher was used the following major research questions.

1. What are the major challenges that affect the productivity of Manufacturing SMEs in Addis Ketema sub city?
2. What are the contributions of Manufacturing SMEs for local economies by creating employment opportunities in the study area?
3. What are the contributions of innovated products for local economy by replacing expensive import products and by improving the productivity of Manufacturing SMEs?
4. What measures should be taken by SME owners & the local government in order to maximize the role of SMEs in the LED?

1.5. Significance of the Study

This study has a paramount importance in understanding the contribution of manufacturing SMEs in local economy. It was assessed the key challenges and economic contributions of Manufacturing SMEs by innovating new products and by creating employment opportunities in Addis Ketema sub city, Addis Ababa.

The study was exposed the realities in connection with the challenges & contribution of Manufacturing SMEs in relation to employment opportunity & innovations created in the study area. Hence, it provides information for government officials, politicians and policy makers in their overall effort to fill the gap between the plan at policy level and the existing reality and also it provide scientific clue for local government & policy makers to enhance the improvement and sustainability of SMEs.

1.6. Scope of the Study

The specific boundary of this study is limited to the administrative area of ten Weredas of Adis Ketema Sub City, Addis Ababa, Ethiopia.

This study was focused on the assessment of challenges and economic contributions of SMEs. Particularly on challenges that minimize productivity and economic contributions of manufacturing SMEs such as employment opportunities and innovation in ten Wereda of Addis Ketema sub city.

However, the finding of this study may not be limited only in the study area. But, it was also showed the challenges and contribution of the issue in Addis Ababa city level.

1.7. Limitation of the Study

It is hard to imagine such study without limit because SMEs economic contribution for local economic development is a vast concept. There for this study is limited to assess manufacturing SMEs economic contribution in terms of innovation and creation of employment opportunity. On the other hand, this study conducted in Addis Ketema sub city. Hence, its result may not necessarily represent the reality of the entire city of Addis Ababa.

1.8. Organization of the Study

This study is organized by five chapters. The first chapter comprised of introduction, background of the study, statement of the problem, objective of the study, research questions, scope of the study, and significance of the study. The second chapter focused on the literature review followed by the third chapter Research Methodology. The fourth chapter outlines the presentation, result and discussion of data used in the study and chapter five contain summary, conclusion and suggested some recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

Ethiopian Government has historically supported the growth of micro, small and medium enterprises, especially growth oriented businesses through various policy interventions. For instance the government formulated a national micro and small enterprise development and promotion strategy in 1997 (revised in 2011) to create an enabling environment for the sector. Furthermore, micro, small and medium enterprises were placed at the heart of the first industrial policy strategy in 2002. Similarly, within the framework of the government's 5 years economic development plans, including PASDEP, GTP I AND GTP II, the expansion and development of micro, small and medium enterprises has systematically been a key strategic priority (ADA asbl and First Consult Plc, October 2017).

The government of Ethiopia identified growth oriented micro, small and medium enterprises based on the potential for job creation, poverty reduction, local raw material utilization and ease of transformation to medium and large scale businesses in short period of time. Accordingly micro, small and medium enterprises engaged manufacturing (metal, woodwork, textile, leather, agro processing), construction (contractors and construction material producers), urban agriculture (dairy, cattle fattening, poultry, beekeeping and animal food production) trade (wholesale and retail) and services (hotel, tourism, solid waste collection, etc) are considered as growth oriented micro, small and medium enterprises (ADA asbl and First Consult Plc, October 2017).

2.1 Conceptualization of SME and LED

2.1.1 Conceptualization of SME

The definition of Small and Medium Enterprises (SMEs) varies from one country to another, but the most commonly measure used to define an SME is a quantitative measure, such as the number of employees, enterprise size, annual turnover and total assets (Perera and Chand 2015).

SMEs have historically been the Main players in local economic activities, especially as large providers of employment and hence a generator of primary or secondary Sources of income for many households. SMEs are important engines for the development of local economies and communities in many countries of the world (Ayanda and Laraba 2011). The development of SMEs becomes a necessary intervention to enhance the local economic development. Ehtesham 2011, argues that the crucial process of overcoming poverty, inequality and unemployment in rural areas is the development of vibrant SMEs, as they play a crucial role in people effort to meet basic needs and help marginalized groups, like female heads of households, disabled people and rural families.

SMEs are engines to address the challenges of poverty, Inequality and job creation in rural areas. In Europe, more than ninety percent of businesses are SMEs and they contribute more than fifty-three percent to the employment sector. In sub-Saharan African countries, SMEs contribute ninety percent to the employment sector (United Nations Educational Scientific and Cultural Organization, UNESCO, 2012). Thus, the development and growth of rural SMEs has received attention from many governments around the world as a key tool for. The delivered Importance of SME sector, the agreed with World Bank, those SMEs contribute the following to the Economy:

1. SMEs are the engine of growth;
2. SMEs are essential for a competitive and efficient market;
3. SMEs are critical for poverty reduction; and
4. SMEs play a particularly important role in developing countries

There exists no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small or medium. Indeed, there is no universally or even nationally acceptable standard definition except that the scale of business needs to be defined for a specific Purpose. According to Ward 2005, there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more

than 500 employees.

The United Nations Industrial Development Organization (UNIDO) identified fifty definitions of small scale business in seventy-five different countries based on parameters such as installed capacity utilization, output, employment, capital, type of country or other criteria, which have more relevance to the industrial policies of the specific country.

Oluba 2009, has however, observed that the importance of SMEs varies with sectors and with the developmental stage of a country. The opined that developing characteristics such as the level of capital allocation requirements, management size and arrangement as well as limited market access which make SME. Small and medium enterprises are considered those enterprises which have fewer than 250 employees.

2.1.2 Conceptualization of LED

Different organizations and experts have provided different definitions; Roseland (2012) has Defined Local Economic Development (LED) “as local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in that specific community”. It is about partnership in the business sector, community interest groups, municipal governments, and Non-Governmental Organizations (NGO). Its purpose is to build the economic capacity of a local area to its economic future, with economic growth, employment creation and improvement of quality of life for all.

According to the International Labor Organization (ILO), national and local governments, as well as enterprises and other organizations have to rethink development strategies to cope with ongoing events such as globalization. In contrast to traditional development policies, Local Economic Development strategies promote local dialogue and enable people to be more proactive; help to make local institutions better contribute to development; make economic activity dependent on the comparative advantages of a specific territory, generating development by firms more capable to withstand changes in the global economic environment rather than top-down development imposed by national planners. Economic development activities in developing countries tend to be unidisciplinary, initiated and implemented by just one ministry or agency. An advantage of LED approaches is that they facilitate a multidisciplinary approach.

South Africa has been particularly active in promoting the concept.

Local Economic Development is defined by Zikhali et al. (2014) as a process in which partnership between local governments, community-based groups and the private sector is established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. It emphasizes local control, using the potential of human, institutional and physical resources. Local Economic Development initiatives mobilize actors, organizations and resources to develop new institutions and local systems through dialogue and strategic actions. The purpose of Local Economic Development (LED) is to build the economic capacity of local area to improve its economic future and the quality of life for all (Murphy 2013). It is a process where in the public, businesses and nongovernmental sector partner and work collectively to create better conditions for economic growth and employment generation. There is no precise and clear definition for SMEs. Various conceptual definitions have been provided by different organizations, academics and policymakers to suit their purposes and objectives (Hein 2010). Some of the criteria that have been used to define the sector are the number of employees and turnover of the enterprise, among others.

2.2 Conceptual Approach and Situation Analysis of MSE Development in Ethiopia

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

MSEs are yet to be key players in the manufacturing sector. The potential to fill this gap provides justification for the priority given to MSE development. In Japan - the home of major international companies such as Toyota and Sony for example, more than half of manufacturing output is generated by MSEs. In Ethiopia, the need to support MSE development goes beyond

the current priorities given to employment creation as, in addition, they have a critical role to play in the country's industrial development, especially when the rapid expansion envisaged for the manufacturing sector under the ongoing renaissance program is taken into account.

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

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

Among the major benefits from provision of priority support to MSE development is the strategic advantage of mobilizing the remaining sections of the population to support general urban development efforts.

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

Recognizing the strategic importance of MSEs will give leverage to the realization of Ethiopia's renaissance.

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

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

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

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

Inadequate start-up capital is another major constraint most MSEs face during their

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

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

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

Concerning government institutions, in line with the aforesaid principle, it is essential to organize information and knowledge about job creation, including understanding MSE development, the development challenges and approaches to overcome them. This can be achieved through continuous engagements in education, training and using different methods to develop supportive attitudes towards MSE development. These initiatives should be combined with improved leadership and managerial qualities recruited from the civil service to lead urban local governments (ULGs) and those institutions established to support and develop MSEs. Once the right people are in place, there will be continuous learning and improvement using practical experiences from the field. The current situation is that the leadership in ULGs is not better than

that in rural areas. The main reasons being that: a) a rent seeking political economy has gained the upper hand in urban centers, and b) there have been inadequate efforts to build strong leadership and management in MSE development. Notwithstanding the efforts to eliminate rent seeking behavior, more emphasis must be given to building strong leaders in ULGs.

The effort to root out rent seeking behavior in MSEs is inseparable from the overall effort to change attitudes and behavior within society as a whole. Efforts to bring about attitudinal changes are also inseparable from day to day MSE development initiatives.

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

The process of influencing changes in attitude among MSE operators and support providers can be successful if it is interwoven with practical actions whereby guidelines to be followed by MSEs are developed and disseminated among MSEs. These guidelines should discourage rent seeking practices. Implementation plans and guidelines need to take into consideration the values they should be moving attitudes towards, for MSEs and larger enterprises. As an example, taxes to be collected from MSEs may not have significant impact in terms of boosting GoE revenues; the amount of taxes collected from 500,000 or so MSEs is very small when compared with taxes that can be collected from two or three big businesses, nevertheless, keeping systematic records on financial transactions and nurturing a taxpaying mindset should be given utmost importance so that, when MSEs' tax relief period elapses, they are encouraged and prepared to pay whatever tax may be due in accordance with the tax laws.

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

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

On this basis, GoE will facilitate access to start-up capital for those who are willing to work and

where possible contribute savings, provided that they organize themselves, come up with feasible business ideas (proposals) and contribute part of the required start-up capital. Contributions to start-up capital would include compulsory savings requirements attached to employment schemes, own savings and/or family contributions. In this regard, as a significant part of start-up capital is intended to cover the costs of arranging production and sales premises as well as investment in machines and equipment, an alternative solution is to provide assistance that will reduce the amount of startup capital requirement. Urban local governments should promote the construction of affordable production and sales premises that meet basic standards - this will help reduce development of slum areas. The fact that MSE related public expenditures in urban centers are given priority immediately after education and training demonstrates the high priority given by GoE to MSE development and supports the high priority that should be given by ULGs to the construction of production and sales premises. Given the tendency for medium and large industries to concentrate in a few urban centers, the majority of smaller Ethiopian cities are unlikely to attract medium and larger enterprises. For this reason the preferred alternative for industrial development in most cities will be MSEs as they have the potential to be replicated across all cities. It is, therefore, crucial to give emphasis to constructing infrastructure and facilities that support MSEs, as well as making other needs-based improvements, so that MSEs can get access to the facilities at affordable prices and thereby reduce their start-up costs.

The process of constructing and delivering MSE production and marketing premises requires careful planning and management. Cities should avoid building corrugated iron sheds for MSEs be overly concerned with cost reduction. If MSE facilities are built in a quantity that exceeds demand and of high quality that results in high cost², it is likely that they will not be fully occupied. A more effective approach is to build a limited number of premises that are affordable to MSEs and build more as demand arises. The sites to be chosen should be appropriate to the needs of MSEs. Sites should not be placed in peripheral locations or in city centers; both locations that may limit MSEs' expansion potential. A transparent system should be created for allocation of MSE production and sales premises, involving regular and on time payment of rents as well as appropriate measures for noncompliance. Putting such procedures in place will discourage rent seeking practices; accelerate MSE development effort and contribute to the development of urban centers. The building and renting of MSE production and sales premises

should be a top priority for ULGs. This strategy has to be executed effectively with commitments for continuous improvement based on experience and good practices.

2.3 SME: The Case of South Africa

In the case of South Africa SME defined as an enterprise, which has fewer than 50 employees. These businesses are often referred to as SMEs and are traditionally associated with owner operators (ATO 2004, Schaper & Volery 2004). SARS (South African Revenue Service) does not have one single description for small business; instead there are several definitions utilized for different purposes: For Amnesty purposes, a small business is any business with a turnover of up to R10m; a Small Business Corporation (SBC) is defined as a business having a turnover of less than R14m, over and above other qualifying criteria For Capital Gains Tax, a Small and medium Enterprise (SME) is described as a business having total net assets of under R5m. It is therefore proposed that SARS restricts itself to the definition as used for SBC regime purposes i.e. a small business is a business that has a turnover of no more than R14 million.

Apart from the number of employees, there are other key factors that characterize the SMEs and these are related to management and the nature of operations. The SMEs may be managed by their owners who are often assisted by family members (Okello-Obura and Matovu, 2009). In this regard, the decision-making system is quite flexible, informal and dependent on the personal drive of one or more of the executives. By their very nature of operation, the SMEs have a narrow range of products/services and a relatively simple and unsophisticated management structure with a narrow tolerance range of risk. Individual SMEs experience difficulties in achieving economies of scale in the purchase of inputs and are often unable to take advantage of market opportunities that require large production quantities, homogenous standards and regular supply. Above all, SMEs are confronted with situations where decisions are made haphazardly and not based on accurate business information (Okello-Obura and Matovu 2009).

Challenges facing SME's

According to Fatoki and Garwe 2010, there are external factors and internal factors affecting SME's. Some of the major problems been faced by SMEs within the internal and external environment are lack of access to finance, lack of collateral, insufficient owners' equity

contribution, crime, insufficient government support, high interest rate, inadequate demands, inadequate market research, location of the business, high competition, bad credit record, high production costs, lack of information technology, high transport costs, high taxes and other tariffs, recession in the economy, lack of experience relevant to the venture, founder not familiar with market/industry, lack of networking, lack of business skills, shortage of skilled labor, costs of registration and licenses, high inflation rate, high foreign exchange rate, poor electricity supply, lack of training, corruptions, poor roads, poor water supplies and poor telecommunication.

2.4 SME in Europe

Small and medium enterprises (SMEs) and their contribution to the growth of employment and gross value added at EU level.

The positive effects generated by the SME sector are multiple, the best known are: improving the competitive environment, creating opportunities for development and adaptation of new technologies, occupying niche markets that are not profitable for large companies, anchoring in local economies by capitalizing local resources (financial, material, of labour and informational).

Encouraging SME sector is an important concern at European Union level, considering that SMEs are key factors for economic recovery. Between 2002 and 2010, 85% of total jobs emerging in Europe were generated by small and medium companies. This percentage exceeds 67% of the percentage of SMEs in total employment. During this period, total employment increased significantly by an average of 1.1 million new jobs each year.

In 2011-2012, European economy faced several challenges: intensification of the sovereign debt crisis in the euro area, under the specter of the double recession felt in several Member States, as well as economic downturn, even in the most advanced countries. The most important challenge for the European economy is exiting the vicious circle of unsustainable public debt, exiting the state of disturbance characterizing the financial markets and of reduced growth in the number of jobs in some Member States (Trasca, Popa, 2011).

Indebtedness of governments have and will continue to have negative repercussions on the real

economy, in that they will have to conduct austerity programs to be able to pay its debts, which will negatively influence economic growth and hinder job training and entrepreneurship development. (Moldovan, Popa, 2012).

2.5 The Case of OECD Countries

SMEs are essential for delivering more inclusive globalization and growth

1. In many countries, and in particular The Organization for Economic Co-operation and Development (OECD) countries, governments are facing the challenges of low growth, weak trade and investment, and rising, or persistently high inequality (OECD, 2016a). They also face a growing dissatisfaction among citizens with the current state of affairs, which is also manifesting itself in the form of a backlash against globalization and technological change. Against this backdrop, there is a need to create the conditions that enable the benefits of open markets and technological progress to be enhanced and shared more broadly across the economy and society.
2. SMEs are key players in the economy and the wider eco-system of firms. Enabling them to adapt and thrive in a more open environment and participate more actively in the digital transformation is essential for boosting economic growth and delivering a more inclusive globalization. Across countries at all levels of development, SMEs have an important role to play in achieving the Sustainable Development Goals (SDGs), by promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialization and fostering innovation, and reducing income inequalities.
3. However, boosting SME potential for participating in and reaping the benefits of a globalized and digital economy depends to a great degree on conducive framework conditions and healthy competition. Due to constraints internal to the firm, SMEs are disproportionately affected by market failures and barriers and inefficiencies in the business environment and policy sphere. SMEs' contributions also depend on their access to strategic resources, such as skills, knowledge networks, and finance, and on public investments in areas such as education and training, innovation and infrastructure.

Furthermore, for a large number of SMEs, a conducive environment for the transfer of business ownership or management represents an important condition for ensuring business viability over time, with implications for jobs, investment and growth.

SMEs make diverse contributions to economic and social well-being, which could be further enhanced. *SMEs* play a key role in national economies around the world, generating employment and value added in the OECD area, SMEs are the predominant form of enterprise, accounting for approximately 99% of all firms. They provide the main source of employment, accounting for about 70% of jobs on average, and are major contributors to value creation, generating between 50% and 60% of value added on average (OECD, 2016b).

In emerging economies, SMEs contribute up to 45% of total employment and 33% of GDP. When taking the contribution of informal businesses into account, SME contribute to more than half of employment and GDP in most countries irrespective of income levels (IFC, 2010). In addition, SME development can contribute to economic diversification and resilience. This is especially relevant for resource-rich countries that are particularly vulnerable to commodity price fluctuations.

Evidence from Nigeria the contribution of SMEs to gross economic productivity and employment and other economic development parameters in both developed and developing countries is succinctly Oluba (2009) summarized the contribution of SMEs to an economy, especially developing ones as: Greater utilization of raw materials, employment generation, encourage of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Contribution of SMEs to Economic Development (Developed Countries) Also, Oluba (2009) posited that there are about 8.4million SMES operating in Nigeria with enterprises comprise 80 per cent of the total number (about 1.3 million), small business constituting 15 percent (around 420,000) (Oluba,2009). In terms of SMEs contribution to national output in Nigeria. It has been reported that the SMEs, by revenue, contribute about 75 percent all entrepreneurial activities that make up Nigeria's gross domestic output, 21 per cent within the -enterprises while 4% belong to

the large complex organizations. It is also scored high in entrepreneurial dominance because of its potential in pooling skilled and semi-skilled workers.

The problem of lack of access of small and medium scale enterprises to finance has hampered their contribution to economic growth and development as it has affected their productivity and ancillary functions. In this regard, Eriki and Inegbenebor (2009) noted that the commonly adduced reasons for the inability of SMEs to meet the expectations of government in accelerating job creation, increasing the production of goods and services, facilitating technology transfer, creating more opportunities for entrepreneurs and, in particular, increase the local content component of the giant multinational companies in Nigeria is due to lack of access to credit facilities

2.6 The SME Contribution for LED in Ethiopia

According to the Ethiopian SME less than five employees and has a total asset of less than \$6000 or Birr 100,000 for manufacturing sector. When we compare it with the World Bank group number, it is approximately two times less for employees and its asset value is less by \$94,000. When we do the same for Small Enterprises, the maximum number of employees is less than the World Bank's number by 20 and total asset is less than the same by \$2,991,000 at the upper boundary limit. This figure is very significant that make comparison between Ethiopian Enterprises and Enterprises labeled by international organizations (e.g. World Bank) difficult. To reduce the gap, forward move could be one solution for Ethiopia to increase the asset requirements of Enterprises i.e. as large number of enterprises are micro enterprises in Ethiopia (including retail stores), it is prudent to focus on relatively better sizes that could still be categorized under micro enterprises and leave out those enterprises with very low asset value as informal businesses except for registration purpose. Thus, the government can think of arranging micro enterprises based on their asset as Bottom- Micro, Middle Micro and Top Micro (BM-MM-TM) and adapt international definition of enterprises (Amare Abawa Esubalew,2017).

1/ "*small manufacturing industry*" means an industry having a total capital, excluding building, from Birr 100,001 to Birr 1, 500,000 (One Hundred Thousand One Birr to One Million Five Hundred Thousand Birr) in the manufacturing sector and engages from 6 to 30 workers including the owner, his family members and other employees;

2/ “*medium manufacturing industry*” means an industry having a total capital, excluding building. From Birr 1,500,001 to Birr 20,000,000 (One Million Five Hundred Thousand One Birr to Twenty Million Birr) in the manufacturing sector and engages from 31 to 100 workers including the owner, his family members and other employees (Federal Small and Medium Manufacturing Industry Development Agency,2016).

The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages creating a total of three million micro and small scale enterprises at the end of the plan period (NBE, 2011). Citing the source from the Federal Micro and Small Enterprise Development Agency (FMESDA), the EEA Research Brief noted that a total of seventy thousand five hundred (70500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806300) people across the country. The performance is below the target set in GTP (EEA, 2015). The financing of small and medium enterprises (SMEs) has been a topic of keen interest in recent years because of the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment (Ayyagari et al, 2007 cited in Berg and Fuchs, 2013).

Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more credit constrained than large firms, severely affecting their possibilities to grow (Beck et al, 2005; Beck and Demirguc-Kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008; Ayyagari et al, 2012). Calomiris and Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater. Furthermore, according to Beck et al. (2006) cited in El Said al. (2013), small firms consistently report more financing obstacles than medium and large enterprises. Smaller, younger and domestic as opposed to foreign-owned-enterprises report more financing obstacles even after controlling for other firm characteristics. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-sized firms and 32% for large firms. Small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Beck et al. 2006 cited in El_Said et al. 2013) Therefore, reducing this financing gap in low-income countries should raise the incentive to create SMEs and consequently improve economic growth and increase job creation. In

addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015). In Ethiopia, despite the enormous importance of the SME sector to the national economy with regards to job creation and the alleviation of abject poverty, many of the SMEs are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2004). In a similar way, comparing small and large firms the World Bank finds that small firms face more challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans, and are less likely to have external financing (World Bank, 2015).

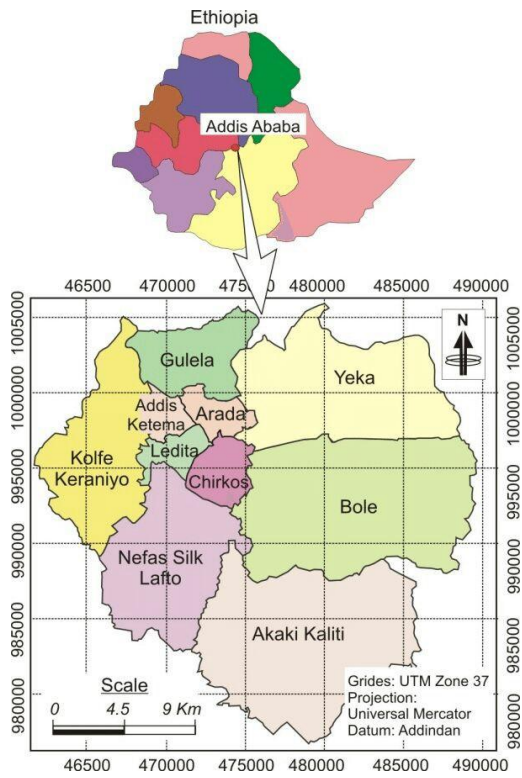
CHAPTER THREE

RESEARCH METHODOLOGY

This section presents the study area, the research design, sampling techniques, sample size, methods of data collection, sources and types of data and the methodologies that were employed to analyze data.

3.1 General Description of the Study Area

Addis Ketema is one of the 10 sub cities of Addis Ababa, the capital of Ethiopia. The district is located in the northwestern area of the city, not far from its center. It borders with the districts of Gullele in the north, Arada in the east, Lideta in the south and Kolfe Keranio in the west. Astronomically, in national grid reference, it is located at the coordinate of 470000 and 995500. The district has 10 Wereda and Addis Mercato, Africa's largest open-air marketplace in the sub city with estimated land area of the district is 7.41 km² (2.86 sq. mi). Its total population is 271,664 which is (9.3%) of Addis Ababa total population. There are 1169 legally registered SME, classified in to five categories namely manufacturing, construction, Trade, Service, & Urban Agriculture, are present. Among these categories, this study focused on the Manufacturing SMEs which take the lion share of 467 SMEs (Addis ketema MSE office, 2018).



STUDY AREA



Figure 3.1: Addis Ababa city government land administration office

3.2 Research Design and Method

Research design is considered as the blue-print and cornerstone of any study since it facilitates various research operations. Research design helps the researcher plan in advance of the methods to be adopted for collecting the relevant data and techniques to be used during analysis. The nature and objectives of the problem to be studied and the means of obtaining information are the most important factors to be considered in order to choose the appropriate research design. Therefore, in order to achieve the objectives of the study as well as analysis and explain the research scenario, the researcher used descriptive Survey study. Hence, this research described major challenges that affect the manufacturing SMEs productivity and their economic contribution for the local economic development related with innovation and creation of job opportunity. This method of research is also economical, efficient and it helps to manipulate key factors and variables.

In general, this research has described the state of matters as exists on the ground. Additionally, mixed method research was applied; both quantitative and qualitative approaches were used to assess the contribution of SMEs in Addis Ketema sub city. The use of typical qualitative research methods including interview and quantitative approached include questionnaire.

3.3 The Sampling Process

For the sake of various reasons such as; time, cost, and energy, gathering data from all respondents have been impossible. Hence, determining the proper sample size among the target population using appropriate sampling technique to select sample population is important. Therefore, the researcher has defined the target populations, the sampling frame & the sampling techniques as follows.

Target population

The target populations of this study are Manufacturing Small & Medium Enterprises found in 10 Weredas of Addis Ketema Sub City, Addis Ababa.

Population Size

There are 467 legally registered Manufacturing SMEs with 843 females and 1268 male, totally of 2111 Manufacturing SMEs operates existed in Addis Ketema sub city, Addis Ababa.

Sample Size:

Among all 2111 registered Manufacturing SMEs operators, 822 operates or owners existed in wood work, metal work and textile manufacturing SMEs, they were considered as a sample frame. From this set of Manufacturing SMEs, 120 sample operators are selected as questioner respondent. The researcher justifications were; these selected set of manufacturing SMEs need relatively large number of labor, they used domestic raw materials, and they are relatively greater in number among all other enterprises.

Additionally, two SME officers are selected from Addis Ketema Sub City SME office to respond for the interview.

3.4 Sampling Method

The main focus of this study was to assess the challenges and the contribution of SMEs for the local economy of Addis Ketema sub city. Therefore, in order to obtain accurate and reliable data for the study, purposive sampling was used. Because, Purposive sampling is virtually appropriate for descriptive survey study. A purposive sampling is important to obtained accurate data from respondents who have closer look to the case and purposive sampling occurs when items for the sample are selected deliberately by the researcher, respondents are primarily interested in the results from other individual. Based on the above reasons, the respondents were purposively selected.

3.5 Sources and Types of Data

The researcher was used both primary and secondary sources and types of data to obtain the require data. Primary sources are sources from which primary data are to be obtained and secondary sources are sources from which secondary data are to be obtained. Primary data refers to the data investigator originates for the purpose of inquiry at hand. These data are fresh, for the

first time and happens to be original in character. Primary data of this study were obtained directly from sample population of 120 wood work, metal work & textile manufacturing SMEs operators or owners found in the 10 Weredas of Addis Ketema sub city and two SME officers in this study area. Secondary data refers those which have already been passed through statistical process like report and any relevant published document. For this study secondary data are used from 2018 reports of Addis Ketema sub city MSE office.

3.6 Data Collection

The study employed both primary and secondary sources of data collection. The primary data was obtained by preparing and distributing structured questionnaire and interview. The close ended questionnaire was pretested to check its convenience & appropriateness for gathering all the required information and then collected by using Likert scale and multiple choices. This was completed by the owner managers or operators of the enterprises. Interview was presented for two officers of Addis ket3dhema Sub city small and micro enterprises. Secondary data were obtained from Addis Ketema sub city SME office report files, policy papers & government documents.

3.7 Questionnaire Design

The questionnaire was designed in order to address the basic research objectives, i.e. the major challenges and contributions for the local economic development in related to employment opportunities and innovations created by manufacturing SMEs. The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The questioner was pretested & its workability confirmed by using ten purposively selected respondents from the sample population before the actual data were collected.

The questions that were used in the questionnaire are six multiple-choice questions and two sets of five-point Likert scale type questions. And also seven questions for the interviewee were prepared.

3.8 Operationalization of the Causes Effects of the Study

There are different challenges which affect productivity, employment opportunities & innovation capacities of manufacturing SMEs economic contribution for the local economic development. The five affecting factors of productivities studied under this study are Capital or finance, raw material, Skilled man power, infrastructure & market linkage which are believed to be existed in the study area. Additionally, the role of manufacturing SMEs for the local economic development in related to employment opportunity and the innovations new products services created by the sector in the research area are studied by using 12 relevant question through two sets of five- point Likert Scales.

3.9 Data Analyses

Quantitative data which obtained through questionnaire and numerical reports were analyzed mainly by using grand mean and standard deviation. Then, they were interpreted in the light of literature. Qualitative data obtained through interview was conducted and analyzed in related to the quantitative data gathered and its result was relevant with the questioner analysis.

3.10 Ethical Consideration

The purpose of the study being for academic sake was explained for the participants. Willingness to engage or refuse was respected. The responses gathered for the study were only from those participants who gave their informed consent.

The beneficence of the respondents was observed in a way that steps taken did not harm the study units. Regardless of the kind and type of response they provided, justice was served. Their answers were not used in any way or meaning to get the better of them or harm any of the participants. The safety of the respondents was duly respected since the study does not intend to use their real names.

Once data is collected and analyzed, it was kept in a safe place. Meanwhile, the result of the study was not disclosed to other people who didn't participate in the study without the willingness of participants. Hence, the notion of confidentiality was respected to the best way possible.

The analysis and writing procedure was free from labeling and falsification. Creswell 2007, suggest that research should not use language or words that are biased against persons because of gender, sexual orientation, racial or ethnic group, disability, or age. Other ethical issues in writing the research will involve the potential of suppressing, falsifying, or inventing findings to meet a researchers or an audience's needs. Hence, this research stood to the point where the whole processes of data collection to findings presentation was abide by the aforementioned ethical issues.

Every step and procedures taken as part of the study was explained in the manner they create a valid and logical consistency. For instance, there was a strict undertaking of questionnaire and interview guideline seeing of the required data as per the study requirements.

CHAPTER FOUR

DATA PRESENTATION, RESULT AND DISCUSSION

All primary data collected from Addis Ketema sub city by using different data collection methods mainly by using questioners from 120 woodwork, metal work & textile Manufacturing SMEs operators or stakeholders, and 2 concerned SMEs governmental officials in Addis Ketema sub city are taken as the sample population of this study. Additionally, secondary data were collected from existing documents in the sub city SME administration office.

4.1 The major Challenges of SMEs

Data which are presented below are used to assess the major challenges and their cause that affected the productivity and economic contribution of SMEs in Addis Ketema sub city.

Since, each respondent has three alternative chances to select existing major challenges. There for the total numbers of responses from 120 SMEs entrepreneurs or owners have becomes three hundred sixty ($120 \times 3 = 360$).

4.1.1 Percentage and Rank of Major Challenges that Affect Productivity of SME

According to Fatoki and Garwe 2010, there are external factors and internal factors affecting SME's productivity. Some of the major problems been faced by SMEs within the internal are lack of access to finance , lack of collateral, insufficient owners' equity contribution, crime, insufficient government support, high interest rate, inadequate demands, inadequate market research, lack of networking, lack of business skills, shortage of skilled labor ,costs of registration and licenses, high inflation rate, high foreign exchange rate, poor electricity supply, lack of training, corruptions, poor roads, poor water supplies and poor telecommunication.

Table 4.1.1: Rank of challenges of Manufacturing SMEs of this research

Major challenges of SMEs	frequency	Challenges in % of 360 chances	Rank
Lack of capital	99	27%	2nd
Lack of market linkage	120	34%	1st
Lack of infrastructure	78	22%	3rd
Lack of raw material	51	14%	4th
Lack of skilled man power	12	3%	5th

Source: Own survey (2019)

Table 4.1.1 shows that the major challenges that affect the productivity and the economic contribution of manufacturing SMEs with the rank of 1st, 2nd, and 3rd are lack of market linkage, lack of capital and lack of infrastructure respectively.

4.1.2 Frequency Results of Respondents who Select Lack of Market Linkage as a Major Challenge

Table 4.1.2: Frequency results on Lack of Market linkage

Cause of Lack of market linkage		%
Fail to create market linkage for SMEs by the concerned Governmental bodies	93	78%
Lack of demand for your products	3	2%
Demand and supply areas are very far from each other	6	5%
Lack of marketing professionals in your SME	18	15%
Total	120	100%

Source: Own survey (2019)

Table 4.1.2 implies that lack of market linkage is the greatest challenge. It is mainly caused by the poor efforts of concerned governmental bodies to create sufficient market linkages for SMEs and also as shown in the above data there is lack of marketing professionals in most manufacturing SMEs. In addition to this, both of the interview respondents have agreed that finding new customers is a major challenge for SMEs specially Manufacturing SMEs. Hence, this study has revealed that the governmental bodies could not able to backing sufficiently SMEs

by creating market access. Manufacturing SMEs businesses found themselves consuming totally their time for production purpose, but in order to create a continual stream of new business customers, they must work on marketing their businesses every day.

The majority of SMEs targeted the low income market areas because of low entry barriers. The enterprises in this market tend to compete for the same customers. The magnitude of these hindrances is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. These issues limit their growth potential, stability and innovating new product as a result their economic contribution in the local economic development be become weak.

4.1.3 Frequency Result of Respondents who Select Lack of Capital as a Major Challenge

Table 4.1.3 Frequency result on lack of capital

Cause of Lack of capital	Frequency	%
Poor initial capital to produce products properly	44	44%
Loan giver institutions are not easily provide loan	37	38%
High cost of raw material and labor	15	15%
Poor business management method of your SMEs	3	3%
Total	99	100%

Source: Own survey (2019)

Table 4.1.3 implies that, lack of capital is the second major challenge. It is mainly caused by poor initial capital and loan giver financial institutions could not able to provide loan for SMEs, with the constructed records of 44% and 37% respectively. Improving the Manufacturing SMEs' access to finance is significantly important in promoting their performance and productivity.

However, the majority of SMEs lack access to formal financial services, bank finance and other form of institutional credits, most SMEs start their business with their own savings, Supplemented by friends, relatives and borrowed funds from governmental small and micro finance institution which administered by a bureaucracy that is generally unfriendly to the poor and provide low amount credit. Additionally, the interviewees commented that the private banks

found it less profitable to deal with SMEs loan requests and refuse to provide them loan. Therefore, access to finance is one of the major challenges to the performance, productivity and economic contribution of manufacturing SMEs.

4.1.4 Frequency Result of Respondents Who Select Lack of Infrastructure as a Major Challenge

Table 4.1.4: Frequency result on lack of infrastructure

Cause of Lack of infrastructure	Frequency	%
Electric city	16	21%
Efficient government service	20	25%
Enough production area or palace	42	54%
Total	78	100%

Source: Own survey (2019)

Lack of infrastructure is the third major challenge that affects productivity of SMEs. The frequency result in table 4.1.4 indicates that the problem of production place and lack of sufficient government services are major problems for SMEs with the records of 54% & 25% respectively, and also power outage of electricity also selected as a problem in considerable amount. Most of the manufacturing SMEs working in single room workshops. On the other hand, governmental bodies in Wereda and sub city level couldn't able to provide sufficient production spaces (Shades) services for manufacturing SMEs. In addition to this, the interviewees also agreed that however the government tried to supply production area stile there is a lot of demands for the shades. As a result of this, the problem of production place and lack of sufficient government support affect the amount and level of production of SMEs.

4.1.5 Frequency Result of Respondents who Select Lack of Raw Material as a Major Challenge

Table 4.1.5: Frequency result on lack of raw materials

Cause of Lack of raw materials	Frequency	%
Your SMEs use import raw material and its cost become high in local market	19	37%
Your SMEs use domestic raw material but the site of raw material is far from your manufacturing area	20	39%
Raw materials are locally available but there is no proper linkage between raw material providers and your SMEs	12	24%
Total	51	100%

Source: Own survey (2019)

Lack of raw material as shown on table 4.1.5 problem of raw material associated with the cost and availability of imported raw material and its cost become high in local market from time to time and site of local raw material is far from SMEs manufacturing area affecting productivity, profitability & competitive capacity of the manufacturing SMEs.

4.1.6 Frequency Result of Respondents Who Select Lack of Skilled Man Power as a Major Challenge

Table 4.1.6: Frequency result on lack of skilled man power

Cause of Lack of skilled man power	frequency	%
High cost of skilled man power in the labor market	4	37%
Difficulty to get skill and vocational training to upgrade your employer	8	63%
Total	12	100%

Source: Own survey (2019)

On the other hand, table 4.1.6 depicts that, lack of skilled man power is not considered as a major challenge by most respondents.

4.2 The Economic Contribution of Manufacturing SMEs in Related to Employment Opportunity and Innovations

Data which presented below are obtained from the questioners responded by 120 manufacturing SMEs operators, used to assess the economic contribution of manufacturing SMEs for local economic development in relation to the employment opportunity & innovation created in Addis Ketema sub city.

4.2.1 The Economic Contribution of Manufacturing SMEs Obtained by Employment Opportunities

Table 4.2.1: Result of grand mean and standard deviation for creating job opportunity

Creating of job opportunity	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	N	Grand mean	SD
SMEs play important role for the growth of the local economy by reducing unemployment	4	16	14	48	38	120	2.13	1.13
SMEs pay enough salary for employed to support their life	13	26	26	42	13	120	2.87	1.21
Most of job opportunity created by government is SMEs	13	40	30	29	8	120	3.19	1.13
SMEs create employment opportunity for local people sufficiently	0	15	18	54	33	120	2.11	0.94
SMEs provide vocational and skill training regularly for employees to maximize their productivity	9	8	18	45	40	120	2.18	1.13
Average	7.7	21	21.2	43.6	26.5	120	2.50	2.11

Source: Own survey (2019)

From the above table 4.2.1 the construct “Most of job opportunity created by government is SMEs” recorded a grand mean figure of 3.19, which is a little bit above the estimated grand mean figure of 3, clearly indicates that there is job opportunity created by government than enterprises for the local unemployed labors. On the construct “SMEs pay enough salary for employee to support their life” recorded a mean of 2.87, which is a little bit below the mean figure 3, implies the enterprises almost agreed that they are paying enough salary for their employee. On the other hand, very low mean figures like 2.13, 2.18, and 2.11 was recorded for “SMEs play important role for the growth of the local economy by reducing unemployment”, “SMEs provide vocational and skill training regularly for employees to maximize their productivity” and “SMEs create new employment opportunity for local people sufficiently” respectively. This implies that the respondents don’t agree on the aforementioned issues. In addition to this, the interview respondent of SMEs officers have said that, the established Manufacturing SMEs couldn’t able to create new or additional employment opportunities for the local unemployed labor forces as intended by the local government.

The entire construct tested have average grand mean figure of 2.50. Literatures viewed that SMEs are engines to address the challenges of poverty, inequality and job creation in local areas. However, the above average grand mean figure indicates that creation of new job opportunities for local unemployed labor force is one of the major failures of manufacturing SMEs in Addis Ketema sub city.

4.2.2 Frequency Result of the Economic Contribution of Manufacturing SMEs by Innovation of New Products

Table 4.2.2: Result of mean and standard deviation for innovation of new products

Innovation of new products	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	N	Grand mean	SD
SMEs innovate new products in order to solve local problems	1	4	13	57	45	120	2.20	1.17
Innovated products are an alternative for other expensive goods for local people	19	59	5	24	13	120	2.40	0.79
SMEs new products can reduce the expense or increase the income of local people	10	7	0	56	47	120	1.97	1.08
SMEs use local raw material	33	23	32	24	8	120	3.60	1.27
SMEs new products can substitute imported similar goods properly in the local market	16	19	28	47	10	120	2.86	1.08
New products of SMEs available cheaply in the local market	10	20	35	45	10	120	2.79	1.21
New innovated products can maximize SMEs profitability and the income of local employed	16	34	29	30	11	120	3.11	1.26
Average	15	23.71	20.28	40.42	20.57	120	2.70	1.14

Source: Own survey (2019)

From table 4.2.2 the construct “SMEs new products can reduce the expense or increase the income of local people” and “SMEs innovate new products in order to solve local problem” recorded the mean figures of 1.97 and 2.20 respectively, these are the lowest grand mean figures below the expected mean figure 3, which implies that the respondents have generally negative attitude for innovation of new products for the purpose of decreasing expenses, increasing the income and to solving the economic problem of local people. During the interview conducting the participant also said that Manufacturing SMEs prefer copycat rather than innovate new product due to the fact that many of manufacturing SMEs don’t have sufficient technological knowledge and capacity to innovate and also there is long way bureaucracy to get legal protection of copyright if they innovate new product.

The 2.40 grand mean result of the construct “Innovated products are an alternative for other expensive goods for local people” which is again below the expected mean figure 3, this implies that the respondents believe their products will less substitute expensive imported goods, and also as per the interview discussion implies, the consumer society perception and their attitude for the local innovated products is very low.

The constructs “new products of SME Available cheaply in the local market” and “SMEs new products can substitute imported similar goods properly in the local market” record grand mean figures of 2.79 and 2.86 respectively also below the expected mean 3, this implies that the SMEs don’t supply innovated product in less expensive price in the local market substituting imported and their products are not better than imported goods in the local market competition. On the other hand, a mean figure of 3.60, and 3.11 was recorded for “SMEs use local raw material”, and “Innovated products can maximize SMEs profitability” this means the use of local raw material and low cost of production will have positive contribution for innovation of new products but the entire constructed recorded an average mean figure of 2.70 which is below the expected mean 3 and with standard deviation of 1.14. These findings indicate that manufacturing SMEs have limitation in innovation of new products and in this regard they are not effectively supporting the local economic development in Addis Ketema sub city.

4.3 Presentation and Discussion of Secondary Data Secondary Data's Collected from Secondary Sources in Addis Ketema Sub City

Table 4.3.1: Registered unemployed

Registered unemployed in all 10 Wereda of Addis Ketema sub city in 2018 & 2019									
Year	Educational qualification	illiterate	≤ 8 grade	≤ 10 grade	≤ 12 grade	10+2	diploma	degree	Total
2018	Number of registered unemployed	176	424	882	556	141	224	203	2606
	percentage	7%	16%	34%	21%	5%	9%	8%	100%
2019	Number of registered unemployed	64	104	340	165	109	148	271	1201
	percentage	5%	9%	28%	14%	9%	12%	23%	100%

Source: Addis Ketema sub city small and micro enterprises (2019)

The number of registered unemployed in Addis Ketema sub city within two years, 2018 and 2019, are 3807. The proportion of degree and diploma holder unemployed become increased from time to time for example in 2018 registered degree and diploma holders are 15%, in 2019 it reached 35% it shows that there is lack of job opportunity for new graduated individuals and unemployment become a greater economic problem in the sub city in one side and there is greater surplus of skilled labor force on the market on the other side. It is the greater opportunity for SMEs to expand their business & maximize their productivity by hiring professionals or skilled labor.

Local Economic Development is defined by Zikhali 2014, as a process in which partnership between local governments, community-based groups and the private sector is established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. However, SMEs cannot create job opportunity for unemployed and accommodate existing resources. To sum up lack of skilled man power is not the challenges of SMEs in Addis Ketema sub city and on the other hand SMEs has very low economic contribution for the local economic

development by create job opportunity for the local unemployed.

4.3.1 Total Number of SMEs in Addis Ketema Sub City Related to Number of Employee and their Innovation

Table 4.3.2: Total number of SMEs

Types of SMEs	Number of SMES		Current owners or founders of SMEs				New employment opportunity	Registered new innovation
	total	%	M	F	total	%		
manufacturing	467	40%	1268	843	2111	28%	Not identified	Not identified
Construction	364	31%	1436	394	1830	25%	Not identified	Not identified
trade	93	8%	239	241	480	6%	Not identified	Not identified
service	232	20%	2037	875	2912	40%	Not identified	Not identified
Urban agriculture	13	1%	45	42	87	1%	Not identified	Not identified
total	1169	100%	5025	2395	7420	100%	-	-

Source: Addis Ketema sub city small and micro enterprises (2019)

Table 4.3.2 shows that there are 1169 SMEs in Addis Ketema sub city which are founded from 2001 to 2010 E.C and SMEs manufacturing enterprises takes the loin share of 467. All SMEs in the sub city can accommodate only 7420 self-employed operators. The manufacturing SME sector accommodates only 2111 that is 28% from the total number operators of all SMEs in the sub city. Among the total SMEs, 40% are manufacturing enterprises which is the highest of all SMEs but it accommodates only 28% from the total number of operators, which is relatively the lowest compared with the other types of SMEs in the sub city. For instance, services SMEs hold the highest number of employee and manufacturing SMEs are the lowest of all. On the other hand, there is no any registered job opportunity created by SMEs found for unemployed labor force.

Generally, the current trends of SMEs are not effective on related to new job creation & innovation, which means SMEs did not played their role as intended in relation to employment opportunity & innovation for the development of local economy.

Given the persistent negative effects on the labor market, policies and their implementation should have an important role in constituting a means of correcting the current trends and preventing the potential adverse effects (Burghelea, Ene, Uzla, 2013).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

Introduction

This chapter contains conclusion and recommendation which are made based on the results of data gathered presented, analyzed and discussed on this research study.

5.1 Conclusion

Based on the data analysis and discussions the following conclusions are made. Manufacturing SMEs play important role for both the local and national economic development. This study assessed the major challenges that affect productivity and economic contribution of manufacturing SMEs for the local economic development in related to employment opportunity & innovation in Addis Ketema sub city.

This study revealed; lack of market linkage, capital or finance & infrastructure are found as the three top major challenges those affected the productivity or performance and economic contribution as well of manufacturing SMEs.

Lack of market linkage is analyzed to be the greatest challenge that has affected performance of manufacturing SMEs and it is the result of inadequacy of market information, the failure of government to create market linkage and lack of marketing professionals in manufacturing SMEs. As the result of this research finding, lack of market linkage takes the lion share hindering productivity, growth potential, stability and economic contribution of Manufacturing SMEs for the local economic development.

Lack of capital is the second major challenges that affect the productivity of manufacturing SMEs. It is the result of poor initial capital obtained from personal saving, lack access to formal financial services, bank finance and other form of institutional credits to get loan,

Lack of infrastructure the third challenge that affects productivity of SMEs. It is mainly related to problem of getting enough spaces of production for most of manufacturing SMEs particularly

metal work and wood work manufacturing SMEs and also outage of electric power supply and other facilities supplied by government. Therefore, lack of infrastructure also affects the output volume and efficiency of production of Manufacturing SMEs.

Manufacturing SMEs have limited contributions for the local economic development by creating employment opportunity. Most of them in the study area are run by founders of the enterprises. Since, most of SMEs have been operated by their shareholders or owners rather than new employees. This fact indicates that no significant new job opportunities are created for unemployed labor forces in most SMEs.

Innovation creates opportunity to make life simple to solve local problem by substitute imported expensive goods and by provide alternative products in the local market and it is one of the major means of boosting economic growth. But there is no any registered or reported innovation created by SMEs in the study area was found.

5.2 Recommendations

Based on the literature reviews, findings, discussion of this study, in order to take corrective and complementary measures, to enhance the potential performance and economic contribution of SMEs for the local economic development and national economic growth as well, the researcher provide the following recommendations.

Every level of government such as local, regional & federal government should play its role, give series emphasis, take measure in order to eliminate obstacles and facilitate working conditions to foster & maximize the productivity and economic contribution of SMEs by:

- Providing selling and display places in areas close to working & Market area.
- Providing online marketing & advertising access to SMEs products.
- Linking the SMEs with other private contractors working within or around Addis Ababa so that the operators are able to secure market opportunity.
- Facilitating financial alternative sources with low interest rate.

- Providing integrated production area and other relevant infrastructures in affordable fairways.
- Changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of products manufactured by SMEs in the long run.
- Allowing those SMEs located and operating at Addis Ketema sub city to participate in biddings opened in other sub-cities of Addis Ababa and around Addis Ababa and vice versa.

The Addis Ababa city government bodies should provide affordable alternative sources of finance for SMEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements and interest rates as well. This should be done so that SMEs can get enough access to finance for their business activities and solve the problem of lack of capital. The operators of SMEs should form groups and make use of negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. Through networking, SMEs of Addis ketema sub city can be able to exchange such as advertising among themselves for free. This will enhance their competitiveness through a reducing the cost of production. To benefit of sharing such service for the operators of SMEs is that it will strengthen the future survival, profitability and eventual growth of SMEs.

Innovation is one of the pillar of economic development and the best means of income of manufacturing sector in both national and individual enterprises level. therefore, to make SMEs competitive, profitable and to increasing the capacity their economic contribution in the development of local economy, it needs to increase the technological knowledge and skill of the operators, through continuous vocational and skill trainings, experience sharing from successful enterprises, provision of advice and consultancy and solving their capital problems are crucial. Additionally, the education curriculum is mostly theoretical from the lower to the highest level and students mostly acquired theoretical knowledge. Therefore, it needs some changes to improve practical performance of students in every level of education in order to improve innovation.

The main objective of government is reducing the increasing number of unemployment by organizing and supporting SMEs in the national level. Because SMEs can accommodate large number of unemployed man power and they can create additional employment opportunity when they become financially strong. To achieve these objectives, the government should support SMEs that can absorb large number of employment, solving SMEs market, financial and infrastructure problem to increase their productivity. Because when their productivity increases, it will need additional labor force. The National Employment Policy of Ethiopia provides a framework to guide interventions aimed at improving employment. Therefore the concerned bodies should work with SMEs operators in related to how they can improve productivities and create more jobs for the local unemployed.

Finally, investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The researcher view that future researches could therefore investigate the SMEs in other sub cities by different topics to come up with specific findings which will potentially contribute a lot to the local economic development of the country.

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APPENDIX 1

Research Questionnaire

Challenges vs. small and medium enterprise Answered by SMEs shareholders and employed

1. What are the main challenges that face your SMEs? Please rank your best three choices from 1 to 3 from the following alternatives/
 - A. Lack of capital
 - B. Lack of raw material
 - C. Lack of skilled man power
 - D. Lack of infrastructure
 - E. Lack of market linkage
2. If you select lack of capital, what was the main cause?
 - A. poor initial capital to produce products properly
 - B. loan giver institutions are not easily provide loan
 - C. high cost of raw material and labor
 - D. poor business management method of your SMEs
3. If you select lack of raw materials, what was the main cause for raw material shortage?
 - A. your SMEs use import raw material and it is not available easily in local market
 - B. your SMEs use domestic raw material but the site of raw material is far from your manufacturing area
 - C. raw materials are locally available but there is no proper linkage between raw material providers and your SMEs

4. If your answer is lack of skilled man power, what is the main cause for it?
 - A. absent of skilled man power in your field of production
 - B. High cost of skilled man power in the labor market
 - C. difficulty to get skill and vocational training to upgrade your employers
5. If your answer is lack of infrastructure, what type of infrastructure you need to fulfill?
 - A. electric city
 - B. road
 - C. efficient government service
 - D. enough production area or palace
6. If you answer is lack of market linkage, what is the main cause of market problem?
 - A. fail to create market linkage for SMEs by the concerned governmental bodies
 - B. lack of demand for your products
 - C. demand and supply areas are very far from each other
 - D. lack of marketing professionals in your SMEs.

APPENDEX 2

The economic contribution of SMEs for the local economic development in relation to innovation and employment opportunity in Addis KETEMA sub city listed below. After you read each of statements and put a tick mark (X) under the choices below. Where, 5=strongly agree, 4=agree, 3=neutral, 2=disagree, 1=strongly disagree.

1. Please indicate the degree to which you agree with the following statements concerning economic contribution in relation to creating employment opportunity

	Creating Job Opportunity	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly disagree 1
1	SMEs play important role for the growth of the local economy by reducing unemployment					
2	SMEs pay enough salary for employed to support their life					
3	Most of job opportunity created by government is SMEs					
4	SMEs create employment opportunity for local people sufficiently					
5	SMEs provide vocational and skill training regularly for employed to maximize their productivity					

2. Please indicate the degree to which you agree with the following statements concerning economic contribution in relation to innovation

	Innovation of new products	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	SMEs innovate new products in order to solve local problems					
2	Innovated products are an alternative for other expensive goods for local people					
3	SMEs new products can reduce the expense or increase the income of local people					
4	SMEs use local raw material					
5	SMEs new products can substitute imported similar goods properly in the local market					
6	New products of SMEs available cheaply in the local market					
7	New innovated products can maximize SMEs profitability and the income of local employed					

APPENDIX 3

Interview Questionnaire for the Sub City Governmental Officials

1. Do you identify the main challenges of SMEs in your sub city and what measure was taken to solve their challenges?
2. Do you think SMEs function properly for the growth of local economy and how?
3. Is there special privilege for SMEs by the sub city and what privilege given to them?
4. Does the sub city provide skill and vocational training for SMEs to encourage innovation?
5. Do you give regular follow up and supervision to support SMEs manufacturing industries in your sub city?
6. Do the concerned governmental bodies create market linkage for the products of manufacturing SMEs?
7. Is there easily accessible and efficient financial institution that provide loan for manufacturing SMEs in your sub city? How they give loan to manufacturing SMEs?