



ASSESSING THE ROLE OF SMEs IN INDUSTRIAL DEVELOPMENT OF ADDIS ABABA CITY

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Abstract

Industrialization speeds up economic growth by transferring the agriculture led economy to the industry led economy. Small Scale Manufacturing Firm, Small Firm, which is a part of small scale enterprises, under the aegis of right framework of industrialization process, can take this country to an appreciable level of industrialization.

Role of Small Scale Enterprises in Industrialization of Addis Ababa is needed to highlight the roles they play in economic development especially by the Small Scale Manufacturing Firm. This study sought to know whether small firm can accelerate the pace of industrialization by creating employment opportunity, increasing government revenue and supporting investment on capital goods, industrial infrastructure, technology adaptation and technical training. The researcher adopted quantitative research approach to carry out this study. The population of the study area was small manufacturing enterprises found in Akaki Kality Sub – City in Addis Ababa city.

Key words: Small and medium enterprises. Industrialization, manufacturing, capital goods

1. INTRODUCTION

Without industrialization, it is difficult to imagine economic growth of any nation; the long run objective of reducing the poverty achieved by facilitating a well conducive environment for the employment generating is unthinkable without industrial transformation. Currently most developing nations are working on creating employment opportunities for the fast increasing unemployed youth that is occupying the urban space. (Dagne, 2009)

A small business is considered as one of a crucial instrument for assisting these activities and support industrial development. Some of recent studies reveals that more than 60% of the GDP and 70% of the total employment in low income countries is covered by MSEs (Abdissa, 2016).

They are also regarded as the largest employers of workers in the industrialized nations rather than the large firms (Abor & Quartey, 2010).

In Ethiopia, the SMEs are the second largest employer next to agriculture. A study conducted in 2003 by (CSA) revealed that 1,803 SMEs had created employment opportunities for about 97,782 citizens (FDRE, 2011) ,Other report from FEMSEDA in the year 2014 addressed that there were 8,593 microenterprise and 10,061 small scale enterprises in Addis Ababa which are engaged in different business activities.

The strategic pillars of the GTP II related to manufacturing sector include.

- 1) Developing light and small scale manufacturing enterprises that are globally competent and a leading in Africa.

- 2) Establishing a foundation for further growth of the strategic heavy industries which ultimately enable Ethiopia to become an industrialized country by 2015 (Selassie, Tarekegn, & Andualem Ufo, 2016)

This shows that the government's strong commitment to work on expanding of small manufacturing firms to achieve the industrialization process in the country. Despite the overall agreement on their importance to the development of a nation, their expected result is not that much at Avery good level. This research paper will assess their contribution on industrial development in terms of employment, tax revenue and capital goods investment on industrial development.

2. Literature Review

2.1 Conceptual Frame Work

In defining Industrialization, Britannica Concise Encyclopedia, says that it is a process of converting to a socio-economic order in which industry is dominant. It entails both technology and profound social developments (IKECHUKWU, 2014). While the Geographical dictionary defines industrialization, as the process by which manufacturing firms develop from within a predominantly agrarian society. It goes further to say that characteristic features of industrialization include the application of scientific methods to solving problems, mechanization and a factory system, the division of labor, the growth of the money economy, and the increased mobility of the labor force, both geographically and socially. These definitions show how kin industrialization is with development of any nation.

Furthermore, Industrialization is the engine of technological development, which provides the structural context in which scientific technology is applied or can be applied to the full utilization of resources for the production of goods and services for the satisfaction of the needs of the people.

2.2The Emergence Modern Small-Scale Business

Theoretical Explanation

Now a day there is a generally accepted principle that the small and medium scale business sector is an essential factor in promoting and achieving industrial growth and economic development. Different authors have postulated and articulated various explanations pertaining to the emergency of the modern small-scale production. There are five main theories that tend to explain this development:

- Recession push,
- Demand growth or change,
- Technological change,
- Flexible specialization, and
- Liberalization theories

Recession Push Theory

According to the recession, push theory, large scale enterprises were harder hit than small firms during this period of economic turbulence. Small enterprise contributed to operate in these conditions and many workers who lost their jobs in the LSEs formed their own small enterprises (Sibanda, 2012)

Thus, the urban informal sector will grow in periods of crisis when the formal sector contracts or grows too slowly to absorb the labor force. Pedersen (1998) argues that when formal employment grows the small enterprise sector is assumed to contract again and thus develop anti- cyclically to the formal economy. Most of the literature has taken this theory to interpret the growth of the informal sector after structural adjustment programmer (SAPs) (Sibanda, 2012).

Although the labor supply theory seems to be credible, it tends to have a number of empirical problems: it tends to limit itself to poorest and smallest enterprises and eliminate the more “modern” and capital-intensive enterprises. These enterprises tend not to “die” even if the formal sector is back on track. They contribute their operations unhindered by the availability of labor on the formal market. To the entrepreneurs in the small enterprises that let them down before. The recession push theory seems to be the ideal theory to explain the development of small enterprises in developing countries.

Liberalization theory

The development of small business is determined by the government policies. In most developing countries, as have been noted earlier, state policies were biased towards the development of LSEs at the expense of small enterprises. LSEs benefited from trade protection, subsidized credit, domestic monopolies, access to technology and raw materials and subsidies from the government.

The liberalization theory showed that government policies that favored LSEs were a hindrance to the growth and development of the small enterprises. (Sibanda, 2012)

Demand change or growth theory

After the 1970s, both the developing and developed countries experienced several changes relating to markets. In the western hemisphere, consumerization was at its peak; markets become saturated, were rendered unstable & fragmented. As income levels increased, consumer tastes become more differentiated (Sibanda, 2012). As a result, demand for customized and sophisticated products, which could not be mass-produced, was triggered. Most firms were forced to produce in small batches, which was seen as the task for small enterprises

This theory does not explain the development of small enterprises in developing countries, where income level is still very low. It is only applicable to small enterprise in developed economy.

Technological change theory

The thrust of this theory is that the advent & diffusion of technologies, based on microelectronics, is seen to lower capital cost and shrinkage of the efficiency gap between long and short runs of production, thereby enhancing the competitiveness of small enterprise production. Demand & technological change theories seem to be weak, as they tend to develop in to some degree of market and technological determinism, where the empirical reality is deduced from the structural changes. This has led to these theories being superseded with other theories, in particular, the flexible specialization theory.

Flexible specialization theory

This theory tends to be in agreement with both the demand and technology theories. It stresses that there has been a collapse of uniform and stable mass markets and that there has been the introduction of new micro-electronic technologies in the production system. Flexible specialization, which is a concept pioneered by (Piore & Sabel, 1984), refer to the manufacture of a wide range of products using flexible, general purpose machinery and skilled adaptable workers (Grotz & Braun, 1993).

Flexible specialization theory differs from the demand & technological theories. The latter theories represent the concepts of mass production and flexible specialization as empirical ideal types, which can be observed in pure or intermediate forms, whereas, in the former theory, they are represented as abstract concepts.

2.3 Contribution of MSEs on the industrial development

It is highly recognized that small-scale businesses have crucial role in economic development and in general and industrial development particular. The SMEs sector make up over 90% of enterprises in the world and account 50 to 60% employment, this shows that MSEs form the backbone of the private sector. SMEs engaged in the manufacturing account for 40% to 80% manufacturing employment and value added.

These are the reason why SMEs make a crucial for the development of a country:

They are more labor intensive and due to this, they are important for equitable distribution on of income. They play an important role in creating employment and thus alleviating poverty mostly they provide job to worker for poor households and women who have few alternative source of income.

SMEs support the building of systematic production capacities. They assist to a absorb resource is of the economy and contribute to the establishment integrated economic system in which small and large firms are linked. They also tend to be more widen dispersed graphically than larger enterprises and help to reduce economic disparities between urban and rural areas (Hobohm, 2001)

2.4 Importance of SMEs focused industrialization

SMEs are important to almost all economies in the world, and particularly for the developing world with the multitude of development challenges.

SMEs represent the biggest share in business establishments in practically all countries and play a crucial role in the industrialization of a developing country. They have unique characteristics on their own, as they are extremely flexible and can readily adapt to today's rapidly changing environment.

SMEs centered industrialization would be most suitable for any nation for the following reasons: (Provided a good business environment exists)

1. SMEs enable better use of existing local capacity, thereby establishing the basis for sustained long-run growth, and the opportunity to expand that capacity in the future – we need to start with what we have;
2. They are naturally more labor intensive and central to job creation and contribute to a more equitable distribution of income.
3. SMEs provide an increasing measure of national self-reliance - the future of entrepreneurship in developing country should be in the hands of their people themselves;
4. They are easy to start since they require lower investment - SMEs are in the reach of Africa, and would enable them to take full ownership their development and management;
5. Because of their large number in different sectors in Africa there is likelihood to adapt new technologies in response to competitive pressure in domestic and regional (or international) markets;

Within the new SMEs/SMIs focused industrialization 'India', the main economic value in Africa of some of the required infrastructure, especially the social and cultural elements (e.g. human capacity development), does not lie in the direct contributions they make to GDP. Rather, the value is seen in the supporting role it provides in building an environment conducive to entrepreneurship and innovation.

Instead of a mega project driven utilization of comparative advantage, which is essentially a short-term strategy, an SMEs focused industrialization strategy is much more long-term as it would accelerate the economy's shift of tomorrow's comparative advantage into higher value-added, higher return products and can help in securing the economy's place in higher potential industries.

We cannot go on playing the “catch up” game without a serious industrialization policy as firms in the more productive economy can out compete firms in the less productive one across many sectors. Given their potential to address both the growth and distributional concerns of economic policy, it is imperative that appropriate attention is given to the promotion of SMEs in Africa (Nkongolo).

2.5 Industrialization in Ethiopia

Ethiopia’s Growth and Transformation Plan seeks to transform the economy from a predominantly agrarian to a modern and industrialized economy. The GTP seeks to transform Ethiopia to an industrialized economy and increase the per capita income of its citizens to middle-income levels by 2025. To bundle efforts and facilitate this transformation the Government puts special focus on five sectors thought to maximize the country’s endowment and comparative advantage in the manufacturing sector: textiles and garments; leather and leather products; sugar and related products; cement; and the metal and engineering industries (Yodit, 2015)

2.6 Definition of MSE in Ethiopia

The 2011 improved definition of MSE in Ethiopia:

Based on the gathered experience, by identifying the gaps of the existed definition of MSE, which was ignoring the size of employee and by taking total asset as criteria and by dividing it into industry and service sector; and considering the coming 5 years inflation and fluctuation/irregularity of currency the improved definition is presented as follows.

Table1. The current definition of SME

Level of enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	<5	100,000 Birr
	Service	<5	50,000 Birr
Small enterprise	Industry	6-30	1,500,000 Birr
	Service	6-30	500,000 Birr

Source FDRE 2011

2.7 MSEs Contribution to employment generation

The formal SMEs in the world contribute up to 45% of the total employment the numbers will increase significantly when informal sectors are included .Based on the estimations 600 million jobs will be needed in the next 15 years to absorb the growing local work force, mainly in Asia and sub-Saharan Africa most formal jobs in the emerging markets are with MSEs which create 4 out of 5 new positions.(Elasrag, 2016)

Most of the MSEs in Ethiopia are engaged in trade and services, constituting 43% and 36% regarding the manufacturing sector it consist 19%. The MSEs in Ethiopia are the second largest employers next to the agriculture sector .According to FeMSEDA the small business sector generated 6,671,012 jobs in the last four years GTP I period .

Challenges of MSEs in Ethiopia

SMEs In the Ethiopian economy perform below their capacity due to umber of factors (Assefa et al., 2014b)

Challenges related to finance supply: credit supply is much smaller than demand. MFIs have only delivered about 50%of the demand for finance. Given that the prices of goods and services have been increasing, the real value of the loan is so small and does not provide SMEs much leverage.

Production and sales cluster development: Access to working and sales premises are the other constraints to SMEs functions in the country. Here the following limitations were observed on building

production and sales cluster slack of well-organized master plan, absence of plan map, uniformity in design, unfulfilled infrastructure, and mismatch in size between enterprises and buildings.

Market linkages: Most of MSEs have failed to serve their debts timely; their products are sold at loss. Rent seeking behaviors observed on both the MSEs and the bureau officials have exacerbated the market linkage problems.

Technological development and growth: Failure of TVET to develop sensitizing on technology transfer and capacity/gap problem with experts in developing and disseminating technology, absence of readiness to accept and use new technology and readiness for change beside MSE.

Licensing and registration challenges: due to high transaction cost during the registration and licensing process informality is highly intensified. The bureau has no support scheme for informal firm still recently where informal firms are organized and being provided with working space and stringent government control of informal firms have forced some to go formal.

Human Resource Development: The absence of self-confidence spirit and innovative culture for job creation with actors, absence of positive attitude towards job creation/innovation and initiation with TVET teachers, Lack of integrated work between SME development agencies and TVET agencies, failure in providing trainings on the basis of need/interest and result oriented, and, weaknesses of TVET in observation efficiently.

3. Methodologies

Methods

To realize the expected objective of assessing the contribution of small-scale manufacturing enterprises on the industrial development of the city quantitative research methodology was applied.

Setting

The research was conducted in Addis Ababa city, Akaki kality sub city. There are eleven woredas in the sub city where all the micro and small-scale manufacturing enterprises are found in all of the woredas administration.

Research Design

A quantitative approach was utilized to do this research. In this research work, questionnaire and observation were used to gather information.

Sources of data

The secondary data was obtained from such sources as published and unpublished documents to be collected from pertinent institutions as AAMSEDA, Federal Micro and Small Enterprise Development Agency (FeMSEDA), Central Statistics Agency (CSA) different research paper and internet. The primary data will collect using questionnaire, observation methods.

Method of Data Collection

Data collection Technique

To achieve the study objective both the primary and secondary data was utilized, to obtain the secondary data published and unpublished source of documents were collected from central statistical agency, FEMSEDA, other research papers.

The primary data was collected using questionnaire methods quantitative research methods will be applying.

The study population

The population of the research is 114 manufacturing SMEs found in Akaki kality sub city. The SMEs are found in the nine woredas of the sub cities.

Sample size determination

According to (Mugenda .A 2003) sample size of 10% of sample size is considered adequate study (Mugenda) so out of 114 enterprise 40 are selected randomly .

Sampling Technique

After determining the sample size stratified random sampling technique will be utilized by dividing the SMEs into five strata namely textile and garment, metal and wood work, leather and leather products construction ,food processing and beverage to select the enterprise the percentage ratio was utilized food and beverage and construction.

Data presentation, analysis and discussion of results

Primary data obtained from different sources will process, classify and tabulate using SPSS. Descriptive method will be employ to analyze the data and interpret the results in quantitative ways. The different hypotheses are also will be tested with SPSS and will be analyzed using different forms as tables' figures, and graphs.

4. RESULT AND DESCUSSION

Based on the result from the questionnaire and SPSS analysis the following result was gained and discussed.

4.1 Enterprise characteristics

Sector Classifications of manufacture SMEs

Valid	Sector	Frequency	Percent	Valid percent	
	Textile and garment	3	8.6	8.6	
	Leather and leather product	1	2.9	2.9	
	food and beverage	3	8.6	8.6	
	Metal and wood work	20	57.1	57.1	
	construction	8	22.9	22.9	
	Total	35	100	100	

Table 2

Source: questionnaire survey

Based on the above table the majority of the enterprises engaged in metal and wood working business, next to them 8 enterprises are engaged in construction, the other remaining enterprises are participate in food textile and leather sectors .

4.2 Constraints of the enterprises

Constraints	Frequency	Percent	Valid percent

Financial constraint	15	42.9	42.9
Marketing	5	14.3	14.3
Lack of good governance	4	11.4	11.4
Land and other premises	4	11.4	11.4
Lack of managerial and technical skills	6	17.1	17.1
Infrastructural constraints	1	2.9	2.9
Total	35	100	100

Source: The study survey

Table 3 constraint of the enterprises

The constraints which hindering the performance of the enterprises are differ from business to business but the major constraint, which faces 42.9% of the enterprise or 15 enterprises, is financial constraint, next to finance ,lack of managerial and technical skills is the main constraint

4.3 Enterprise linkage

Institutions	Frequency	Percent	Valid percent
Large enterprises	7	20.0	20.0
Government	9	25.7	25.7
Research centers	3	8.6	8.6
Have no linkage	12	34.3	34.3
Other	4	11.4	11.4
Total	35	100	100

Source: questionnaire survey Table 4 Institutions which has a linkage with SMEs

The different linkage among firms consist a coordination of the activities through continuous mutual exchange of different information. Due to a well-organized linkage with different institution, the small enterprise will benefit. Based on the above table 34.3% of enterprises, which consist 12 enterprises, responded that they do not have any linkages with other firms and supporting institutions.

4.4 Correlation analysis

Correlations					
		Tax revenue	capital investment	Industrial development	Employment
Tax revenue	Pearson Correlation	1	.322	.056	.535
	Sig. (2-tailed)		.000	.000	.001
	N	35	35	35	35
capital investment	Pearson Correlation	.322	1	.228	.164
	Sig. (2-tailed)	.000		.000	.000

	N	35	35	35	35
industrial development	Pearson Correlation	.056	.228	1	.161
	Sig. (2-tailed)	.000	.000		.000
	N	35	35	35	35
employment	Pearson Correlation	.535	.164	.161	1
	Sig. (2-tailed)	.001	.000	.000	
	N	35	35	35	35

Source: SPSS result

Table 5 correlation analysis table

Pearson correlations

The Pearson correlation analysis is explaining the correlation among independent variables tax revenue, Employment, Capital investment and the dependent variable industrial development.

1) Correlation analysis between capital investment and industrial development

The Pearson correlation analysis test was conducted to see the degree of relationship between the independent variable capital investment and industrial development. Based on the above correlation table there is significant correlation between capital investment and industrial development this means capital investment and industrial development have low relationship in the case of the study area ($r=0.228$, $p<0.05$).

2) Correlation analysis between tax revenue and industrial development

The Pearson correlation test for GDP and industrial development as shown on the above correlation table there is significance correlation between GDP and industrial development here also industrial development and GDP has low relationship ($r=0.056$, $p<0.05$).

3) Correlation between employment and industrial development

The Pearson correlation between Employment and industrial development here there is a significant correlation between the two variables industrial development and Employment have low relationship ($r=0.161$, $p<0.05$).

4.5 Regression analysis

Model Summary

Model	R	R Square	F	Sig.
1	.385	.77	.862	.000 ^b

Source SPSS a. Predictors: (Constant), employment, capital investment, tax revenue

Table 6 model summary

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		17.025	.000
	Tax revenue	.120	.563	.000
	capital investment	.236	1.295	.000
	employment	.186	.911	.000

Source: SPSS analysis Table 7 coefficient

The model summary in table above presents how much of the variance independent variable is explained by the model. The multiplier coefficient determination denoted as R square is 0.77 the variance of the R square indicates that 77% variance in the independent variable was explained by the model

Based on the sig-value in table it is possible to interpret whether the particular independent variable has significance relationship with the dependent variable the relationship significant if the sig.-value is not larger than 0.05

The result shows that there is a significant relationship for tax revenue (0.000), employment (0.000) capital investment (0.000) this means all the variables are good predictors of the independent variable industrial development

The above model regression model also indicates that the tax revenue, capital investment and employment have significant and positive influence ($\beta=120,236,186$) for the tax revenue. The other thing we observed on the regression table is that we identify that which independent variable is more contribute to the prediction of the dependent variable. This information possibly investigated by standardized coefficient beta. In this study, capital investment has the highest beta value. Tax revenue and Employment are also good predictors.

Regarding the hypothesis test, based on the correlation analysis since the independent variables have a p value less than 0.05 we reject all the null hypothesis. Additionally based on the regression analysis all the independent variables have a positive beta and their significant value is less than 0.05 we reject all the null hypothesis and accept the alternative hypothesis.

So based on the above analysis the entire three alternative hypothesis are accepted.

Which means, MSEs have positive impacts on the industrial development in due to employment Generating. SMEs have positive impacts on the industrial development due to investment on capital and SMEs have positive impacts on the industrial development due to revenue from tax.

CONCLUSIONS

The main objective of this study was to assess the role of small-scale manufacturing enterprise on the industrial development OF Addis Ababa. (Case of Akaki- Kality Sub City)

Based on the analysis on the research small-scale manufacturing businesses have important role on creating job opportunities for unemployed peoples, source of tax revenue, and developing industrialization by investing on capital goods and technology.

Nevertheless, when the research analyzed their impact on industrial development based on the three independent variables, Employment, tax revenue and Capital investment focused on one sub city is very low this is due to some constraints on the sector. These are some of constraints, lack of finance, lack adequate support from the supportive institutions including the government, lack of suitable infrastructural, lack of marketing and promotion supports.

Additionally the research reveals that there is a weak linkage among different enterprises and other supportive research institutions. Due to the above constraints, 35% of the enterprises are at a stagnant level regarding their business activity. This situation is a very danger to the new entrant to manufacturing sector.

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