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**ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

**ECONOMIC INTEGRATION OF SMALL AND MEDIUM  
ENTERPRISES IN ETHIOPIA: AN ANALYSIS OF THE  
MANUFACTURING SECTOR IN TIGRAY**

Specialty: 5312.01 - “Field economy”  
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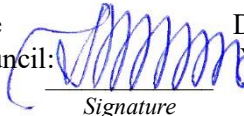
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## GENERAL DESCRIPTION OF THE RESEARCH

**Relevance of the topic and degree of elaboration.** Currently, one of the main problems in the Tigray region of Ethiopia is to create a sense of urgency for a new emphasis on rapid economic growth and generating employment to eradicate poverty through intensifying regional and zonal economic integration efforts through SMEs in manufacturing industries. Therefore, they enable them to build confidence and capacity to compete effectively in volatile and competitive countries' markets and develop solid links between regions in the country.

The economically integrated manufacturing sector is a fundamental path and source of productivity and the driver of economic development through the adoption of new technology, generates a fast structural change to alleviate poverty and reduces unemployment<sup>1</sup>; To remain competitive in the manufacturing sector an enabling environment and integration are required. Which reduces transit costs, especially for those landlocked countries like Ethiopia, Uganda, and Rwanda. As we indicate from the finding, and the literature review the country designed and established homegrown national strategic plans in different periods and implement them accordingly. However, designing a strategy and having abundant human and natural resources alone could not bring the required result unless these strategies and plans of action make the change based on the existing realities at the grassroots of the sectors through scientific research.

The light manufacturing (SMEs) in the region is still produced to meet the needs of domestic demand using local technology and skills even though the rate of employment increased. As a result, SMEs are characterized by commodity exports and weak export representation at the international level which calls for a radical change, thinking breakthrough from the agriculture mentality to manufacturing industries. Therefore, the government focuses on the quality of human aspects and export goods than quantity through enhancement of the strategic plans. The economic contribution of the manufacturing sector is still low, and the export

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<sup>1</sup> Saridakis, G., Georgellis, Y., Torres, R. I. M., Mohammed, A. M., & Blackburn, R. (2021). *From subsistence farming to agribusiness and nonfarm entrepreneurship: Does it improve economic conditions and well-being?* *Journal of Business Research*, 136, 567-579.

contribution share has been falling and is characterized by commodity exports. It is heavily dependent on resource-based manufacturers dominated by small firms most of which are informal with weak technological capabilities and their performance varies from one country to another. But many policymakers and scholars recognized that a healthy and integrated competitive Small and Medium Enterprise is a fundamental path of an industrial economy and ensures stable economic development through innovation and reduces unemployment. SMEs are the seed and backbone of the industrial sector and catalyst for structural transformation, stabilizing the local market and outreach to local consumers.

Tigray is one of the regional governments of Ethiopia where frequent severe weather events and long-term effects of climate change threaten agriculture and pastoral livelihoods outputs<sup>2</sup>. In addition, the migration of youth and unemployment is high, and wealth and foreign currency accumulation are constrained and poor design of clustering. Thus, the most practical solution for the above-stated problem is to design and jump-start industrialization and structural transformation strategy and export diversification through the process of economic integration. Economic integration is not a matter of choice for Ethiopia, and Tigray SMEs in particular, but also a necessary issue for SMEs' ability to execute strategies, react swiftly and effectively to market forces, better meet customer needs, and cut costs. It also creates an opportunity and pressure on small and medium-sized businesses to increase the value/variety/of their production to broaden consumer choice and cut costs. subsequently raising people's standard of living.

Further, it facilitates the removal of economic obstacles by fostering economic ties between economic units and the exchange of production factors to address the shared issues. This makes it easier for small and medium-sized enterprises to produce and sell their goods internationally; SMEs become capable and self-assured enough to compete successfully in a world of erratic and fierce competition. Thus, this is all that gives the research topic its relevance. in the study area.

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<sup>2</sup> *EEA (2017): the performance OF large AND medium scale manufacturing industry. Ethiopian economy association (EEA).*

Even though the empirical study shows that a variety of factors contributed to SMEs' economic integration into the manufacturing sector, Ethiopia still needs more research in this area for the following main reasons: first, most studies carried out in the previous few years were based on out-of-date policies, and a lot has changed since then. Studying this subject is essential because sensible policies and strategies must be based on current knowledge. Most studies tried to assess the challenges and contributions of micro and small businesses, but they neglected to consider the process of the economic integration of Tigray's light manufacturing industries. Due to a lack of research and knowledge about sector-based linkage, it is not well known to what extent and how much SMEs in the Tigray State are contributing to economic integration. To help SMEs make the most of their opportunities and find ways to counteract the negative effects of economic integration, this study will identify the constraints and opportunities that exist for them in the region.

Thus, the above factors determine the relevance of the chosen topic.

#### **The degree of scientific elaboration of the problem .**

The issues of economic integration of small and medium-sized enterprises have been studied in the scientific works of Ethiopian and foreign scientists, as well as in official documents of many governments.

In Ethiopia, certain provisions of this problem are fixed in the Decrees of the President of Ethiopia, legislative acts, State programs of socio-economic development of Ethiopia for the future.

Various aspects of the problem of research of small and medium-sized businesses in industries are considered in the works of Azerbaijani scientists - A.Muradov, N.Gadzhiev, R.Hasanov, R.Guliyev, Ch.Abbasov, A.Alrzayev, M.Akhmedov, R.Jabiev, N.Imanov, G.Manafov, F.Mustafayev, Z.Samedzade, A.Shakaraliev, G.Yuzbashiev, etc.

The works of foreign scientists are of great importance for the theory and practice of integration of small and medium-sized businesses Nad Shams, Ajitabh, A., & Momaya, K, Alemneh, D.Altomonte, C., Aquilante, T., & Ottaviano, G. I.,Amentie, C., Negash, E., & Kumer, I.,Balassa, B., & Stoutjesdijk, A., Kadyrov, Z., Aghahasanli, I., & Isayev, Creswell, J. W., & Poth, C. N.,Desie, Y., C.,Havens, R. M., & Balassa, B., Hosny, A. S,ILO. Jaber, T. A., Kachlami, H., & Yazdanfar, D., Lee, J., Lin, T., & Hsi, H., Marinov, E.,MoFED, Neagu, C.,Obeng. Odoom, F.,OECD,Oqubay, A.

,Porter, M.E. and van der Linde, C.,Schlogl, H. Schmitz, H., & Nadvi, K., R.Signé, L. Siudek, T., & Zawojnska, A. ,SMECDP TSMMDA.,UN. ESCAP. UNDP. Unity, C. WBI

At the same time, despite the importance of the scientific results obtained by Ethiopian, Azerbaijani and foreign scientists, the analysis of works on the integration of small and medium-sized enterprises operating in the manufacturing sector in modern conditions allowed us to conclude that certain issues of small and medium-sized business research in Ethiopia are insufficiently developed and that a number of fundamental positions need to be clarified.

The fundamental novelty and importance of these problems for the reformed Ethiopia, insufficient research on the integration of small and medium-sized businesses in the country with a high scientific and practical significance of its solution, the debatable nature of many of its aspects determined the choice of the topic of the dissertation, its purpose and main tasks.

The **purpose** of the dissertation work is a theoretical study of the issues of economic integration of small and medium-sized businesses and the development on this basis of scientifically sound practical recommendations for strengthening integration and increasing competitiveness in the manufacturing industries in the Tigray region in relation to modern conditions.

To achieve the goal in the work , the following **tasks** were set and solved:

- Research of theoretical and methodological foundations of economic integration of small and medium-sized enterprises;
- Study of the practical implementation of the strategy of economic integration and state policy in the field of small and medium-sized businesses;
- Analysis of the strategy of economic integration of small and medium-sized businesses in the manufacturing industry;
- Analysis of the dynamics of the development of the manufacturing industry in Ethiopia;
- Analysis of the impact of stakeholders on the economic integration of small and medium-sized businesses;
- Identification of problems hindering the economic integration of

small and medium-sized businesses in the manufacturing industry;

- Development of practical recommendations to strengthen integration and increase competitiveness in manufacturing industries in the Tigray region.

**The object of the study** is small and medium-sized enterprises operating in the manufacturing sector of Ethiopia. The main **subject** of the study is the integration issues of small and medium-sized enterprises operating in the manufacturing sector.

**Research methods.** The theoretical and methodological basis of the research are fundamental and applied concepts presented in the works of domestic and foreign economists on the problems of integration of small and medium-sized enterprises operating in the manufacturing industry, strategic planning and production management. The main tools were the methodology of a systematic, integrated and structural-functional approach to the study of the integration of small and medium-sized enterprises operating in the manufacturing sector, as well as the principles of deduction, induction, generalization and analysis.

In the process of dissertation research, logical, statistical and other methods of processing and summarizing information determined by specific tasks were used.

**The main provisions of the defense.** The following main provisions are submitted for protection, which are new or contain elements of novelty:

- The government should establish evidence-based requirements for setting up an SME, and then base its decision on the applicant's propensity to do business.

- Missing components (medium-sized enterprise) that restrict access to finance and create another financial institution should be included in the policy, strategy and action plan.

- The strategy for the implementation of GTR II should pay more attention to the expansion of SMEs and the creation of networks through the coordination of a number of programs related to the economic integration of SMEs.

- Leaders should encourage active participation in the activities of the SME Council, as well as proper coordination of stakeholders, the private sector and SME organizations in general to fulfill their responsibilities and responsibilities for the development of SME organizations in the city.

- Creating a business-friendly environment, promoting entrepreneurial culture and providing access to financing and services for business development, innovation, technology development and market access should be considered comprehensively.
- The Government and non-governmental organizations, financial institutions, diaspora, academics and the local private sector should support the Government in developing a new financial strategy and open a separate branch in order to better meet the financial needs of the competitiveness of SMEs and fully play their role in the development of the country. the process of industrialization.
- SMEs should create strong direct and feedback links with agricultural suppliers, larger enterprises such as Mesfin Engineering, Mosobo Cement Industry, Almeda Textile, Mathew Horticultural and others, and ultimately change the well-being of people to achieve the goals of the regional state of Tigray.
- In order for SMEs to fully realize their potential, the regional government should use the favorable conditions available to them, low land rents, financial loans and leasing financing. In addition, it should encourage foreign and domestic investors to invest in the region.
- The Government should focus on the agro-processing sector, since it is most interconnected with other manufacturing enterprises, with agriculture. This creates a more favorable environment for increasing external and domestic demand.
- Decision makers should take urgent measures to ensure that the local population and residents of other countries live in an environment that is both economically and politically stable.
- Clustering of small and medium-sized enterprises creates interconnections and interaction between SMEs located in geographical proximity.

**The scientific novelty of the research** The scientific novelty of the dissertation work lies in the fact that it for the first time carried out a comprehensive study of the problems of economic integration of SMEs in the manufacturing sector of the Tigray region of Ethiopia, provided a scientific justification of the parameters of the development of this industry in the future.

The main results that make up the scientific novelty of the study include the following:



1. The factors hindering the development and integration of small and medium-sized enterprises in the manufacturing sector in the Tigray region of Ethiopia are identified and systematized. (2.3)
2. The prospects for the development and integration of small and medium-sized enterprises in the manufacturing sector in the Tigray region of Ethiopia are identified and on their basis a set of necessary for ensuring such development is proposed. (2.4)
3. For the first time, a comparative analysis of the dynamics of development and assessment of the current state of the manufacturing industry in four neighboring countries of North Africa, including Ethiopia, was carried out. (3.1.1)
4. Econometric models have been developed, and on their basis a quantitative assessment of the mutual influence of employment and production in the manufacturing industry of four North African countries has been carried out. (3.1.2)
5. A questionnaire was developed on the basis of which a survey of focus groups was conducted in order to identify the specifics of the problems and prospects for the development and integration of small and medium-sized enterprises in the Tigray region of Ethiopia. Based on the data obtained as a result of the survey using statistical methods, appropriate quantitative estimates were carried out, and an economic interpretation of the results was given. (3.2)
6. On the basis of the conducted research, relevant practical recommendations have been developed and proposed to strengthen integration and increase competitiveness in the manufacturing industries in the Tigray region. (Conclusions)

**Theoretical significance of the research results** consists in expanding and developing the theoretical basis for the study of the integration of small and medium-sized enterprises operating in the manufacturing sector in modern conditions.

**The practical significance of the dissertation** lies in the fact that methodological approaches and practical recommendations contained in the work can be used by government agencies in the development of policies and strategies in the field of integration of small and medium—sized enterprises operating in the manufacturing sector at various levels - national, regional, as well as business structures and enterprises of the

manufacturing industry in improving infrastructure and technologies that affect the economic integration of medium and small businesses.

**Approval and application.** The main provisions of the dissertation and its individual results were reported and discussed at international, republican scientific conferences and seminars, including:

- The 5th International Eurasian Conference on Research and Trends, December 16-19, 2019: "Problems of economic integration of small and medium-sized enterprises in the manufacturing sector of the Tigray regional state, the city of Mekelle".

- 2nd International Research Conference in Ankara on March 6-8, 2020: "The practice of economic integration of small and medium-sized enterprises in Ethiopia"

- 55th Session on Economic and Social Development of Aveiro, Portugal, July 2, 2020: "Assessment of the policy and strategy of economic integration of small and medium-sized enterprises in the manufacturing sector of Ethiopia: an example of the regional state of Tigray"

- 2nd International Symposium on Innovative Research in Positive Sciences. Hungary, September 23-26, 2020: "Assessment of the problems of the value chain process on the example of Ethiopia, the Tigray manufacturing sector in 2020".

- 5th AEGEAN International Symposium on Social Sciences and Humanities, 2022: "Assessment of the links between the agricultural and Manufacturing Sectors in Ethiopia"

- IV International Scientific Conference of Economic and Management Studies on June 23-26, 2022 Baku: "Situational analysis of the problems and prospects of the light industry sector in Ethiopia".

**Name of the company where the dissertation research is done.**

The Azerbaijan State University of Economics Department of Economics is where the dissertation was finished.

**The volume and structure of the dissertation work.** The dissertation consists of an introduction (14987 characters), three chapters (Chapter I 34955, Chapter II 88278, Chapter III 42526 characters), conclusion (11262 characters) and a list of used literature (102 references), the total volume is 160 pages. The total text part of the dissertation (excluding tables, schemes, diagrams, graphs and the list of references) is 212008 characters.

# CONTENT

## Introduction

### **CHAPTER I. Study of the economic integration of small and medium enterprises: an analysis of the manufacturing sector theoretical fundamentals**

- 1.1. Theoretical basics of the economic integration of small and medium enterprises
- 1.2. Manufacturing industries in Ethiopia
- 1.3. Methodological fundamentals of the research of SME in manufacturing

### **CHAPTER II. The Current Status of SME Integration Process in the Manufacturing Industry in Ethiopia, Tigray Regional State**

- 2.1. Manufacturing industries in Ethiopia: government policy, and SMEs
- 2.2. The feature and dynamics of development of small and medium enterprises in Ethiopia, Tigray regional state
- 2.3. Organizational and economic challenges for small and medium enterprises in Tigray

### **CHAPTER III: The directions to improve the economic integration of small and medium enterprises in Tigray**

- 3.1. The directions for improving the economic integration of small and medium-sized enterprises in East Africa (Ethiopia, Rwanda, Tanzania and Uganda)
- 3.2. The directions to improve the economic integration of small and medium enterprises in Tigray

## **CONCLUSIONS AND SUGGESTIONS**

## **REFERENCES**

## **ANNEXES**

## SUMMARY OF THE DISSERTATION.

The dissertation comprises an introduction, three chapters, conclusions, and a bibliographic list of used literature. The introduction of the dissertation serves to justify the significance of the chosen topic, explain the research objectives, outline the problems addressed in pursuit of the established goals, highlight the scientific novelty and practical importance of the achieved outcomes. In the first chapter of the dissertation entitled **“Theoretical and methodological foundations of the concept of economic integration of Small and medium enterprises in manufacturing sector”**, policies and strategies, competitiveness, networking among stakeholders and its challenges were studied.

**AN ASSESSMENT OF DATA INTERPRETATION.** In today’s world, in developing countries like Ethiopia, an inclusive, sustainable, and integrated manufacturing industry is required. But the question is how can the country attain them? It is crucial to develop an effective strategy and establish an enabling environment to build strong institutions, expand the infrastructure, and attract local and foreign investors. Through motivating and empowering women and youth to engage in the SME light manufacturing sector, economic integration comes into effect, which is the main potential for faster economic growth, boost capital gains, economic contribution to the creation of jobs, ensuring fair income distribution, and poverty reduction. But only 16,7% of the productive aged groups have got the chance. Without training, they could not operate a business, without skill and resources they cannot start a business.

The SMEs in Tigray are no exceptional in this regard, almost all of them have limited experience and the creation of jobs is not appreciated though relatively better in the local market. The main challenges towards the development of SMEs were all of the objectives of industrial transformation were not increased the number of manufacturing firms, the workforce at those firms, or the amount of hard currency produced by exporting manufactured goods. These could be due to weak linkage with the agriculture sector, poor implementation of clustering masterplan to share and interact among implementors, limited access to funding, inadequate workspace, knowledge and skill deficiencies, poor negotiating skills, and information asymmetry. Thus, small, and medium-sized

businesses are working in a difficult situation that leads them dependent on government assistance.

Therefore, it calls for corrective measures to avoid these constraints faced by the sector. This issue cannot be left to the government alone, but it requires a serious commitment, a sense of urgency, responsibility, and accountability from all parties who are involved directly or indirectly in the SMEs operation. Mainly to remove barriers to working capital, work premises, and adequate knowledge aids, and to select the best subsector that integrated and benefits most of the community in the region.

**Table 1. Enabling Environments for SME**

<b>Responses from interviewees</b>		<b>SDA</b>	<b>A</b>	<b>Und</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>
Have adequate knowledge of SME strategy to support SMEs	Count	15	49	25	16	18	2.78
	% N	12.2	39.8	20.3	13.0	14.6	
Working environment conducive	Count	20	40	33	20	10	2.67
	% N	16.3	32.5	26.8	16.3	8.1	
Provision of supporting SMEs to get business development skills	Count	21	40	28	23	11	2.70
	% N	17.1	32.5	22.8	18.7	8.9	
Provision of facilitating SMEs to get finance	Count	24	44	28	23	3	2.48
	% N	19.7	36.1	23.0	18.9	2.5	
Provision of helping SMEs to get working promise/place	Count	21	49	30	17	6	2.50
	% N	17.1	39.8	24.4	13.8	4.9	
Provision of facilitation to create market linkage for SME	Count	18	54	28	14	9	2.53
	% N	14.6	43.9	22.8	11.4	7.3	

*Source: Own computation*

Most respondents concurred that despite efforts, the regional governments did not create an environment that is favorable for the economic integration of SMEs. They suggest that the SMESDA lacks dedication, and a common understanding of the strategies and the importance of economic integration of SMEs in the creation of jobs, economic growth, and poverty reduction, this implies that SMEs and implementers have faced difficulty in building commitment, and competitiveness to achieve the country’s vision. As a result, the community established a business using a resource that was already available and influenced by agriculture which lacks technology. Therefore, the government focuses on the quality of human aspects and export goods than quantity through enhancement of the strategic plans to remain the manufacturing industry economically integrated and sustainably.

**Table 2. Competitiveness of SMEs**

Responses from interviewees		SDA	A	Und	A	SA	Mean
Available skilled manpower	Count	11	20	34	47	9	3.19
	% N	9.1	16.5	28.1	38.8	7.4	
Available cheap manpower	Count	7	12	36	53	14	3.45
	% N	5.7	9.8	29.5	43.4	11.5	
Available of infrastructure	Count	16	39	33	29	5	2.74
	% N	13.1	32.0	27.0	23.8	4.1	
SMEs have produced domestic demand for products	Count	11	39	25	39	8	2.95
	% N	9.0	32.0	20.5	32.0	6.6	
SMEs have produced external demand for a product	Count	18	49	29	20	6	2.57
	% N	14.8	40.2	23.8	16.4	4.9	
SMEs have the capability to produce high-quality product	Count	21	51	19	25	6	2.54
	% N	17.2	41.8	15.6	20.5	4.9	
SMEs have a competitive strategy to compete in the market	Count	21	47	22	27	5	2.57
	% N	17.2	38.5	18.0	22.1	4.1	
Government incentives (tax reduction subsidy and training of SMEs)	Count	19	45	19	26	11	2.71
	% N	15.8	37.5	15.8	21.7	9.2	
Availability of quantity and quality of raw material/input	Count	24	40	21	25	12	2.68
	% N	19.7	32.8	17.2	20.5	9.8	

*Source: Own computation*

This table demonstrates that there is a statistically significant difference in the mean competitiveness factor scores. All the results in the given table fall below the average of 2.90, apart from the availability of skilled labor ( $\bar{x}$  = 3.18), labor that is cheap labor ( $\bar{x}$  = 3.45), and SMEs that have produced goods for domestic consumption ( $\bar{x}$  = 2.95). Regarding the remaining explained indicators, the respondents are evenly split between disagreeing and unsure. Affordable and skilled labor is readily available for SMEs in nations like Ethiopia. This implies SMEs cannot employ the industry's available labor force even at a lower cost, which would increase productivity and compete in the global market due to a lack of competitive strategy, high-quality and sufficient inputs, and overall government motivation.

One of the benefits of economic integration is the transfer of common resources to use efficient and effective networking with others to remove the barriers that hinder competing in the local and international markets. The statistical analysis of having good relationships, sharing experiences with other SMEs, and transferring expertise, talent, and funds across SMEs demonstrates the means are (respectively)  $\bar{x}$  = 2.54,  $\bar{x}$  = 2.69, and  $\bar{x}$  = 2.48.

**Table 3. Networking among SMEs**

<b>Responses</b>		Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean
Have good relationships among SMEs	Count	13	41	21	17	3	2.78
	% N	13.7	43.2	22.1	17.9	3.2	
Provision of resources to other SMEs	Count	11	44	22	14	3	2.67
	% N	11.7	46.8	23.4	14.9	3.2	
Experience sharing with others	Count	8	42	22	17	6	2.70
	% N	8.4	44.2	23.2	17.9	6.3	
Transfer of knowledge, capital, and human resources	Count	11	48	21	12	4	2.48
	% N	11.5	50	21.9	12.5	4.2	

*Source: Own computation*

The data reveals that there is no statistically significant difference between the mean actor network scores, but the transfer of production components (knowledge, money, and human resources) reveals a mean that is lower than the average of 2.66. However, most of the respondents (56.9%) and the key informants concurred that there is no effective relationship among SME actors for the sharing of human resources and capital and experiencing that increase in manufacturing exports and business expansion of industrial transformation through integration.

This also supported the finding from table 3.10 and key informants that engagement in agro-processing businesses is creating the best relationship and networking than other categories of subsectors since it mostly utilizes local input and not depends on more imports. Besides, urgent measures taken for peace and security in the region were the most recommended area that received the most support for improving the performance and integrating SMEs in the Region.

**Table 4. Critical Problem for SMEs Integration Rank**

*Source: Own computation*

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Production work promise/place	95	1.35	.965
Access to credit facilities	95	2.66	1.478
Training skill development	95	4.39	1.307
Supply of inputs/quality and quantity of raw material	96	2.96	.753
Market linkages	96	5.27	1.285
Promote technology and innovation	64	4.69	1.798
Proximity to market	73	4.77	2.004
Valid N (listwise)	64		

*Source: Own computation*

Production and display work premises, access to credit facilities and supply of inputs (quality and quantity) show that the mean of ( $\bar{x} = 1.35$ ,  $\bar{x} = 2.66$ , and  $\bar{x} = 2.96$  respectively below the mean value of  $\bar{x} = 3.73$ ). The respondents are asked to rank the barriers that hinder their economic integration from the critical problem of production work premise, access to credit facilities, training, supply of inputs, market linkage, promotion technology, and proximity to market in a survey among the list of constraints, the respondent ranks that work premises, access to credit facilities and supply of inputs (quality and quantity) as the most severe problem in the economic integration of SMEs. The key informants and the discussant were also assured that the critical factors that reduced the production capacity and competitiveness of SMEs are delays in the offering of work premises, access to credit, and excellence of raw materials, among others.

The result of the study discovered that the Tigray Regional State gave priority to micro and large enterprises over medium enterprises which suffer from inadequate access to finance, inadequate workspace, and a lack of market linkage. Though the study found that policymakers are trying to increase access to capital by setting up development banks and Kaze finance leasing, offering loans for the expansion of SMEs, the loan provided by this institution was found insufficient, leading to additional rates and SMEs' capital tied up due to lead time.

The result from the key informants and discussant confirmed that the unhealthy political environment between Ethiopia and Eritrea and among the regional government of Ethiopia since 2018, SMEs have harmed their production, market, and carrying cost which needs to call for urgent action taken by decision-makers and the society at large.

*This study used the OLS regression model to evaluate the causal relationship between the dependent and independent variables. The value of  $R^2$  in the OLS estimation shows 0,6386, which implies that 64% of the models are explained by the explanatory variables.*

The study result shows government support ( $\beta=0.2454$ ,  $P=0.080$ ) has a positive statistically significant at a 10% level of ( $\alpha = 0.1$ ), there exists evidence to conclude that government support is a predictor of the economic integration of SMEs in Tigray Mekelle city. The adequate knowledge of the strategy by the implementers and SMEs ( $\beta=1.04$ ,



P=0.056) has a positive and statistically significant impact on economic integration in the study area. The coefficient of getting business development service ( $\beta=1.249$ ,  $p=0.007$ ) is a positive and significant impact on economic integration at 5 percent. The provision of working premises ( $\beta=1.867$   $P= 0.027$ ) positively and significantly influence economic integration at 1%. The engages in agro-processing ( $\beta=0.998$ ,  $P=0.002$ ) positively and significantly influence economic integration at 1%. The motivation and support of medium enterprises  $\beta=0.5438$   $P=0.029$ ) has a positive and statistically significant at 1%. It is concluded that designing a policy and strategies alone has no influence in determining the economic integration of small and medium enterprises in the manufacturing sector. This means that an improvement in creating government support for SMEs, having adequate knowledge of strategies, getting business service and motivating SMEs to engage in agro-processing lead to the strong economic integration of SMEs in the manufacturing sector and vice versa. Hence, the interpretation of the observed correlation is that the economic integration of SMEs is significantly determined by the above independent variable. The potential policy implication might be desirable to consider government should improve the supporting package, strengthen networking among actors, and capacity building of operators and officials of SMEDA when redesigning the SMEs strategies to come true the economic integration of SMEs. To supplement the model an interview was held with SMEs leaders and stakeholders and a focus group discussion with SMEs councils. Accordingly, the result of the interviews and group discussions indicated that the government policies and strategies, competitiveness of SMEs, network among actors and large enterprises with SMEs, the supporting package provided by the government are not efficient and effective. This implies there is a moderate relationship between the independent variables and the measure of integration.

Finally, even though this study has identified some barriers to SMEs' economic integration, it is crucial to remember that the region is also characterized by many opportunities for future SMEs, including committed top regional leaders, 129 new and existing certified investors who invest in the region, and skilled, productive human resources who are available and are willing and ready to work in the region.

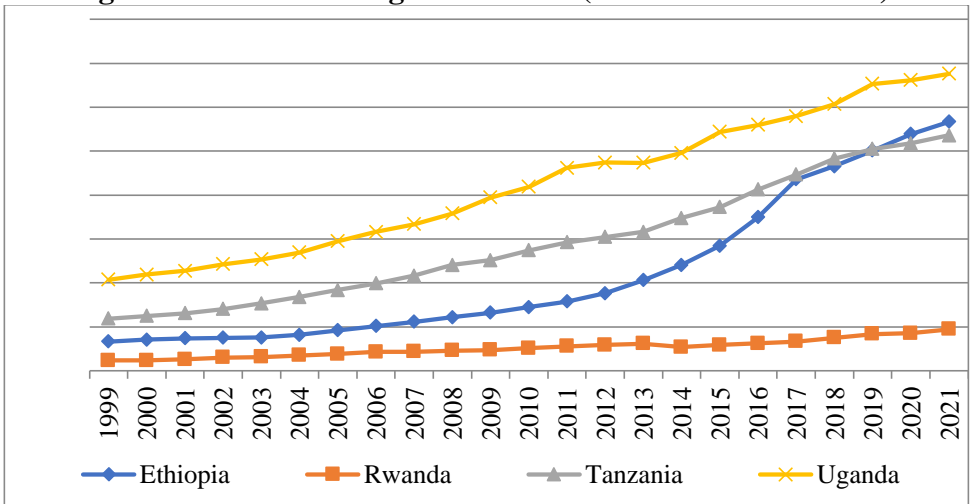
In addition to this, the region is near the port of Djibouti, Sudan,

and Eritria, with the existence of a hospitality and cooperative community. Additionally, if the region is stable, it is simpler to move people and goods around the region thanks to the favorable climate at the urban center, affordable rents compare to others, hospitable culture, and paved roads connecting the major cities in the area.

**Comparative analysis among the four East African Countries, (Ethiopia, Rwanda, Tanzania and Uganda)**

Cross-country comparative analysis influence of the main macroeconomic and industrial indicators. In this research, the author analyses the competitiveness of the manufacturing sector of these countries in comparison to the world economy as follow.

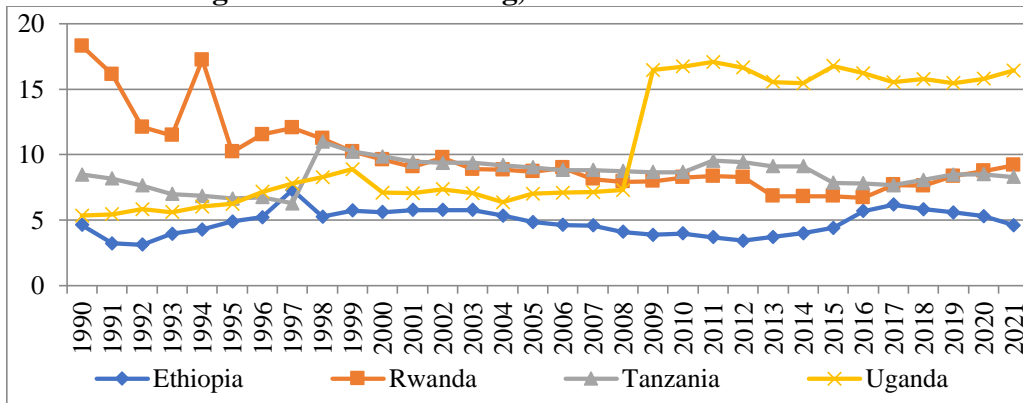
**Figures 1. Manufacturing. value added (mln. constant 2015 US)**



Source: World Bank, Indicator 2020

Examining the 20-year actual number trend for value-added in Fig. 1, Uganda was the largest, and Rwanda was the smallest year to year. Each country is evaluated from 2011-2015 and 2011-2020 to check the percentage increase. The results indicated that Ethiopia had the highest increase with 80% and 242% in 5-year and 10-year respectively, followed by Tanzania with 27% and 77% respectively in value-added. Overall, all countries have shown an increase in the 5-year (2011-2015) and 10-year (2011-2020) period

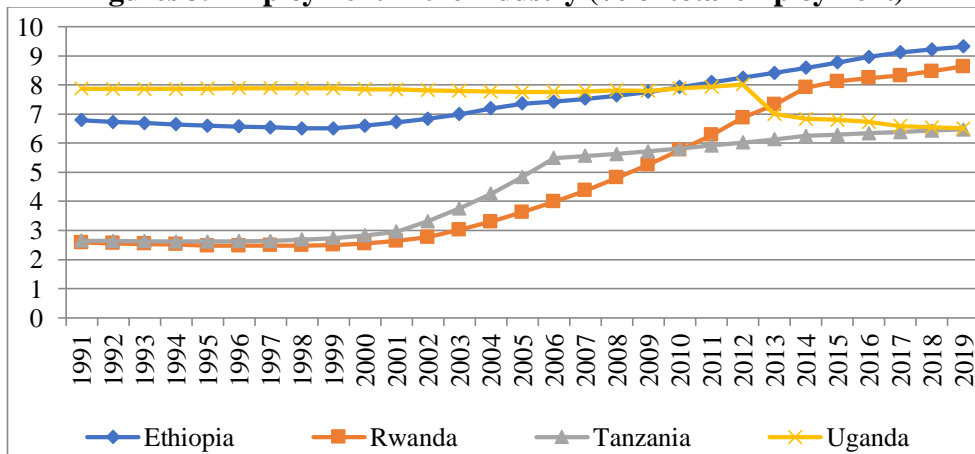
**Figures 2. Manufacturing, Value added % to GDP**



Source: World Bank, Indicator 2020

Unlike the increase shown in Fig. 2, the value-added % to GDP indicates a fluctuation in change depending on the country. Tanzania showed the highest decrease in GDP with 17% and 11% followed by Uganda with 2% and 8% in the 5-year and 10-year periods respectively. Ethiopia is the only country that indicated an increase in GDP with 19% and 43% in the 5-year and 10-year periods respectively in value-added to GDP. The world record showed a 2% increase in 5 years with no change in the 10 years (2011-2020)

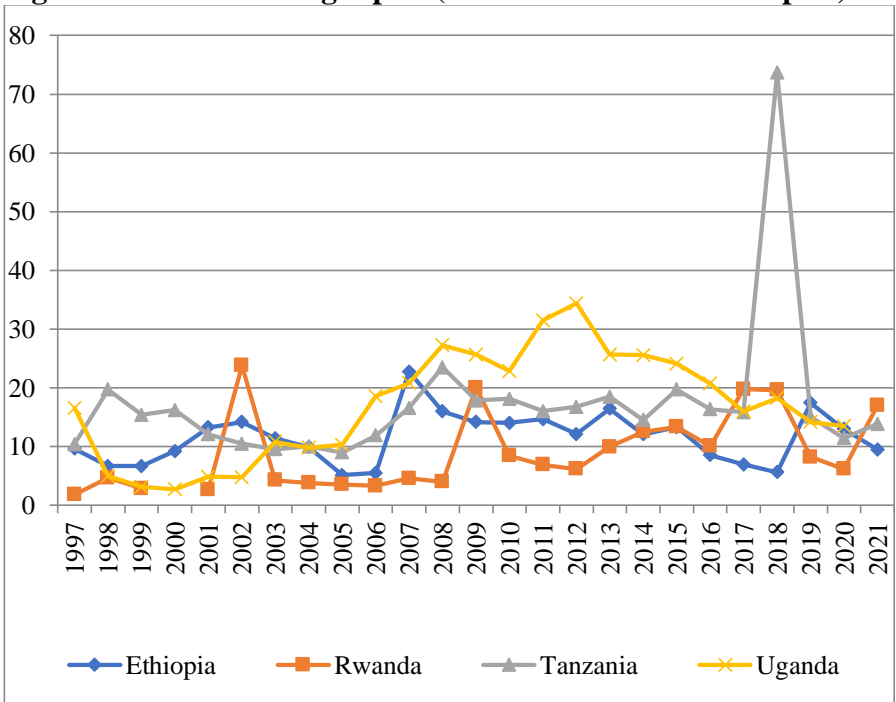
**Figures 3. Employment in the industry (% of total employment)**



Source: World Bank, Indicator 2020

As shown in Fig. 3, Overall employment has increased in all countries except for Uganda. Even though Uganda showed a 1% increase from 2011-2012, there was a 14% and 18% decrease from 2011-2015 and 2011-2019 respectively. An increase in employment has been shown in Ethiopia and Tanzania. However, the highest increase was identified in Rwanda with 29% and 37% from 2011-2015 and 2011-2019 respectively. This indicated the manufacturing output is a labor incentive and gives serious attention to changing the skill required to perform the new task in the manufacturing sector. The employment decrease shown in Uganda is consistent with a decrease indicated by the world record with a 1% decrease from 2011-2019.

**Figures 4. Manufacturing export (% of total merchandise export)**



Source: World Bank, Indicator 2020

The total percent of manufacturing export of the four countries is displayed in Table 4. The 5-year trend from 2011-2015 indicated that Rwanda had a

dramatic increase with 94% followed by Tanzania with 23%. However, the 10-year trend from 2011-2020 showed a decrease in export in all countries except Rwanda which showed a 20% increase. During this period, Uganda displayed the highest decrease with 57% followed by a 29% decrease in Tanzania in total export. This implies that the countries were not achieved the minimum requirement of human capital and always depend on primary manufacturing exports as their main source of export income. The world export record from the World bank shows an 8% increase from 2011-2020, and this result is consistent with the increase shown in Rwanda which is transitioning better from primary export products and established strong integration with others to create economic stability.

### **CONCLUSION**

Universal Declaration stipulation that humans should first obtain food, shelter, and security before obtaining employment. The second comes to the establishment of the private sector. There must be demand, willingness, skill, and competencies by them to be a private sector. If these conditions are full fill, the sector can create a job for the people. Thus, the government's intervention and support are necessary to address the situation and facilitate SMEs' economic integration into the manufacturing sector because a well-designed strategy satisfies the need for economic integration and economic growth. This should be addressed by the policymakers to support and coordinate the local and international markets; However, the strategy was not fully responding to this need. Thus, the development of Small and Medium Enterprises (SMEs) in the manufacturing sector has been highly agenda in Tigray Regional State as a means of generating employment and reducing poverty.

The result also revealed that SMEs are the missing element, with no support to middle enterprises in the strategies, especially with those related to finance rather than focus on micro and large-scale enterprises. The level of implementation of the strategies of SMEs is less effective. The problem of knowledge of operational manuals and guidelines, and inadequate capacity to solve the constraints of SMEs locally and internationally affects the competitiveness of SMEs. There is also poor coordination and communication platforms of the federal with regional bureaus, and a lack of creating backward and forward linkages between large enterprises with SMEs to improve the industrial relationship.

All the above issues are not addressed by the strategies. As a result, SMEs are operated in a difficult situation suffering from financial constraints, and skill and work premises are found challenging to all SMEs. This is due to the commitment, capacity, and attitude of leaders and experts at different levels being weak.

So, SMEs strategy should be revisited to incorporate the SMEs' current issues and considering the political and economic situation on the ground; the government officials should re-orient the implementation strategy of Growth and Transformation Plan II towards improving the economic integration of SMEs, leaders, SMEs council and experts should be equipped themselves with the required knowledge and skills towards the policies and strategies of SMEs and economic integration process in general.

Economic integration has an indispensable role in enhancing the competitiveness of SMEs and economic development. Thus, the levels and importance of economic integration for SMEs in the manufacturing industry are crucial. This can be implemented when leaders perform their roles and responsibility and respond properly in a systematic way toward economic integration. But there is a lack of clarity on the implementation of the industrial development strategy which focuses mainly on the development of industrial parks to attract FDI to meet manufacturing targets. However, the industrial strategy of the country is achieved when developing a suitable industrial environment where numerous locally owned small and medium enterprises will be emerged, incubated, and grew all over the country. These require a clear direction as to how it will solve the constraints that have hindered the development of the vast industrial enterprises and SMEs in the country and bring about the needed manufacturing transformation. For instance, how will the GTP II solve the critical shortage of industrial inputs, shortage of foreign currency, and underdeveloped trade logistics, and how it improves the management and technical skills of local entrepreneurs and enhance their competitiveness? At this time SMEs can be protected by competing in the international market using common resources and technology to strengthen economic integration with adequate support of the government, and non-government organizations.

Based on the findings and the information learned from the

literature, it is recommended that steps be taken to address the challenges that have been identified.

- The government should set clear criteria to form SMEs and then should be based on willingness and know-how to operate a business.
- The policies, strategies, and plan for action should be inclusive of the missing elements (middle enterprise) that constrain access to finance and establish a separate financial institution.
- The GTP II implementation strategy should put more emphasis on SMEs' expansion and networking through the coordination of a range of programs relating to economic integration among SMEs with dedication and perseverance.
- The government should assist SME operators in creating a business development plan and feasibility study on work promise, infrastructure, and subcontracting before establishing and evaluating to make sure they are on the right track of integration and capable of overcoming their challenges.
- A focus should be placed on the development of support providers' capacity and skills. SMEDA should be aware of SMEs to have a sufficient understanding of the policies of the nation, the strategies used, and the integration process within and outside the country that benefits from collaboration, cooperation, and organizing the city's development circle to address shared issues and solved their common problem.
- Leaders should encourage and promote active involvement in the functioning of the SMEs council and proper coordination of stakeholders, private sectors, and the SMEs at large to perform their duties and responsibilities for the development of SMEs in the city.
- The local government should create a unique financial institution that serves SMEs to encourage SME productivity and market competition.
- Creating a business-friendly environment, promoting an entrepreneurial culture, and providing access to financing and business development services, innovation, technology development, and market access that is addressed holistically.
- Governments must play a significant role in the creation of SME

policies, which necessitates cooperation with a variety of parties, particularly multilateral institutions, and the private sector which is required a strong political commitment to making changes in the process of SME integration.

- Government and non-government, financial institutions, diaspora, academicians, and local private sectors should support the government in designing a new financial strategy and open a separate branch to better serve the financial needs of SMEs' competitiveness and fully play their role in the country's industrialization process.
- SMEs should create a strong forward, and backward linkage with agriculture suppliers, larger enterprises like Mesfin Engineering, Mosobo Cement Industry, Almeda Textile, Mathew Horticulture, and others and ultimately change the well-being of people to achieve the objectives of Tigray Regional State, Ethiopia in general.
- SMEDA should increase the support provided for SMEs to enhance technical improvements, managerial efficiency, financial ability, and access to effective networks to benefit from economies of scale through increased production.
- For SMEs to fully realize their potential, the regional government must make use of the favorable conditions, low land rents, financial loans, and lease financing available to them. Additionally, it must entice foreign and domestic investors to put money into the Region.
- The government should put its emphasis on the agro-processing sector since they are more likely to link up with other manufacturing businesses, integrate with agriculture, and create a more favorable environment to increase domestic and local demand.
- Urgent action should be taken by decision-makers and society at large right away to ensure that the local population and those from outside the nation live in an environment that is both economically and politically stable.



**The following scientific publications have been issued based on the dissertation's primary scientific findings:**

1. **A.M.Gebreselassie.** The determinant factor of Industrial Integration of Small and Medium Enterprises in the Manufacturing Sector in Ethiopia, **Gebreselassie Abrehet.** Vestnik Institute of Economics Russian Academy of sciences No6/2021Scientific Journal. 2.12.2021, p.186-203
2. **A.M.Gebreselassie.** Assessment of the Agriculture and Manufacturing Linkage in Ethiopia. Azerbaijan Journal of Agricultural Economics Scientific-Practical Journal. 18.4.2022, p.78-91
3. **A.M.Gebreselassie.** Factors Affect the Productivity of Large and Medium-Scale Manufacturing Industries in Ethiopia. The Journal of Economic Science Theory and Practice. 24/12/2021. P. 74-88
4. **A.M.Gebreselassie.** Clustering and Economic Integration of SMEs in the Manufacturing Industry: Overview evidence from Ethiopia. Azerbaijan state university of economics (UNEC) Scientific Reviews. July-September,2022. P.66-76
5. **A.M.Gebreselassie.** The Impact of Economic Integration on SMEs Competitiveness In Ethiopia, Tigray. The Journal of Economic Science Theory and Practice. 24/6/226. P. 34-49
6. **R.Guliyev, A.M.Gebreselassie.** Why Competitiveness of Light Manufacturing Industries Matter to East African Countries: The Case Of Ethiopia, Rwanda, Tanzania, And Uganda. WSEAS TRANSACTIONS on BUSINESS and ECONOMICS. 3/10 /2023. P.601-610
7. **A.M.Gebreselassie.** Assessment of Policies and Strategies of Economic Integration of Small and Medium Enterprises in the Manufacturing Sector in Ethiopia: The Case of TIGRAY Regional State. 55th Book of Proceedings 4/4 on Economic and Social Development. 02/10/2020. P.657-665
8. **A.M.Gebreselassie.** Assessment of the Challenges of Value Chain Process in the Case of Ethiopia, Tigray Manufacturing Sectors. ICONTECH 2nd International symposium on Innovative Surveys in Positive Sciences Hangar. 23-26.09.2020, p.429-442

9. **A.M.Gebreselassie.** Assessment of the Agriculture and Manufacturing Sector's linkages in Ethiopia. 5th international AEGEAN Symposium on Social Science and Humanities in Turkey. 25.02.2022
10. **A.M.Gebreselassie.** A Situational Analysis of Challenges and Prospects of the Light Manufacturing Sector in Ethiopia. IV.International Scientific Conference of Economic and Management Research. 23-26.2022, p.1-12

A handwritten signature in blue ink, appearing to read 'Ayus', is located in the lower right quadrant of the page.

The defense will be held on 06 December 2023 at the meeting of the Dissertation council ED 2.10 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State University of Economics.

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