

# Review on Economic Integration of Small and Medium Enterprise in Manufacturing Sector in Tigray Regional State Mekelle City, Ethiopia

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**Abstract:-** Economic integration has increased recognition by regional governments through its potential for a substantial increase in the participation of small and medium enterprise in the generation of regional income, employment, exports, investment, economic growth and competitiveness (OECD,2018). The purpose of this paper is reviewing the economic integration of SMEs in manufacturing sector in Tigray Regional State Mekele City based on empirical evidence and current research on SMEs worldwide with a major focus on Ethiopian SMEs and how to improve their operations. It was assessing the impact of enabling environment on SMEs operation in order to become integrated and competitive in the national market. The process of economic integration has opened an opportunities and increased pressure for SMEs to expand their value and form partnership and strategic alliance with local and foreign organizations to facilitate production and distribution of their products in the global market. It removes the economic barrier such as finance and human capital among one or more economies to share and mutually exchange the common resources effectively through the back and forward linkage in the manufacturing sector. However, competitiveness of SMEs in the study area is determined by access to finance, the capacity of human capital in theory and practice, quality products demanded by consumer, competition among SMEs, supporting facilities provided by the stakeholders, and motivational system provided by government (tax and subsidies).In addition weak enabling business environment (legislation, policies, regulations, and support institutions) are the key factor on the development of the SMEs in in Tigray regional state Mekelle City. The researcher concluded that competitiveness and enabling environment are the main challenges of SMEs operation. Thus, the government should amend rule and regulation to make clear and simple and enhance the capacity of SMEs to penetrate in the local and global market. The Regional governments also should be developed policies and strategies favorable to SMEs development and put them in their development agenda.

**Keywords:-** Economic Integration, Competitiveness, Enabling Environments.

## I. INTRODUCTION

In a developing country like Ethiopia where capital and foreign exchange are scarce, and labor is relatively abundant, the most realistic and viable approach to kick-start industrialization and structural transformation is to initiate investment in light manufacturing sub-sectors, especially those that rely on labor-intensive and use local production technology(Alemzewud, 2018, p.2). Manufacturing is one of the industry sectors in the economy considered as the core engine of the economic growth and structural transformation of the economy (singer et al, 2014) through forward and backwards linkage using small and medium enterprises whereby integrating their common resources. Manufacturing represented less than 8% of total exports in 2016, but manufacturing exports should increase in future years due to a growing international presence through economic integration (CIA,2019).Ethiopia is diversifying exports, and commodities such as gold, sesame, khat, livestock and horticulture products are becoming increasingly important..

The process of economic integration has opened an opportunities and increased pressure for SMEs to expand their value and to form partnership or strategic alliance with local or foreign organizations to facilitate production and distribute their products in the global market (Vakharia &Yenipazarli, 2009). (Hosny, 2013) also added that economic integration increases economic growth, technological transfer, change the market structure and increased competition of the enterprises, increase foreign direct investment flow, and improved productivity for the SMEs.

However, low capacity of SMEs has reduced exploit and the emerging opportunities, run strategically their business and way to expand their market (Singh et al, 2010; UN,2004) while potential access and enjoy the benefit of integration (Singh et al, 2010). This can be achieved by SMEs through joint venture and equity strategic alliance with other firms (Dwyer et al, 2011), It also protect and removed the barriers to enable them to penetrate the competitive market (OECD,2004; OECD,2008).

Economic integration has increased recognition by regional governments through its potential for a substantial increase in the participation of small and medium enterprise in the generation of regional income, employment, exports,

investment, economic growth and competitiveness (OECD,2018). Thus, developing economies are especially seeing small and medium-sized enterprise as potential instruments for the alleviation of poverty and regional development.

SMEs are playing a crucial role in providing large employment opportunities at comparatively low capital than large industries. They are engine of economic growth (Charles, 2008 and Tsegay, 2015, Amentie et al, 2016). It also helps in transforming the rural area by reducing regional imbalances, reducing migration in rural-urban areas, assuring more equitable distribution of national income and wealth.

SMEs are an integral part of the country's industrial sector through the back and forward linkage in the manufacturing sector and exchange of the unskilled and semi-skilled people. It also supports bigger industries by supplying raw material, basic goods, finished parts and components (Kumar et.al.2009) cited by Managt 2014. SMEs are a driving force for economic and social stability in the area in which they activate (Cibela, 2016 and Colin et al, 2007) due to their quantitative impact on expanding the industrial base (ADB, 2012)

Sandee (1999) shows in his case study, SME engaged in export-oriented business had good performances and sustainability even during and after the financial crisis of Asian countries in 1997/98(ADB,2012). SMEs make up more than 96% of all enterprise for example in Myanmar 88.8% and 99.9% in Indonesia which create job opportunities of 51.7% in Vietnam and 97.2% in Indonesia (ERIA,2014) cited by ACCA, 2016. However, SMEs have faced some challenges such as inadequate financing (Managt, 2014) and marketing linkage, technology up grading (Bloom et al,2017). Thus, their share of total exports remains small, between 10% and 30%. SMEs' individual capabilities to penetrate domestic and international markets depend on their productivities. This emanates from the inadequate provision of government support and incentives mechanisms.

To overcome the above problems the Asian government design a Strategic Action Plan for SME Development key strategies: promote productivity, technology and innovation; increase access to finance; to get access of market at local and global; enhance policy and regulatory environment, and promote human capital development. Similarly, The Korean government used mandatory credit extension system to enforce private and stated-owned banks to provide a certain percentage of their loans to SMEs (Moon-Soo Kang .2000). For instance, all commercial banks in Korea are required to extend above 45% of their total loan to SMEs to alleviate their working capital problems. As a result of credit guarantee mechanism, SMEs which lack adequate collateral can easily access available credits in formal financial banks.

The researcher suggested that the government of Ethiopia, Tigray Regional state in particular should take a

lesson from the experience what Moon Soo Kang,2000 mentioned above. This can help to solve SME's financial problems to create job opportunity and economic growth of the country to achieve the goal get out of poverty and make it history.

In the case of policy, biases that favor large firms over small enterprises, attempts have been made to quantify policy-induced cost differentials between small and large enterprises in accessing resources such as labour and capital (Gebrehiwot and Welday 2004 and Haggblade et al. 1990). Thus, (Ariman 2001; Chen,2005) point out that SMEs require appropriate policies and strategies for growth, a good incentive and encouraging business environments to become productive and competitive in both local and international market. Ngui, 2012 also mentioned that SMEs face the unique problems of uncertainty, innovation and political instability, lack of coordination and regular information exchange mechanisms among institutions. Due to their small size, lack of sound experiences and financial position are less capable of adjusting and carrying on successful businesses.

The other challenge identified by Bloom et al,2007 is that the growth of SMEs is extremely affected by various factors such as bad management in practicing and enabling decentralized decision making, and ownership. Those determinant influences the productivity of the firm. If we see the industrial sector in Ethiopia only 11.1% which is much less than the world average (26.29%) and the sub-Saharan average (30.34%).The manufacturing sector contributes only 3.7% of output to GDP which is declined from its 6.4% proportion of the 2003/04 and the average manufacturing value-added has been 8.9 billion birr and 13.12 billion birrs(WDI,2013). The share of manufacturing to GDP is average 4.4% large and medium and 3.1% is small manufacturing industries. Regarding growth, the manufacturing sector has witnessed an average growth of 16% per annual over the period 2011/12-2014/ 15. The share of large, medium and small enterprises in value-added textile 43.7%, leather 36% and import intensives. This shows the lack of strong inter and intra sectoral linkage between the sector and the domestic economy.

Regarding the most relevant types of employment are permanent which have skilled and technology know-how. According to the study by Ethiopian Economic Association, 2017 the permanent employees are declined in 2012/13 compared from 2014/15 in number especially in the priority areas such as exporting sub-sectors including textile, garment and leather. This is discouraging in the face of the attention and incentives given to the development of this subsectors and motivation to integrate their resources.

Thus, the development of Micro and Small Enterprises (MSEs) in the manufacturing sector has been high on the agenda on Ethiopian Government to generate employment and reduce poverty. MSE Development Strategy was formulated in 1997 and revised in 2011 and established Federal and Regional Micro and Small Enterprise Development Agency at Federal and Regional

level to support and coordinate the MSEs. The Federal SMEs report(2015) indicates that the Ethiopian government has created 700,000 jobs to 600.000 enterprises engaged in various activities through empowering SMEs in first Growth and Transformation Plan (GDP I) from this 5022 SMEs's are in Tigray Regional State, and this number will be expected to reach to 2.1 million in GDP II (2015/16-2019/20).

However, the government does not include Medium enterprise in the category which is too much recommendable to see the progress, and transitions of enterprises from Micro to Small and then to Medium which need the attention of the government to meet its aspiration of reaching the middle-income country by 2025(Amare, 2017). In addition, in some situations, the support and subsidy for SMEs become determining factor in weakening and make them more dependent (Haftom et al, 2014). This will result in inefficiency, discourage competitiveness and become a bottleneck factor for development of SMEs.

Though the above arguments, the researcher believes that, because of many reasons SMEs in developing countries like Ethiopia needs government and stakeholder full support of physical and financial support and networking and information exchange through critical and scientific research in the area of the economic integration of SMEs in manufacturing sector.

Additionally, SMEs face many challenges to survive at global and local levels. For example, Ihua (2009) found that poor management was the main critical factor influencing Micro and Small Enterprises failure in the UK. Hence the findings reveal the need for more leadership skills development efforts. China (2007) revealed that, in Nigeria the sector 's growth has been hampered by the most intractable of these problems were poor access to capital, poor management practices and lack of business leadership. This shows all present leadership challenges to support SMEs integration in manufacturing sector. the United Nations (2007) states that transforming and directing energies of others into purposive action needs the right knowledge, skill, abilities, and attitude. Effective leadership demands the power to inspire a shared vision to employees, leading them by example, efficient communication of the goal they achieved and enable others to act accordingly. However, this is the main challenge in Ethiopia leaders especially at lower levels. Therefore, this study assesses the economic integration of SMEs focus on competitiveness of SMEs and enabling environment creating by government in manufacturing sector in Tigray regional state Mekele City.

## II. ECONOMIC AND INTEGRATION THEORIES

Economic integration theory goes through two (classic /static and dynamic) stages addresses the political and economic context. Classic /static explain the possible benefits of trade and investment effect of the economic integration of the country (Kosandi, 2012). whereas dynamic theory referred to the impact of economic integration on the regional cohesiveness; bring regional

peace and stability, have power in the international market. In addition to the above, others deal with benefits and constrain of economic integration (Eduard, 2016). For this study the researcher focuses on assessing effect and challenges for economic integration regarding SMEs in the manufacturing sector.

Balassa (1995) explains the effects of integration is increased economic growth, improve access to advanced technology, way of communication, market structure, increased competition and uncertainty. It also provides a better chance for sharing certain costs increase foreign direct investment flow, and improved productivity of SMEs. It is intended to lead lower price from production for distributors and consumers with the objective of improving the standard living of the people by creating a job. The other benefit of economic integration facilitates access to a larger consumer base, a greater share of qualified workers. This implies economic integration can create an environment for existing firms to grow, and become more productive (Hosny,2013). Furthermore, economic integration is a process of implementing a set of preferential policies to mutually exchange of goods and services between SMEs by removing the economic barriers (Afesorgbor, nd). However, it accompanies various challenges such as increased exposure to competition, political risk-limiting rules and regulations. The author suggested that the regional government of the state should create conducive environment among SMEs mutually exchange of goods and services between them

According to Margaret Lee,2014 economic integration includes a common market integration, to removal of any trade barrier between countries to have a regional cooperation to move their resource freely to have socioeconomic and political interests and a strategy and working on equitable distribution of costs and benefits among members (Lee 2003) cited by Dawit, 2017 and freedom of movement their resources. The purpose of this paper is to identify SMEs integration through the common market with common policies and strategies to mutually exchange their factors of production (capital and labor) among the enterprise in the manufacturing sector in Mekelle City.

If SMEs are effective in the integration process they can benefit from economies of scale, increased their competitiveness and lower costs that result in profitability. At the same time consumers can also benefit in the sense that the competitive environment brings those cheaper products, more efficient, innovate new products that increased choice of quality products. Furthermore, economic integration brings a striking increase in competition from imports, new foreign investors and strengthen the domestic market of SME (OECD, 2004).

The author suggested that for the economic integration to be realized in the study area, it requires to removal of the economic barriers especially access to finance that hinder the purchasing of quality inputs and technology, human skill, and supply of electricity,

knowhow to design plan and capable to negotiation in the competitive market and willingness to form association having a sense of team working spirit. The other equally important is to create forward and backwards linkage with suppliers and producer through outsourcing and subcontracting system.

In addition to this, beyond that coordinated policy approach, institutional and regulatory settings, strategies, and policies is needed to support and scaling up SMEs, ease SMEs access supporting packages and, strengthen partnership SMEs among/with large firms, IPs, Universities and research centers at regional and local levels also important. additionally, in order to tap the potential of SMEs for development and poverty reduction, transition and delivery country's government development partner and SMEs themselves need to address several challenges.

Rao and Apparao (2012) analyzed the role of MSMEs in the development of the Indian economy and financial obstacles faced by the MSMEs. The study observed major financial obstacles of great concern to owners/managers of MSMEs were: inability to obtain internal and external financing; decline in sales volume due to the political instability; heavy equipment and maintenance costs; transportation and petrol costs; high advance saving rates on loans; ability to meet financial obligation; and delay in loan provision.

India MSMED Act 2006 recognized the challenges faced by MSMEs and classified as inadequate financing, marketing problem, problem of industrial sickness, technology knowledge which can be solved with adequate support of government in term of policy framework, incentives and other relevant (Kumar et.al.2009) cited by Managt 2014. Thus, one of the important of government step recognizing the problem of SMEs and ready for further action.

According to ADB,2012 the International Finance Corporation's (IFC) 2010 stocktaking report on SMEs to the Group of Twenty (G20) Scaling-Up SME Access to Financial Services in the Developing World indicated that between 45% and 55% of formal SMEs do not have access to loans from formal financial institutions in developing countries. Countries like Nigeria inconsistent government policies (Political, tax) and quality credit information can hamper their growth and declining in economic environment lead to low-quality production inputs arising as a result of the quality and availability of raw materials) and bottleneck bureaucracy(Motilewa, Ogbari,&Aka,2015)

Likewise, countries like Ethiopia, SMEs are suffering from credit constraints. According to Small and Medium Enterprise Credit Development Program (SMECDP),2017, SMEs can get financial and material credit support from KAZA capital asset financing lease agency until 1 million by preparing business plan projects and 1-30 million from Development Bank. But there is a big challenge of SMEs to prepare a business plan which required support from microfinance institutions and obligated to held 15% and

20% of the total loan respectively. Some research shows that countries like Malaysia and Korea (45%), some amount of the total bank loan are reserved for SMEs and established a special bank to facilitate the work of SMEs.

### III. COMPETITIVENESS AND ENABLING ENVIRONMENT OF SMALL AND MEDIUM ENTERPRISES

#### ➤ *Competitiveness*

Competitiveness is a firms' capability to survive in the competition against its competitors. The factors that determine competitiveness are finance, human capital capacities both in theory and practice, quality products demanded in the local and global market, a motivational system like tax and subsidies. if the above factors easy SMEs can be capable to produce high-quality products, and innovative to meet market demands. Regarding the access to a competitive market, SMEs can improve their production, change their market structure, and then increased their efficiency. Thus, the economic integration of SMEs is achieved in medium- and long-term objectives (Marinov,1999) but, Helleiner, 1999 argues that small and medium enterprises are an unequal partner who is forced to adjust to the economic and price structure in the larger market.

Thus,SMEs requires to have certain competitive strategies to compete in the market (Theresia Woro Damayanti, 2018). For example, Asian countries design a Strategic Action Plan for SME Development five key strategies: (1) promote productivity, technology and innovation; (2) increase access to finance; (3) enhance market access at local and global;(4)enhance policy and regulatory environment; and(5)promote entrepreneurship and human capital development

In addition to this, informed the employees the firms' vision, believe and internalized it from their great heat to be committed and fight every day for better future, and make them ready with high competitiveness. This helps to check the knowledge-based technology, inside looking, human behaviour and then take action to fix their heart, believe and value of the employees. Additionally, actors (SMEs management, leadership and employees) work together, make a good culture and respect to implement the agreed plan while SMED officials and stakeholders take initiative committed to providing support on one-stop information hub to provide information in all aspects of SME development including financing, advisory services, training programs, business and networking opportunities

### IV. POLICES AND STRATEGIES OF MICRO, SMALL AND MEDIUM ENTERPRISES

#### ➤ *Enabling Business Environment*

ADB (2014) mentioned that the Donor Committee for Enterprise Development (DCED) describes that business environment as the complex interplay of policies, laws, and regulations that affect business development in a given place and the institutions responsible for their

enactment at the international, national, regional, and municipal level. A weak enabling business environment (legislation, policies, regulations, and support institutions) is the key constraint on the development of the SME sector. According to the ILO (2000) identified that institutional frameworks determine the effectiveness and efficiency of business infrastructures (business development skill, microfinance institutions, marketing, and research development). A good institutional framework enables access of these services to the needy with minimum cost whereas poor institutions in general, lead to higher transaction costs (ILO 2002; OECD, 2018) Ethiopia has also established a Federal and Regional Small and Medium Enterprise Developmental Agency at Federal (1998 E.C) and Regional (2000 E.C) level to support and coordinated SMEs (MoTI,2012). Though the registration was easy for SMEs, land registration, leasing, financing was difficult and bureaucratic in Ethiopia, Tigray for SMEs resulting in a high cost of compliance and low productivity but better for FDI. And weak SME skills and capacity, and their lack of access to markets, information, and technology have often been cited as common constraints.

The ILO has recently reviewed policy and regulatory environment in eight countries around the world as its global program, the policy review in Nepal has benefited from formulating an appropriate strategy from the international experience gained in such work in several countries and a reviewed the policies, legislation, and procedures; made an assessment of the MSEs business environment and their employer contribution; surveyed the MSEs, and a gap analysis (ILO, 2003).

Competitiveness is firms' capability to survive in the competition against their competitors. The factors that determine competitiveness are capital to finance, human capital demand who capacitate both in theory and practice, quality products demanded by consumer, competition among SMEs, supporting facilities provided by the stakeholders, and motivational system provided by (tax and subsidies). if the above factors easy SMEs can be capable to produce high-quality products, and innovative to meet market demands. Then they can change the market structure. Market structure refers to the nature and degree of competition in the market for goods and services.

According to Prof. R. Chapman, "The term market refers not necessarily to a place but the market area, commodity, buyers and sellers; free competition and price. Other are defend market as nature and degree of competition in the market for goods and services. The structures of the market are determined by the number and nature of sellers; the number and nature of buyers; the nature of the product; the conditions of entry into and exit from the market and economies of scale of the product. High levels competition in export and import markets erode SMEs' competitiveness in the competition. Thus, SMEs requires to have certain competitive strategies to compete in the market (Theresia Woro Damayanti, 2018). For example, Asian countries design a Strategic Action Plan for SME

Development five key strategies: (1) promote productivity, technology and innovation; (2) increase access to finance; (3) enhance market access at local and global;(4)enhance policy and regulatory environment; and(5)promote entrepreneurship and human capital development.

SMEs in Tigray Mekelle City are almost limited in local market and job created due to lack of access to finance and working premises as well as knowledge and skill deficiency. This issue cannot be left to government alone but calls all stakeholders and SMEs themselves have responsibility to contribute to the economic growth of Tigray, Ethiopia in general that consider SMEs are acting as a source of job creation, ensuing equitable income distribution, increase in capital financial gain and important contribution to GDP.

In addition to this, informed the employees the firms' vision, believe and internalized it from their great heat to be committed and fight every day for better future, and make them ready with high competitiveness. This helps to check the knowledge-based technology, inside looking, human behavior and then take action to fix their heart, believe and value of the employees. Additionally, actors (SMEs management, leadership and employees) work together, make a good culture and respect to implement the agreed plan while SMED officials and stakeholders take initiative committed to providing support for the competitiveness of SMEs

#### ➤ *Enabling Environment*

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The newly small and medium enterprise working group (SMEW) directly reported to ASEAN Economic Ministers established and has been responsible for SMEs development and promotion serves as a consultation and coordination forum, formulating policies and programmes and leading the implementation of initiatives to support SME development and cooperation in the region (ACCA,2016). Ethiopia has also established a Federal and Regional Small and Medium Enterprise Developmental Agency at Federal (1998 E.C) and Regional (2000 E.C) level to support and coordinated SMEs (MoTI,2012).

However, the policy and legal framework lacks clarity which hindered development and economic integration of the SME sector across countries though the entry into SMEs is easy but the capital lease financing was difficult and bureaucratic in Ethiopia, Tigray for SMEs resulting in a high cost of compliance and low productivity .

The ILO has recently carried out the review of policy and regulatory environment in eight countries around the world as its global programme to determine whether the conducive environment contributes to the creation of quality jobs in micro and small enterprises (MSEs). For example, the policy review in Nepal has benefited in terms of formulating an appropriate strategy from the international experience gained in such work in several countries, including the countries in South Asia. The review in Nepal involved four different categories of work: a) a review of policies, legislations and procedures; b) an assessment of the MSEs business environment and their employment contribution; c) a survey of the MSEs; and d) a gap analysis (ILO, 2003). In many countries, enabling SMEs to seize growth opportunities over time is a policy priority to address the persistent low productivity growth and widening the income gaps. These exist mostly between SMEs and large-scale enterprises in manufacturing industries to the extent that large firms can exploit increasing returns to scale, productivity typically increases with firm size. Ethiopia in general, Tigray in particular can take learn lesson from these countries.

Sethuraman also added poor enabling environments are growth barriers and hence negatively influence to the success of economic integration of SMEs in the manufacturing sector. Improved access to finance is needed to boost SME scale-up because difficulties in accessing finance are widely recognized as one of the major obstacles for starting and growing a business (OECD, 2006, 2015a) which is prevents SMEs from investing in innovative projects, improving their productivity, and seizing opportunities in expanding in new markets.

Since 1991, the Government of the Federal Democratic Republic of Ethiopia has recognized the promotion and development of small enterprises as important vehicles in addressing the challenges of unemployment, economic growth and equity. This sector is also accepted as the basis for medium and large-scale enterprises (Gebeyehu and Assefa,2004; Goedhuys,2002; Mulatu,2005).

In November 1997, the Ethiopian Ministry of Trade and Industry (MoTI) published the Micro and Small Enterprises Development Strategy (MSEDS), which initiates systematic approaches to alleviate problems and promote the growth of small enterprises (MoTI 199) Cited by Mesfine, 2015.

According to this policy document, elements of the programme include measures to create an enabling legal framework and to streamline regulatory conditions that promote the expansion and evolution of existing and new small enterprises. The specific support programmes include measures related to facilitating access to finance and training, appropriate technology, access to counselling and infrastructure and institutional strengthening of the private sector and chamber of commerce (Eshetu and Eleke 2008; Negash and Kena 2003).

Following the publication of the Micro and Small Enterprises Development Strategic document, the Federal Government of Ethiopia set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA) (Desta 2010). The regional states have also developed micro and small enterprise promotion strategies based on their context and in tandem with the FeMSEDS, to facilitate the implementation of these strategies (Gebrehiwot and Welday 2004; Zewde 2002).

Similar developments have been taking place in the Tigray Region. The Tigray Micro and Small Enterprises Development Agency (TMSEDA) have taken several measures to support the micro and small enterprise sectors. In addition, the regional government developed agency of SMEs cluster development plan in March 2018 to support expand the SMEs (ASMET,2018).

According to the current Ethiopian Growth and Transformation Plan (GTP) document, the government seeks to consolidate the positive development outcomes attained over the last two decades and to bring about the broad-based structural changes needed to steer the economy on a rapid growth path towards becoming a middle-income country by 2015 (GTP 2010).

The Government of Ethiopia five-year development plan (GTP II 2015/16-2019/20) emphasizes the key role of SMEs for the local economy and identifies support to SMEs as a key industrial policy direction for creating employment opportunities. According to World Bank Group (WBG, 2015) Ethiopia has developing several policies for the past 15 years to create enabling environment and come a long way in achieving significant progress increasing employment opportunity, reducing poverty through micro and small business enterprises. However, the Ethiopian SMEs faced significant financial constraints since financial institutions do not accommodate demand of the enterprises. Different studies clearly indicated that the existence of missing middle enterprises which were not addressing their challenges the inadequate support from the financial institutions. This shows SMEs are not able to grow or create more job for the people who need. But there is strong evidence that lending to micro enterprises and larger firms in Ethiopia is relatively adequate, while SMEs are left behind (report, 2015). Development Bank of Ethiopia (DBE) has provided industrial financing to various industries in the manufacturing sector (DBE 2012). Major beneficiaries were textiles and garments 46 percent share while leather and leather product are 4.3 percent (Arkebe,2015).

## V. CONCLUSION

Economic integration has facilitated the establishment of an international network of economic actors, leading to formation of a global economy through removed the economic barriers using exchange the common resource. It opened various opportunities for SMEs to expand their activities from local to the global markets. However, as mentioned earlier, both the developed and under

developing countries have the low capacity of SMEs has hindered their ability to exploit the opportunities due to finance constraints and the rule and regulation of the countries to penetrate the market.

From the reviewed documents SMEs operates in the region are not economically well integrated even if the policies and strategies allow easy entry to SMEs.

The SMEs operators are not competitive as they are expected by the regional government due to different reasons like accesses to finance, lack of skilled manpower, poor quality product and using local technology.

The other areas of the study show that the government do not create conducive environments for SMEs like rules and regulations do not create favorable condition for SMES. the SMEs Agency have poor coordination and collaboration with financial institutions and SMEs operators due to limited knowledge and skills. Finally, the Agency is poor in creating networking with stockholders relate to SMEs.

### RECOMMENDATION

- Considering the importance and contribution of SMEs to national economies, there is need for governments to provide the necessary support to these firms.
- Tigray regional state should enhance SMEs capacity to penetrate the niche market.
- Managers of SMEDA and SMEs operators should also play their role and committed to upgrade themselves to competitive the global market.
- The regional government should create conducive environment for SMEs operators by amending the rules and regulations of financial institutions.
- The regional government should work with stakeholders to implement the supporting packages of SMEs like training, access to work premises, technology transfer and exchange of information

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