The Contributions of Micro, Small and Medium Enterprises in Strengthening Rural-Urban Linkages in Wolaita Zone, South Ethiopia

Kataro Galasso* and Ramakrishna Gollagari**

Abstract

Development policies and strategies of Ethiopia envisage micro small and medium enterprises as a strategic tool for strengthening rural-urban linkages and for bringing overall economic development and poverty eradication. This is due to the role of the enterprises in bridging urban and rural areas together and showing the interdependence of the rural and urban economies in developing countries. However, the Ethiopian micro, small and medium enterprises do not seem to be on the right track in their relationship to the agricultural sector as required by the government policy, strategies and the Growth and Transformation Plan (GTP). The objective of this paper is to evaluate the capacity of micro, small and medium enterprises to forge rural-urban relationships that will assist towards achieving the goals of Growth and Transformation Plan. The study is based on a concurrent triangulation mixed-method approach using both quantitative and qualitative data with a questionnaire survey from 525 owners/managers of micro, small and medium enterprises as the main data collection tool. The study also collected qualitative data through informant interviews from 22 MSME owners/managers and 10 urban planners. The paper finds from the study that as high as 53.1 percent of micro, small and medium enterprises in the three administrative towns of Wolaita in south Ethiopia are wholly or partially dependent on industrial products for their inputs and that only 1.5 percent appear involved in the production and supply of agricultural inputs. Moreover, as much as 57.6 percent of the study's respondents chose the main reason hindering linkages as the unavailability of preferred and quality raw materials in the local market. In order to promote the linkage between the two sectors and areas, both the agricultural and MSME sectors' productivity should be enhanced through improved agricultural productivity and enhancing the performance of the small business sector to provide agricultural inputs.

Key Words: rural-urban linkages; micro, small and medium enterprises; Wolaita Zone, South Ethiopia

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Background and Introduction

Developing countries including Africa need to enhance agricultural productivity to strengthen rural-urban linkages by providing raw materials for the industrial sector especially for small and medium manufacturing enterprises as well as to create new markets for manufactured consumer goods. Small and medium enterprises can equally play a greater role in the linkage through agricultural input provision and agricultural product

utilization. According to the United Nations Industrial Development Organization (2011) report, African countries can exploit the potential complementarities between agriculture and industry through careful use of policies to promote a mutually beneficial relationship between them.

However, traditionally, urban and rural areas have been viewed as exclusive and competing spheres placed in separate areas for planning, development and investment purposes (Tacoli, 2004). As stated by von Braun (2007), a simplified concept of rural and urban areas, with the words rural referring to more “remote farming areas” and urban to “crowded cities”, has adopted by development policy and related research. This view has facilitated the isolated treatment of issues affecting each space, and it has, as a result, failed to recognize the important socio-economic development interlinkages that exist between the two spaces and the many variants of the spaces.

Such approaches are the causes of failures of development planning due to lack of coordination between rural and urban development (regional) planning in developing countries including Ethiopia. Most of the development policies in developing countries are not considering the strong linkage between urban and rural areas. As indicated by von Braun (2007), “in reality, farming areas (the very rural) and the megacity (the very urban) coexist along a continuum with multiple types of flows and interactions happening between those two spaces”. In Ethiopia, during the regimes of Haile Selassie, I and the Derge regime, development strategy was based on Import Substitution Industrialization (ISI) (Dorosh et al., 2011). This strategy gave emphasis to large industries neglecting the agricultural sector, small enterprises and the linked development between the agricultural sector and small enterprise.

During that time, paradoxically, primacy was given to the industrial sector in a context where the economy still depended on agriculture for its capital accumulation, food supply, raw materials, foreign exchange generation, and market demand. That situation made the ISI strategy to be unsuccessful to promote the socio-economic development of the nation due to its limited focus on the agricultural sector and the underdeveloped industrial sector. Moreover, under ISI, most of the expertise, know-how, equipment, and inputs were imported from abroad. Likewise, most of the profits also left the country in different forms and left hardly a sustainable effect on indigenous micro, small and medium enterprises (Tegegn and Mulat, 2005) and the agricultural sector.

On the contrary, the current government of Ethiopia in its Economic Development Policy gave priority to the prior development of the agricultural sector by adopting a total shift from the industry to

agriculture first strategy known as Agricultural Development Led Industrialization (ADLI) in 1993 (Dorosh et al., 2011). However, the great focus on agriculture resulted in a strategy that did not give enough attention to the nonagricultural sector and urban areas signifying that an urban development policy was not issued until 2005 (Dorosh et al., 2011). Belay (2012) notes the challenge of focusing on rural areas and agriculture as a catalyst for industrialization. The authors indicated the inability of agriculture to feed and sustain the rapidly growing rural population, let alone to function as a catalyst for industrialization.

The output of many researchers and academics indicated that micro, small the and medium enterprises (MSMEs) development in urban centers can immensely contribute to break regional imbalance and promote regional development of both urban and rural areas (Admire, 2014; Sibanda, 2012). The enterprises established in urban centers are the ones, which enable them, perform their functions and shape the basis for their growth and development (Tegegn and Mulat, 2005). Das (2017) notes the contribution of the MSME sector, as an engine for the socio-economic transformation of the country, is extremely essential in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions of youth population. Due to their contributions, urban planners and academics in Sub-Saharan Africa have now acknowledged that the future of the region's competitiveness and socio-economic development depend on the MSMEs performance in urban centers of the region (Raftopolous, 2006 cited in Admire, 2014). Hence, it is necessary to verify the important contribution of MSMEs in bridging the rural-urban divide. This study argues that the development of MSMEs in Ethiopia is critical for the development of both rural and urban areas through strong rural-urban linkages.

Statement of the Problem

Agriculture is the backbone of the Ethiopian economy as the sector employs a large populace, supplies raw materials for the urban expanding industries, and ensures the supply of food demand for an increasingly urban and rural population and export items, thus, creating strong rural-urban linkages (Legesse, 2014). It is in this light that the incumbent government of Ethiopia has designed an ADLI strategy between rural and urban areas to attain rural-urban interlinked development. Cognizant of this fact, the Growth and Transformation Plan of Ethiopia (GTP) has been adopted to attain rapid industrialization and structural transformation as its core objectives with emphasis given to the expansion of MSMEs in all

regions. Nevertheless, the existing sector has failed to fulfill the envisaged roles of transforming the economy and strengthening the rural-urban linkages. There is little evidence that Ethiopian micro, small and medium enterprises are aware of the huge opportunities that exist and can be realized under a truly structured and performing rural-urban economic integration. The core problem addressed in this paper is the failure of the Ethiopian micro, small and medium enterprises to create forward and backward production linkages between agriculture and small enterprises and large enterprises; and the inability of research and development institutions in larger urban centers to strengthen the rural-urban interdependent economy. It is generally expected that strong rural-urban and urban-urban linkages via MSMEs enhance the performance of the sector and can manifestly expand economic development and drastically cut poverty through job creation and capital formation.

Therefore, the objective of this paper is to examine the contributions of micro, small and medium enterprises in strengthening rural-urban production linkages in the context of dependence on locally produced agricultural raw material and, conversely, the role of these enterprises in providing agricultural inputs and domestically produced manufactured goods to the local farmers. The specific objectives are

1.To examine the linkages of micro, small and medium enterprises with the agricultural sectors.
2. To examine the linkages of micro, small and medium enterprises with the larger firms and Research and Development Institutions.
3. To derive suggestions for strengthening micro, small and medium enterprises linkages with agriculture and larger firms and Research and Development Institutions.

Literature Review

The Concept of Rural-Urban Linkage

Among the major concerns of developing countries are extreme poverty, unemployment, and economic growth. A number of studies have been conducted with the objective of identifying appropriate development strategies in these countries to bring sustainable development. The objective of this section is to review some of these studies and provide the conceptual framework for the study. Four strands of ideas focus on the development strategies that developing countries follow to solve their extreme poverty and unemployment problems. The issue of whether the same or different development strategies needed for developing countries and developed countries is still debated among development organizations, experts and policymakers.

Modernization Theory

One of the theories that argue about the development strategies of developing countries is the modernization theory. Modernization theory was developed in the mid-20th Century. Modernization is the term used for, the drastic transformation from the traditional society of the past to modern society as found in the west (Tettey, 2005). According to this author, modernization theory introduces modern methods of production like the use of advanced technology for the industry. The underdeveloped countries might experience this modern technology to strengthen their economies and this will lead them to development. The theory assumes that the industrial structure in the developing countries will show a parallel development to what has happened in Europe and the USA (Tegegn and Mulat, 2005). The authors also indicated the statement of modernization theory that production is concentrated in larger urban centers to exploit the agglomeration economies, thus, small enterprises are believed to disappear as the economy grows. Corbridge and Jones (2004) pointed out the suggestion and argument of W. Arthur Lewis's two-sector model of a developing economy by equating agriculture with countryside and industry with towns and cities. This was based on the assumption that there was considerable unemployment or disguised employment in the countryside that could be transformed into the modern (urban-industrial) sector of the economy at no cost. This situation contributes positively to the overall socio-economic development by improving the living standards of the migrants and their immediate families.

The Dependency Theory

The modernization theory is criticized by its inability to account for global south underdevelopment by a group of scholars collectively known as the dependency school, which originated in Latin America (Tettey, 2005). These opponents of the modernization theorists arrived at the formulation of the dependency theory as an alternative. The core idea of the dependency view is that Western capitalism cannot be entrusted with the advancement and industrialization of the poor countries. The relationship between the West and the global south is not at all beneficial to the latter. Evidence of this obvious asymmetry is the global south's persisting underdevelopment and reliance on the capitalist giants for capital, technology, and export product market. In dependency theory, micro, small and medium enterprises "survive either indirect dependency on the large enterprises or in other forms such as “sub-contractors, petty producers and traders operate in extremely competitive markets with no possibility to earn profit sufficient to invest and grow" (Pederson, 1989 cited in Tegegn and Mulat, 2005).

Similarly, Akkoyunlu (2015) citing Singer (1964) indicated that in the 1950s and 1960s, ‘modernization’ was characterized as a shift of labor towards higher productivity sectors i.e., from agriculture to manufacturing and services. However, sluggish job creation in the non-agricultural sector and a failure to absorb the fast-growing urban populations has led to a shift in emphasis back towards the agricultural sector through structural adjustment programmes designed to encourage crop production for export in the 1970s (Akkoyunulu, 2015). This failure of non-agricultural sectors and the assumption of scholars that government policy biased towards urban sectors led to urban bias theory.

Urban bias Theory

Urban bias theory, on the other hand, led by Lipton (1977), argues that policies favor the urban areas to the disadvantage of the rural areas, hence the concentration of facilities and the creation of favorable conditions in the urban areas. One of the central ideas was that goods and services originating in rural areas were underpriced relative to a market 'norm'; goods and services flowing from urban areas were overpriced (Tettey, 2005). State policies allegedly overtax rural citizens with similar incomes. The production of the rural areas, notably agricultural products, is overtaxed due to price twists. Overtaxing works in the following way. State-controlled marketing boards buy agricultural products from the local farmers at an artificially low price and then resell these products to the consumers at the prevailing higher market price; the difference is often used to provide facilities in the urban areas.

In addition, governments in developing countries tend to invest domestic capital on the provision of development facilities. These facilities are largely located in the urban areas while a larger proportion of the population is found in rural areas. The facilities include hospitals, schools, libraries and other government/semi-government facilities. Investable resources in favor of the rural dwellers, who are farmers, in the form of roads, small-scale irrigation facilities, agricultural machinery, and storage facilities are often downplayed by the policymakers. Higher standards of living are created in the urban areas resulting in the creation of disparity between the urban and the rural areas. As a result, rural dwellers tend to migrate to urban areas to take advantage of favorable policies.

Uribe-Echevarria (1991) showed that in the mid-seventies, the policy changed from the conceptual link between industrialization (urbanization) and inter-regional inequalities to inter-sectoral imbalances in regional development. According to the author, inter-regional disparities were considered the effect of the neglect of the agricultural sector, and their reduction was

anticipated to come from new sectoral investment priorities. In this regional development policy, the industry in general, large or small, no longer figured at the core of regional development. The priority of the policy was changed from employment and poverty to food production and rural development (Uribe-Echevarria, 1991). The gaps in income and employment opportunities between rural and urban areas were assumed to be narrowed by redressing resource allocation bias favoring urban development leading to reduce regional disparities (Lipton, 1977; Uribe-Echevarria, 1991). The limitation of this view was ignoring or had a negative view of the industrial sector and urbanization that is important for rural-urban economic linkages and not successfully addressed the problems of regional disparity. Based on these limitations and due to the complementary and supporting role of urban development towards agriculture initiated another alternative strategy that brings mutual or integrated development of the two spaces.

Urban Continuum View

Kihonge (2014) ascertains that both the pro-urbanization view (modernization theory) and the pro-rural view (urban bias theory) are self-limiting and not benefiting the two areas, thus, the rural-urban continuum view brings in synergy or mutual benefit for the two spaces in rural-urban interaction. The flows and interconnections between rural and urban areas are justification for the rural-urban continuum views. Tacoli (2004) shows exchanges of goods and services between urban and rural areas as an essential element of rural-urban interactions. The interactions take many different forms "the flow of people (migration, commuting), capital (public and private) and goods (food, raw materials, and farm inputs), idea and innovation (farm and harvest techniques), information, environmental impact (uncontrolled urbanization) between the two areas"(Legesse, 2014). This situation blurred the space between the two areas, thus, development planning such as urban planning needs to consider the interaction of the two spaces together.

he analysis of the study was descriptive that combined both quantitative and qualitative data. The quantitative data were analyzed using descriptive statistics by using statistical packages for social science (SPSS) to generate percentages and tables. Results obtained both from quantitative and qualitative data were triangulated.

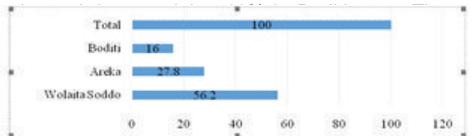

Figure 2: Distribution of the Sampled Firms in the Urban Administrations in Percent
Source: Survey Result, 2018

As presented in Figure 2, the distribution of the enterprise was not uniform in the urban centers. It was more predominant in Wolaita Soddo town as a zonal center, which accounted for more than half of the enterprises in the three biggest urban centers. This result is in line with the survey results of MSE of MoUDC (2013), which indicated the majority of the firms, are from Addis Ababa and regional urban centers than other urban centers in the country.

Distribution of Firms in Sector

The study adopted the sectoral breakdown based on the classifications used by researchers such as Liedholm and Mead (2002). These authors have found variations in enterprise and owner characteristics across sectors and used sector dummies in their analysis to take account of sectoral variations that would have an effect on the firm's performance. The World Bank report (2007), also analyzed the distribution of gender, education and other characteristics across sector composition based on data from CSA of Ethiopia, and posits that there are observable variations in these characteristics across the sector. Table 2 shows the distribution of firms in terms of the sector in the sampled towns

Table 1: Sample size for Quantitative data

No	*Study Urban Center*	*MSMEs Sector*	*No of Firms*	*Sample Size Taken*
		Manufacturing	334	89
1	Wolaita	Service	228	58
	Soddo	Trade	427	113
		Construction	132	35
		Sub-Total	**1121**	**295**
		Manufacturing	71	23
2	Boditi	Service	122	29
		Trade	58	16
		Construction	62	16
		Sub-Total	**313**	**84**
		Manufacturing	170	46
3	Areka	Service	103	31
		Trade	183	48
		Construction	88	21
		Sub-Total	**544**	**146**
Total			**1978**	**525**

Source: Data from Wolaita Zone Urban Development and Housing Department, processed by the researcher, 2018

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Results and Discussion

Spatial Distribution of Enterprises

As stated in Figure 2 below, 56.2 % of the firms are in Wolaita Soddo town, 27.8% in Areka and the remaining 16% in Boditi town. The implication is that Wolaita Soddo town as a zonal center housed more than half of the firms.

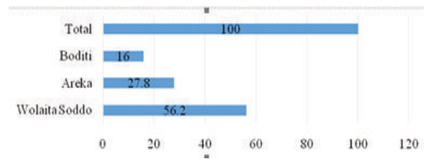

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Table 2: Distribution of Firms in terms of Sector in Towns

Sector/Town	Soddo	Areka	Boditi
	%	%	%
Manufacturing	30.2	31.5	27.4
Trade	38.3	32.9	19.0
Service	19.7	21.2	34.5
Construction	11.9	14.4	19.0
%			

Source: Survey Result, 2018

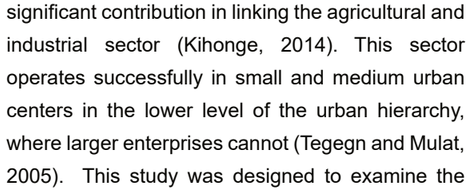
According to the data, most of the firms engaged in the trade sector, followed by the manufacturing and service sectors. This division of enterprises by sector is believed to be helpful to study each sector's critical factor that affects their performance.

Distribution of Firms in Size

The sample of respondents as a whole comprised of firms that were fairly micro in terms of size, measured by the number of employees with mean value 5.51 and a standard deviation of 4.28. Using the firm classification in Ethiopia (Less than 6, Micro; 6-30, Small and 31-100 Medium by the number of employees), the majority of the sample firms were micro-enterprises, as illustrated in Figure 3. Likewise, the microenterprise in the trade sector comprised a greater proportion of the sample enterprise compared to the other sectors.

Figure 3: Distribution of Firms in Terms of Size and Sector

Source: Survey Result, 2018



Moreover, there were only three medium enterprises at the sample in terms of employees indicating the enterprises were only micro and small from which some of the enterprises are grown to medium size in terms of capital. This pattern of sample distribution in terms of size and sector was understandable as the lists of registered firms from the administrative towns in the Zone showed that micro-enterprises comprised the majority of the total firms in the sampled urban administrations. The sample also showed that manufacturing sector comprised 30.1 percent of the sampled enterprises

The contribution of Micro, Small and Medium Enterprises in Rural-Urban Linkages

One of the logical steps needed to transform the nation's economy from agrarian to a modern industrial one is by creating a strong bond between agriculture and industry. It is generally believed that micro, small and medium enterprises as one of the important parts of the industrial sector has significant contribution in linking the agricultural and industrial sector (Kihonge, 2014). This sector operates successfully in small and medium urban centers in the lower level of the urban hierarchy, where larger enterprises cannot (Tegegn and Mulat, 2005). This study was designed to examine the level of contribution of micro, small and medium enterprises in urban administrations of Wolaita Zone from the perspective of rural-urban linkages proxied by the dependency of MSMEs on local raw materials for their input, provision of agricultural input, linkages with larger enterprises and research and development institutions.

Table 3: Type of inputs used by Micro, Small and Medium Enterprises by Sector

Types of Inputs	Manufacturing		Trade		Service		Construction		Total	
	f	%	f	%	f	%	f	%	f	%
Local farm produce	17	10.8	13	7.3	11	9.3			41	7.8
Non-local farm produce	3	1.9	5	2.8	2	1.7			10	1.9
Local and non-local farm produce	14	8.9	10	5.6	21	17.8	1	1.4	46	8.8
Industrial products	70	44.3	125	70.6	70	59.3	14	19.4	279	53.1
Locally available raw materials	5	3.2	14	7.9	6	5.1	18	25.0	43	8.2
Others (Specify)	44	27.8	3	1.7	3	2.5			50	9.5
Industrial products and Locally available raw materials	1	.6	7	4.0	5	4.2	39	54.2	52	9.9
Local farm produce and Locally available raw materials	4	2.5							4	0.8
Total	158	100	177	100	118	100	72	100	525	100

Types of Inputs used by MSMEs

One of the dimensions of rural-urban linkages of micro, small and medium enterprises with the agricultural sector is the use of agricultural produce as input for enterprises as a raw material. Tables 3 and 4 below; reveal the type of inputs used by MSMEs by sectors and by the administrative towns.

As indicated by the tables above, most of the enterprises depend on industrial products as input for their firms. This result indicates that backward linkages of enterprises with the local agricultural sector are insignificant. The key informants' interview results from MSME owners/managers and urban planners also show the same result that the dependence of the firms on local raw materials for their input is insignificant. Therefore, the results from both the survey and key informant interviews show that local agricultural products have a limited market by the firms in the zone. This result is consistent with Tegegn and Mulat (2005) who indicated that a large number of firms depend on industrial products for their input in small towns of the Amara region.

Sources of Firms Inputs

The local and external linkages of micro, small and medium enterprises could be examined in terms of the sources of raw materials and market places for their output goods and services. Table 5 shows that most of the firms use non-local raw materials as their firms' raw materials.

Table 3: Type of inputs used by Micro, Small and Medium Enterprises by Sector

Types of Inputs	Manufacturing		Trade		Service		Construction		Total	
	f	%	f	%	f	%	f	%	f	%
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Local and non-local farm produce	14	8.9	10	5.6	21	17.8	1	1.4	46	8.8
Industrial products	70	44.3	125	70.6	70	59.3	14	19.4	279	53.1
Locally available raw materials	5	3.2	14	7.9	6	5.1	18	25.0	43	8.2
Others (Specify)	44	27.8	3	1.7	3	2.5			50	9.5
Industrial products and Locally available raw materials	1	.6	7	4.0	5	4.2	39	54.2	52	9.9
Local farm produce and Locally available raw materials	4	2.5							4	0.8
Total	158	100	177	100	118	100	72	100	525	100

Source: Survey Result, 2018

Table 4: Type of inputs used by Micro, Small and Medium Enterprises by administrative Towns

Firms Input	Wolaita Soddo		Areka		Boditi		Total	
	f	%	f	%	f	%	f	%
Local farm produce	14	2.7	23	4.4	4	0.8	41	7.8
Non-local farm produce	7	1.3	3	0.6			10	1.9
Local and non-local farm produce	27	5.1	11	2.1	8	1.5	46	8.8
Industrial products	143	27.2	80	15.2	56	10.7	279	53.1
Locally available raw materials	29	5.5	13	2.5	1	0.2	43	8.2
Others (Specify)	4	0.8	1	0.2	1	0.2	6	1.1
Industrial products and Locally available raw materials	70	13.3	15	2.9	14	2.7	99	18.9
Local farm produce and Locally available raw materials	1	0.2					1	0.2
Total	295	56.2	146	27.8	84	16	525	100

Source: Survey Result, 2018

Table 5: Sources of Firms Inputs/Raw Materials

Source of Inputs	Frequency	Percent
Local	82	15.6
Zonal	34	6.5
Outside the Zone but National	122	23.2
Imported	27	5.1
Local and Zonal	70	13.3
Zonal and outside the zone but National	43	8.2
Outside the zone but national and Imported	89	17.0
Local and outside the zone but national	20	3.8
Local, zonal and outside the zone but national	23	4.4
Local, zonal, outside the zone and imported	15	2.9
Total	525	100.0

Source: Field Survey Result, 2018

The qualitative data result from key informant interview also shows that from the total 22 MSME owners/managers interviewed from the three administrative towns of Wolaita Zone, 10 reported national, 7 reported local and imported, 3 reported local and balance 2 reported local and national for the source of their firm inputs. As it is acknowledged both in quantitative and qualitative data, it is clear that the main sources of raw materials are outside the zone and the region (national) which is imported and final finished industrial product showing the low dependence of firms in local raw materials. This result is consistent with Tegegn and Mulat (2005) in the Amara region that most of the firms use non-local sources for their inputs. The implication here is that the majority of small businesses were not aligned to the objectives of Urban Development policy, Industrial Development Strategy and Growth and Transformation Plan of the country, which emphasizes the use of the local agricultural product as firms' inputs.

The results indicated in Table 6 clearly reveal that the use of non-local sources for most firms is increasing or highly increasing. From this result, it is concluded that the dependence of firms on non-local sources

Table 6: Trends of Dependency on Non-Local Raw Materials

Trend	Frequency	Percent
Highly Declining	15	4.4
Declining	29	8.5
Neutral	91	26.7
Increasing	124	36.4
Highly Increasing	82	24
Total	341	100.0

Source: Field Survey Result, 2018

Table 7: Factors that Lead to Dependency on Non-Local Raw Materials

Factors	Frequency	Percent
Due to the unavailability of the raw materials in the local market	109	28.8
To search for better Quality	109	28.8
Due to the insufficient quantity of the raw material in the local market	111	29.3
Others	5	1.3
Due to unavailability of raw materials and to search for better quality	20	5.3
To search for better quality and Due to the insufficient quantity of the raw material in the local market	15	3.9
Due to unavailability of raw materials and Due to insufficient quantity of the raw material in the local market	10	2.6
Total	379	100.0

Source: Field Survey Result, 2018

The study also found as shown in table 7 below unavailability of raw materials and in searching high-quality raw materials as factors that lead to dependency on non-local raw materials. The result shows a big gap in enterprise linkages to the agricultural sector and other sources of local raw materials for the zone's economy to take advantage of it. This result is similar to the study of Legesse (2014), found a huge gap in industrial linkages of medium and large scale manufacturing industries in industrial zones of Ethiopia to the agricultural sector and other sources of raw materials for the country's economy.

Customers for Micro, Small and Medium Enterprises

Concerning customers of the enterprise's Table, 8 presented the customers for the product and service of the enterprises. As stated in Table 8 below, the agricultural

sector is also an important source of market for micro, small and medium enterprises since 68.8 percent of the owners/managers rely on both farmers and town dwellers as their customers.

Table 8: Customers for Micro, Small and Medium Enterprises

Customers	Frequency	Percent
Farmers	6	1.1
Town Dwellers	157	29.9
Both farmers and town dwellers	361	68.8
Others	1	.2
Total	525	100.0

Source: Field Survey Result, 2018

The qualitative data result from key informants interview also shows that from the total 22 MSME owners/managers interviewed from the three administrative towns of Wolaita Zone, 9 reported urban dwellers, 10 reported farmers and urban dwellers and the balance 3 reported farmers, urban dwellers, and visitors as the customers of their firm products/services. As

indicated both in quantitative and qualitative data results, it is clear that the main sources of the market for firms' products/services in the zone w

Table 9: Destination of Outputs of Micro Small and Medium Enterprises

Destination of Outputs	Frequency	Percent
Local	208	39.6
Zonal	41	7.8
Regional	4	0.8
National	2	0.4
International	1	0.2
Local and Zonal	214	40.8
Regional and National	4	0.8
Local, Zonal and Regional	36	6.9
Local, Zonal, Regional and National	6	1.1
Zonal and Regional	9	1.7
Total	525	100.0

Source: Field Survey Result, 2018

The qualitative data result from key informant interviews also shows that from the total 22 MSME owners/managers interviewed from the three administrative towns of Wolaita Zone, 19 reported zonal and the remaining 3 reported local, zonal and regional as the destination of their products/services. As it is illustrated both in quantitative and qualitative data, it is clear from the results that the main destination of the products of the firms' was the zone. Because of this situation demand for output and services of the enterprises is very limited as the majority of the region's population is farmers and dependent on traditional subsistence agriculture that suffers from very low levels of productivity and a high degree of uncertainty. Export to other regions and the national market is very limited. As a result, too many operators pursuit a limited market, creating no incentive for business expansion. Any improvement in the agriculture sector would thus enhance local demand for goods and services.

Therefore, the regional, national and international market is very insignificant for the sampled enterprises operating in the administrative towns of the zone. The result shows that the regional and national linkage for the products and services of MSMEs is not strong. This result is in line with Tegegn and Mulat (2005) that businesses operating in small towns of the Amhara region have a very insignificant national market.

Provision of Agricultural Inputs

Regarding the provision of inputs for the agricultural sector, only a very small number of enterprises are engaged in providing inputs for the sector. Table 10 presented the provision of agricultural inputs for local farmers by sampled enterprises in administrative towns of Wolaita Zone.

Table 10: Provision of Agricultural Inputs by Enterprises

	Frequency	Percent
Yes	8	1.5
No	517	98.5
Total	525	100.0

Source: Field S survey Result, 2018

Therefore, from this result, the linkage of enterprises with the agricultural sector in terms of the provision of agricultural input is not well developed.

The qualitative data result from key informants' interviews of 22 selected MSME owners/managers from the three administrative towns indicates that they are not providing agricultural inputs for local farmers. In addition to the primary data, the secondary data from CSA (2012) also indicated that 45.7 % of medium and large scales manufacturing industries of Ethiopia are agro-based with potential for promoting production linkages with the agricultural sector. Nonetheless, another CSA (2013) report pointed out that a majority of the agro-based firms are highly dependent on imported raw materials.

The secondary data from the structure plan document of the three administrative towns also indicated that the level of rural-urban linkage in the study area is found to be not strong. The documents pointed out the reason for weak rural-urban linkages of the sub-region as subsistence orientation of the rural economy, weak infrastructure development and the low development of manufacturing industries are among the major factors attributed to the feeble rural-urban linkage. The interpretation from both findings is that MSMEs were not the source of farm input or new technology in the region. Hence, any effort to improve the local economy cannot become successful unless capacity is created in small businesses to provide services for transforming agriculture and rural areas and improving the productivity of local farmers.

Linkage with Large Enterprises and Development and Research Institutions

Regarding linkages created with large firms, and research and development institutions, Table 11 shows that 90.5 percent and 93.5 percent of the respondents indicated no linkages with large firms and Research and Development Institutions respectively. The result indicates that enterprises in the Zone did not use the potential of larger firms and Research and Development Institutions to enhance skills and innovation in their productivity

Table 11: Linkages of Enterprises with Large Firms and Research and Development Institutions

Response	Linkage with Large Firms		Linkage with Research and Development Institutions	
	Frequency	Percent	Frequency	Percent
Yes	50	9.5	34	6.5
No	475	90.5	491	93.5
Total	525	100.0	525	100.0

Source: Field Survey Result, 2018

From the qualitative data result of the total 22 respondents interviewed, 18 reported that there is no linkage and balance 4 indicated a weak linkage between MSMEs, and large firms and Research and Development Institutions. In this regard, as indicated by the key informants the linkages between MSMEs and large firms and Research and Development Institutions were insignificant.

Thus, both quantitative and qualitative results point out that the enterprises in the Zone did not use the potential of larger firms and research and development institutions to enhance skills and innovation in their productivity, which are useful for their performance. This result is in sharp contrast to small firms in other emerging regions such as in Asia whose linkages between small and larger firms are so strong that it added to the performance of the firms and general competitiveness of the economy (Liedholm and Mead, 2002). In these countries, larger enterprises create a big demand for smaller firms. In contrast to Liedholm and Mead's

argument, MSMEs in the sampled administrative towns sell their products to final consumers than to firms, which reduced their growth. Liedholm and Mead also contend that lack of competitiveness among larger firms in Africa has hampered linkages of MSMEs and larger firms. They found that the nature of clustering in Africa is that independent firms in the same industry are selling similar goods to the final consumer.

These authors further argue that MSEs in these areas that sell to traders and manufacturing firms are more likely to grow than those that sell directly to final consumers and hence the growth of these enterprises is reduced. Therefore, a lack of competitiveness among larger firms in Africa has hampered linkages and subcontracting arrangements with smaller firms. The nature of MSMEs clustering in Africa is that independent firms in the same industry are selling similar goods to the final consumer than traders and larger manufacturing. Hence, clusters in Africa are competing over the same demand than complementing each other in supplying inputs and other required resources and selling their products for traders and larger firms. Concerning linkage with Research and Development Institutions, for example, an investment in research and development may enable a firm to engage in new methods of *production, which would enhance its* future revenue (Belay, 2012). However, MSMEs in administrative towns of Wolaita Zone have little investment in research and development, which hamper their engagement in a new method of production.

Conclusion and Recommendations

The paper sought to assess the contribution of micro, small and medium enterprises to forge beneficial linkages between the rural agricultural sector and urban business sectors to bring about integrated development. Lack of effective linkage with the agricultural sector is one of the major features of the enterprises in the administrative towns of Wolaita. At present, the micro, small and medium enterprises in the urban centers are not a source of farm input or new technology for local farmers in the region. Hence, any attempt to develop the local economy cannot be successful unless capacity is created in the enterprises to provide services for transforming agriculture and rural areas and improving the productivity of small farmers. The main customers of micro, small and medium enterprises in the administrative towns are local farmers and local town dwellers. Because of this situation demand for output and services of the enterprises is very limited as the majority of the region's population is farmers and dependent on traditional subsistence agriculture that suffers from very low levels of productivity and a high degree of uncertainty. Export to other regions and the national market is very limited. As a result, too many operators pursuit a limited market, creating no incentive for business expansion. Any improvement in the agriculture sector would thus enhance local demand for goods and services. There must also be serious thought to raise the income of the town dwellers by creating employment opportunities to increase the demand for MSMEs' products and services. Inter-firm relations and other linkages with research and development institutions are not the features of MSMEs in the study sampled Administrative Towns of Wolaita, which hindered their innovation and in turn performance.

The paper sees a concerted re-awakening of policy-makers, farmers, enterprises, urban and rural managers and planners, and the investment community to the invaluable potentials of a sustainable harmony between small enterprises and the agricultural sector under a strengthened rural-urban economic linkage as the quickest solution to poverty eradication. The following are hereby suggested as recommendations:

- Enhance agricultural productivity and quality of raw material for firms' input since the owners/managers of the firms indicated unavailability and low quality of local raw materials as a reason for their dependence on the non-local raw material.

- Enhance local demand through improved agricultural productivity in the region and increase the incomes of the town dwellers since they are customers of the firms' product.

- Create market linkages for the enterprises to tap the regional and national export markets in their surrounding or larger urban centers including Addis Ababa.

- Create a strong linkage with larger firms and Research and Development Institutions to use their potential to enhance skills and innovation in the productivity of MSMEs.

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Declaration of Authors' Contributions

Kataro Galasso wrote the manuscript with support, guidance and supervision by sharing the ideas from Ramakrishna Gollagari. Both authors read and approved the final manuscript.

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