

## **Factors affecting the growth of micro and small scale enterprises, addis ababa city administration, ethiopia**

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### **ABSTRACT**

Micro and Small Enterprises (MSEs) are essential to a nation's development since they generate jobs and economic expansion. This study examined the variables influencing the development of MSEs in the city administration of bahirsar. Using a mixed research approach, descriptive and explanatory research design, with a focus on 385 micro and small business owners, managers, service providers, and a few local leaders, the researcher examines the key variables influencing the micro and small scale sectors. This included Trade service, construction, manufacturing, and urban Agriculture. Data were gathered from primary and secondary sources. This study discovered through the use of multiple regressions that the traits of entrepreneurs, their management and marketing abilities, technology, and their access to outside funding, a sufficient market, and legal and regulatory frameworks. Thus, to improve their business growth, MSEs require financing technologies, management and marketing expertise, a sufficient market, and entrepreneurial traits, among other frameworks that should be taken into account. But this survey found that a lot of MSEs have received lengthy and intricate legal notices. Therefore, this research indicates It is imperative for micro and small institutions, the government, and non-governmental organizations to acknowledge that providing access to funding can augment the commercial growth of micro and small scale businesses (MSEs). As a result, stakeholders may offer resources for implementing modern technology, access to financing, and instruction in marketing and management techniques, as well as market accessibility and entrepreneurial traits. On the other hand, the government needs to create simple processes for MSE license and registration. Generally speaking, parameters are important factors.

**Key Words:** Growth, Micro and Small Enterprises, Performance

### **1. Introduction**

This study examines the factors hindering the growth of micro and small enterprises (MSEs) in Ethiopia, particularly focusing on Amhara Regional State, BAHIRDAR Town. While MSEs are widely recognized as the economic backbone of developing countries, providing job creation and economic transformation opportunities, the reality shows that less than 1% of Ethiopian MSE startups successfully develop into medium-sized enterprises. Despite their importance as vehicles for entrepreneurship and innovation that require minimal capital and sophisticated technology, Ethiopian MSEs face numerous challenges, including financial constraints, lack of access to credit, limited management skills, inadequate infrastructure, corruption, and regulatory barriers. Although the Ethiopian government has prioritized MSE development since 1991 through various reforms and support programs, resulting in over 1.7 million registered enterprises by 2019, the sector remains dominated by government-backed microfinance institutions and continues to struggle with sustainability issues. This research aims to fill existing knowledge gaps by investigating the major internal and external factors affecting MSE growth at the national level across Ethiopian regional states, building upon previous studies that focused only on specific sub-cities within Amhara Regional State, Bahirdar Town.

### **2. The literature corpus**

In this portion of the examination of pertinent literature, the initial portion commences by elucidating the overarching concept of micro and small enterprises (MSEs) both in a general sense and within the Ethiopian context. Additionally, it delves into the criteria employed to differentiate them from other business endeavors. Subsequently, the literature review concentrates on delineating the essence of factor mean and its method of

measurement. These factors, which shall be expounded upon in subsequent sections, serve as the independent variables of the study, presumed to possess a connection and contribution to the performance of enterprises. Lastly, the literature culminates by scrutinizing those studies that explore the relationship between the independent variables and the dependent variable of the study.

## 2.1 Theoretical Literature Review

One of the main things that helps a country's economy grow is when small businesses and companies start up and do well. When these businesses are successful, they create more jobs, make money, and help the economy to grow. They also bring

new ideas and ways of doing things, which can make a country stronger not just economically, but also socially and culturally. Gebreyesus M. (2009), as cited by Dababneh and Tukan (2007), posits that the nature of MSE not only mirrors a country's economic patterns but also its social and cultural dimensions.

In Ethiopia, micro enterprises are defined as businesses with paid-up capital of up to 20,000 Birr (excluding high-tech), often informal or cottage industries, typically with five or fewer employees and small market share. Small enterprises have capital between 20,000 and 500,000 Birr, usually employing fewer than ten people with motorized equipment (CSA, 2002). Larger businesses are those with ten or more employees.

The definition of small-scale industries adopted by the Federal Micro and Small Enterprises Development Agency (FeMSEDA, 2014) in proclamation 124/77 included: a small scale manufacturing activity and engineering service establishment is a manufacturing establishment - except handicrafts- which has a fixed location within urban center; uses either manually operated or machinery, equipment move power driven machinery and equipment, and engaged in the mechanical-chemical transformation of substances into new products in the fabrication, assembly, reconstruction, alteration and repair activity; employs at least one person other than the owner/owners, unpaid family workers and/or apprentices; and has fixed assets of value not exceeding Birr 200,000 excluding investments made on land and buildings.

## 2.2 The main Reasons behind the disruption of micro and small business growth

### 2.2.1 Exterior Variables

As mentioned in the conceptual framework, among the exterior variables that hinder the expansion of micro-small scale enterprises are Government Policy Issues, Access to adequate market and Financial Accessibility, lack of an appropriate supply chain and others.

**Government Policy Issues** are some of the major factors that affect the industry. According to Rahel and Issac (2010); Endris et.al (2023); Muhaba et al, (2022); Abriham (2021) legality and regulatory issues, government policy issues, License issues based on precondition, taxation system of the country, inadequate power supply, legal document preparation, lack of good governance as a whole, complicated rules and regulations at time of supervision and inspection. **Financial Accessibility**: According to World Bank Report (2019) as cited by Rajamani K. & Nirmal Raj A (2021) : Micro enterprise less than 750 million rupees sales volume, small enterprise Less than 150 million rupees sales volume and small scale should be less than 500 thousand rupees. More over finance is the most influencing factors to form MSE Operations (Santos, 2003). **Access to Adequate Market**: The importance of availability of adequate market is basic factors to determine the success of any company performance. Harvard Business Review(2020); business should be evaluated different global opportunities based on market availability implies the size of the market, real time analysis (the market current situation) and customer adequacy ease of entering into the market with current product. Small business must be design to update themselves to assure their continuity they must work market strategy every moment. However if they are not in this track they can be restricted stability and their growth (Ababayehu, 2017)

### 2.2.2 Internal factors

In Ethiopia, the performance of micro and small enterprises (MSEs) is shaped not only by external factors but also by internal bottlenecks. Key internal influences include the characteristics of entrepreneurs such as

motivation, creativity, vision, risk tolerance, planning ability, and work know-how which are essential for enterprise success (Pompe & Bilderbeek, 2005). Management and marketing skills also play a crucial role, as strong managerial capacity and competencies drive firm efficiency and growth (Olawale & Garwe, 2010; Pasanen, 2007; Okpara & Wynn, 2007). Additionally, limited high-tech proficiencies present challenges due to skill gaps, high training costs, resistance to change, inefficiencies, and digital exclusion, which can hinder innovation and risk pushing MSEs out of the market (Nyamwanza, 2014; Aremu & Nguyen et al., 2015; Kiveu & Ofafa, 2013).

2.3 Ethiopian Perspectives

Over recent decades, MSEs have become vital drivers of job creation, income generation, and socio-economic transformation in developing countries (G. Ageba & W. Amha, 2006). In Ethiopia, they play a key role in poverty reduction and industrial growth, yet many struggle due to political, financial, technological, managerial, and infrastructural challenges (Birhanu Daba Chali, Zewdu Eskezia Gelaye & Deepak Tyagi, 2022). While most prior studies focus on specific areas, this research centers on Bahir Dar, Amhara Region currently under a state of emergency—using census methods with 385 respondents from textile, wood, construction, and metal industries.

2.4 The Conceptual Framework

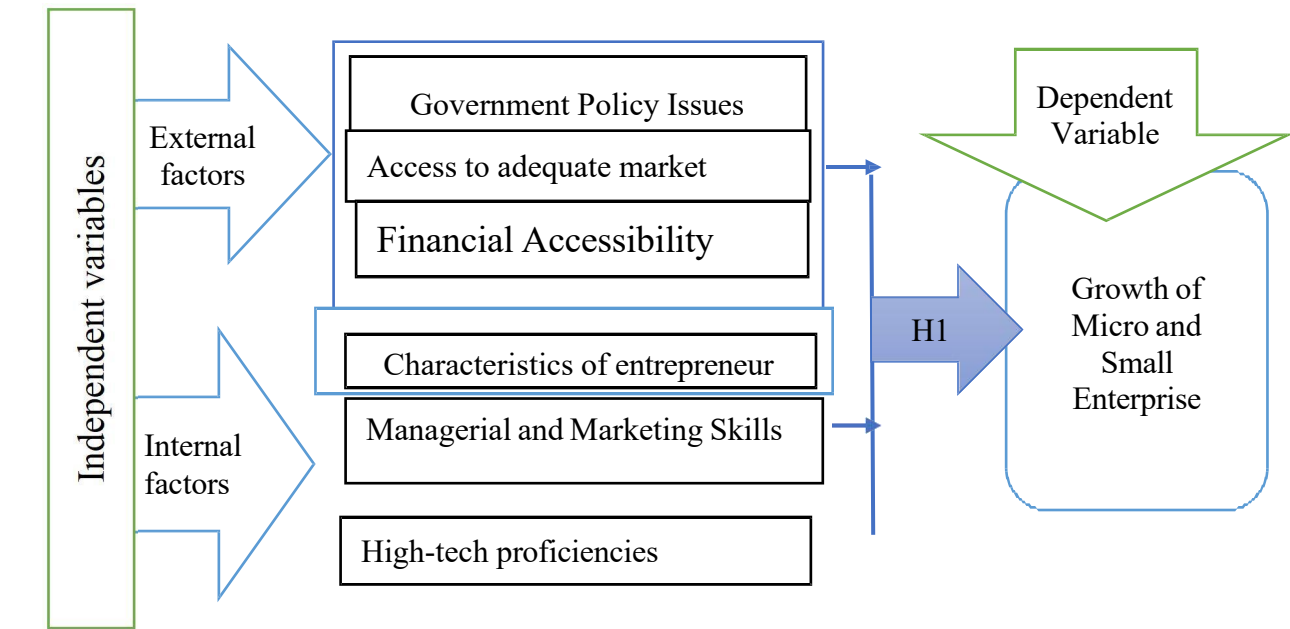


Figure 1 Source; Asma, et al. 2015; (Pompe & Bilderbeek, 2005).& Okpara and Wynn (2007)

3. Research methodology

The study employed a mixed-methods approach with explanatory and descriptive design, targeting industries such as Trade service, construction, manufacturing, and urban Agriculture. Using Cochran’s (1963) formula, 385 questionnaires were distributed through convenience sampling. Due to ongoing political unrest, insecurity, and transportation challenges, local leaders and experts were excluded, and data collection was limited to Bahir Dar City Administration.

#### 4. Result and discussions

4.21 **Sample Frame:** To obtain useful data, determining the response rate is essential. A survey was conducted among 4,892 micro and small business enterprises registered in the region, but targeted only 385 using Cochran's (1963) method. From Trade (2714, 214), service (1346, 106), construction (361, 28), manufacturing (375, 30), and urban Agriculture (96, 7) by proportionate sampling.

**4.2 Discussion items with regards to finding:** In order to better understand the issues that persuading the progress of small business enterprises in capital city of Bahirdar were targeted, with sample of 385 respondents, the researcher used a rating scale with mean value notations with the following interval scale: ( $X < 2.49$  = low practice), ( $2.5 \leq 3.49$  = Moderate), ( $3.5 \leq 4.49$  = Good Practice), ( $4.5 \leq 4.75$  Very Good Practice), and ( $4.75 - 5$  Excellent)

**Table 2: Major factors that affect MSE Industry**

Dimensions	Mean			
	Grand	Min Items	Max Items	Sd
Entrepreneur characteristics/ invention and innovation know-how/	3.90	3.67	4.08	1.02
Management and marketing skills/managing capability	3.65	3.50	3.78	1.08
High-tech proficiencies	4.02	3.82	4.16	1.09
Government Regulation issues	3.78	3.61	3.97	1.01
Availability of subsidy firms that offer finance	3.62	3.55	3.78	1.06
Access to adequate market/formation of market chain/	3.79	3.61	3.98	1.01

Source: Survey result, 2025

#### 4.3 Inferential Analysis

**Table 3: Correlations Test Result**

Correlations Analysis		Independent variables					
		Entrepreneur characteristics	Management and marketing capabilities	Technological Capacities	Legal and regulatory framework	Access to external financing	Access to adequate market
Growth of MSEs	Spearman Correlation Coefficient	.541**	.568**	.571**	.374**	.588**	.459**
	Sig. (2-tailed)	0.00	0.00	0.00	0.00	0.00	0.00

\*\* . Correlation is significant at the 0.01 level (2-tailed). N=384

Source: Survey result, 2025

The correlation analysis between independent variables and the growth of MSEs (N = 384) shows statistically significant positive associations at the 0.01 level ( $p < 0.01$ )

#### 4.2 Regression Analysis

Prior to doing regression analysis, the researchers used the normality, linearity, and heteroscedasticity tests as well as the multi-collinearity test (tolerance and VIF) and then Regression analysis were done based on the researcher's model assumption test value. Table 4: Regression Test Results

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 <sup>a</sup>	.561	.547	.592

Source; own survey, 2025

As per the model summary tables, the expansion of micro and small scale enterprises can be explained by 56.1% of the predictor variables; the remaining 43.9% are other variables that were excluded from the study.

Table 5: ANOVA <sup>a</sup>

Model	Sum of Squares	d/f	Mean Square	F	Sig.	Si
Regression	86.685	6	14.447	41.291	.000 <sup>b</sup>	.0
1 Residual	67.879	194	.350			
Total	154.564	200				

a. The expansion of MSEs (dependent variable)

b. Predictor variables: (market integration, management and marketing skills, government-related concerns, characteristics of entrepreneurs, High-tech proficiencies, and access to outside financing).

Table 6: Beta Coefficients <sup>a</sup>

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.301	.241		1.247	.214
Capability of invention and innovation	.212	.078	.228	2.709	.007
Skill of supervising habit or trends	.274	.047	.197	3.665	.000
Availability of technology	.187	.076	.209	2.448	.015
Government Related issues	.037	.045	-.048	-.820	.041
Access to financial support	.237	.063	.232	3.777	.000
Capability of management and marketing skill	.175	.055	.190	3.191	.002

Source: Survey result, 2025

a. Dependent Variable: MSEs Growth Indicators

b. Predictor variables (Capability of invention and innovation, skill of supervising habit or trend, Availability of technology, Government Associated issues, Access to financial support, and Availability of market in the industry:

All predictor variables had significant influences for the expansion of MSEs industries as the above beta coefficient tables explained. Entrepreneur qualities increased by 21.2% when the dependent variables grew by 1%. The remaining cases are dependent on the aforementioned value.

$Y=0.301+0.212X1+.274X2+.187X3+.037X4+.237X5+.175X6+0.241$ . Where: X1-Capability of invention and innovation; X2-Skill of overseeing habit or trend; X3-Availability of technology; X4-Government Related concerns; X5-Access to financial support and Y-Dependent Variables/growth of micro and small size firms X6: Market accessibility within the sector

## 5 Conclusions

This study set out to look at the main variables influencing the expansion of small-micro enterprises in Amhara Regional State, Bahir-Dar Town Administration. A self- Administered questionnaires was used to examine 385 small business owners. A preliminary survey was conducted with a range of SMEs in order to assess the survey's reliability and validity. A survey was conducted among 4892 micro and small business enterprises registered in the region, but targeted only 385 using Cochran (1963). From Trade (2714, 214), service (1346, 106), construction (361, 28), manufacturing (375, 30), and urban Agriculture (96, 7)

As per the survey, a sample of respondents infrequently looked for appropriate markets for their products, obtained sufficient finance from business partners, and were unable to locate sufficient funding sources (donations from friends and family).

Remarkably, the research participants consistently identify new sources of raw materials, believe they can manage technologies, research products and services, and introduce new products that make use of state-of-the art techniques. A medium sized relationship between MSE growth performance and the following factors was also found in this study: Availability of high-tech ( $r=0.187$ ,  $p=0.000$ ); Government Related issues ( $r=0.037$ ,  $p=0.000$ ); Skill of supervising habit or trends ( $r=0.274$ ,  $p=0.000$ ); Capability of management and marketing skill ( $r=0.175$ ,  $p=0.000$ ); Access to financial support ( $r=0.237$ ,  $p=0.000$ ); and Capability of invention and innovation ( $r=0.212$ ,  $p=0.000$ ). This all are statistically significant contributions to the expansions of MSEs, Accordingly, this study emphasis to use multiple regressions.

This study aimed to investigate the elements that lead to MSE growth at the city government of Addis Ababa. The study discovered that MSEs struggle to get startup investment since financing is costly and interest rates are high. This conclusion was drawn after it was discovered that a large number of MSEs need simple access to capital in order to expand their businesses. They've been motivated to try and get money from loan companies. According to the survey, the bureaucratic and difficult processes MSEs must navigate when seeking funding have discouraged many of them from approaching

lending institutions for the capital they need to expand. In spite of this, the survey discovered that many MSEs are worn out as a result of these and other challenges. Nonetheless, the study found that a lot of MSEs were tired with drawn-out, convoluted legal processes. A simple and quick process is required for MSEs to obtain a business license, even if many of them are able to pay the required price. The investigation came to the conclusion that one of the main causes of some MSEs' noncompliance with tax laws was excessive taxes. The conclusion was made after it was discovered that some MSEs do, in fact, somewhat enhance their businesses.

The study also comes to the conclusion that small enterprises will flourish as a result of technological advancement. It plays a significant role in their enterprise. This decision was made because it was realized that new technologies cannot be swiftly adopted due to financial constraints, even by tiny and micro firms that were previously able to do so. The study came to the conclusion that innovative technology is essential for small firms to grow and succeed based on its research findings. This conclusion is derived from the finding that many SMEs only produce their own unique items, which suggests that innovation adoption within businesses is happening slowly. The report also finds that performance growth in small businesses is driven by skill. The study's conclusion was that SMEs require creative and flexible personnel, as well as effective training programs and pertinent expertise, and they must advance.

## 6 Recommendations

✚ Governments, non-governmental organizations, and micro and small institutions must acknowledge that SMEs' ability to obtain financing promotes their ability to expand their businesses. Therefore, action in the costly and challenging credit situation is necessary. The primary concern for micro and small financial institutions is lending rates. How, exactly, may interest rate reductions lower borrowing costs is the question. Also, the funding procedure is uncomplicated and transparent. To combat the high costs associated with SMEs' capital access, all parties must create regulations to reorganize the loan options available to them. This lowers the cost of loans for small firms.

✚ The federal government can create practical plans to simplify intricate legal and regulatory procedures, which will lower small firms' operating expenses. Small enterprises should be taken into consideration and their owners should be encouraged to apply for microcredit due to their weak financial position. To prevent misunderstandings about legal and regulatory expectations, small enterprises must have clear licenses, permits, and legal requirements.

✚ To get an essential understanding of accounting, bookkeeping practices, inventory management, and business plan formulation, local government administrations may enroll in business management courses. The characteristics that lending institutions employ to assess MSEs' feasibility for credit access make the recommended training areas crucial.

✚ MSEs should be assisted in implementing improved production technologies, especially in those industries where doing so will allow them to produce a wider range of goods, more effectively, and with higher quality. To help MSEs in the textile, wood, metal, leather, flour, and other industries acquire new technology, the local government may also provide encouragement and support. Additionally, MSEs must receive training on how to recognize and implement the right technology for certain products, services, or customer demands. Additionally, the government must increase the use of domestic technology from the current MSEs and decrease the importation of technologies. It might be essential to establish connections between MSEs and training institutions (vocational, construction, and agricultural colleges) in order to transfer and modify technology to improve their enterprises.

✚ Improved production technologies should be helped MSEs implement, particularly, in industries where doing so will enable them to produce a greater variety of goods more efficiently and with higher quality. The municipal government might also offer encouragement and support to MSEs in the textile, wood, metal, leather, flour, and other industries so they can purchase new technology. Training, on identifying and utilizing the appropriate technology for particular goods, services, or client needs is also necessary for MSEs. The government must also reduce the import of technologies and increase the use of domestic technology to improve their enterprises, MSEs may need to establish connections with training institutions (vocational, construction, and agricultural colleges)

✚ Through team spirit, appropriate training, and experience sharing can improve their marketing and managerial skills. It also helps to have marketing skills like pricing determination, looking at their products competitively, building strong client relationships, and presenting their work to clients in an efficient manner.

✚ When it comes to information and market data, the Suburban Micro, Small, and large Business Administration will provide a central repository for all parties involved, enabling them to locate and bolster the market for goods produced by small company owners. Able to be established in concert. They attempt to protect against loss in this way. For tracking supply, end users, and raw materials, this pivot might be linked to local market areas.

✚ The expansion of MSEs was found to be significantly aided by the existence of a sufficient market for their

✚ belongings and amenities. Therefore, it is important to implement policies that can connect MSEs



with medium-sized and larger businesses as well as with other MSEs to act as market outlets and provide



information on available opportunities. In order to increase market access, government agencies, stakeholders, and companies from the regional headquarters down to the sub-cities should introduce and increase trade fairs and exhibitions up to the local level. These include the provision of market information centers and product display centers, as well as the market and work premises development department of MSEs development office. It is important to maintain control over the unauthorized entry of comparable imported goods.

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