

**ASSESSING THE CHALLENGES AND  
PROSPECTS OF MICRO, SMALL, AND  
MEDIUM ENTERPRISES  
DEVELOPMENT: IN THE CASE OF  
ETHIOPIA**

*A THESIS SUBMITTED IN PARTIAL  
FULFILMENT OF MASTERS DEGREE*

HANAN TAHIR AHMED

Eskişehir 2022

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**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF MASTERS DEGREE**

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**March 2022**

## FINAL APPROVAL FOR THESIS

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## ABSTRACT

### ASSESSING THE CHALLENGES AND PROSPECTS OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT: IN THE CASE OF ETHIOPIA.

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Anadolu University, Graduate School of Social Science, March 2022

Advisor: Asst. Prof. Dr. Nur ÖZER CANARSLAN

Various studies in both developed and developing countries show that Micro, Small, and Medium Enterprises (MSMEs) play an important role in poverty alleviation, income generation, job creation, and economic development. Despite their contributions, the growth and development of these enterprises are hampered by a variety of internal and external factors. For this reason, the overall objective of the study is to assess and analyze major challenges that hindering the development of MSMEs in Ethiopia. Taking this into consideration, this study used both primary and secondary data sources. Primary data was collected from 291 MSME owners and/or managers, by using survey. Wood and metalwork, food processing, and textile and garment subsectors located in Nifas Silk Lafto Sub-city/Addis Ababa, were chosen for data collection due to their convenience.

To achieve the study's objectives, questionnaires were analyzed using statistical techniques such as descriptive and inferential analysis. The empirical investigation demonstrated seven major challenges that appear to be hindering the development of MSMEs. Descriptive findings showed that financial, infrastructural, work place, and technological factors, respectively, were found to be the four top most severe problems that challenged the MSMEs development. Inferential analysis output, on the other hand, indicates that technological, marketing, work place, political-legal, and infrastructure factors all have a significant effect on the development of MSMEs at the 1% level of significance, with the exception of infrastructure, which has a 5% level of significance. Furthermore, the results of the correlation analysis show that all independent variables (financial, management, marketing, infrastructure, technological, work environment, political, and legal factors) have a significant positive association with the dependent variable (development of MSMEs).

**Keywords:** MSME, Challenges of MSMEs, Prospect of MSMEs, Development of MSMEs.

## ÖZET

### MIKRO, KÜÇÜK VE ORTA BÜYÜKLÜKTEKİ İŞLETMELERİN GELİŞTİRİLMESİNİN ZORLUKLARI VE BAŞARI ŞANSININ DEĞERLENDİRİLMESİ: ETİYOPYA ÖRNEĞİ

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Anadolu Üniversitesi Sosyal Bilimler Enstitüsü, Mart 2022

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Hem gelişmiş hem de gelişmekte olan ülkelerde yapılan çeşitli araştırmalar, Mikro, Küçük ve Orta Büyüklükteki İşletmelerin (KOBİ'ler) yoksulluğun azaltılmasında, gelir yaratılmasında, istihdam yaratılmasında ve ekonomik kalkınmada önemli bir rol oynadığını göstermektedir. Katkılarına rağmen, bu işletmelerin büyümesi ve gelişmesi çeşitli iç ve dış faktörler tarafından engellenmektedir. Dolayısıyla, bu çalışmanın genel amacı Etiyopya'da mikro, küçük ve orta büyüklükteki işletmelerin gelişimini engelleyen ana zorlukları değerlendirmek ve analiz etmektir. Bunu göz önünde bulundurarak, bu çalışmada birincil ve ikincil veri kaynakları kullanılmıştır. Birincil veriler, anket kullanılarak 291 KOBİ sahibi ve/veya yöneticisinden toplanmıştır. Addis Ababa, Nifas Silk Lafto belediyesinde bulunan ahşap ve metal işleri, gıda işleme ve tekstil ve hazır giyim alt sektörleri, elverişliliklerinden dolayı veri toplama için seçilmiştir.

Çalışmanın amaçlarına ulaşmak için toplanan anket verileri, tanımlayıcı ve çıkarımsal analizler gibi istatistiksel teknikler kullanarak analiz edilmiştir. Ampirik araştırma sonuçları KOBİ'lerin gelişimini engelleyen yedi ana zorluğu ortaya koymuştur. Tanımlayıcı bulgular, sırasıyla finansal, altyapısal, çalışma yeri ve teknolojik faktörlerin KOBİ'lerin gelişimine meydan okuyan en ciddi dört sorun olduğunu göstermiştir.

Çıkarımsal analiz çıktısı ise, teknolojik, pazarlama, çalışma ortamı, siyasi, yasal ve altyapı faktörlerinin, KOBİ'lerin gelişimi üzerinde önemli bir etkiye sahip olduğunu göstermiştir. Teknolojik, pazarlama, çalışma ortamı, siyasi ve yasal faktörlerinin KOBİ'lerin gelişimi üzerindeki önemlilik düzeyi %1 iken, altyapı faktörünün ise %5 olarak kaydedilmiştir. Ayrıca, korelasyon analizinin sonuçları, tüm bağımsız değişkenlerin (finansal, yönetim, pazarlama, altyapı, teknolojik, çalışma ortamı, siyasi ve yasal faktörler) bağımlı değişken KOBİ'lerin gelişmesi ile anlamlı bir pozitif ilişkiye sahip olduğunu göstermektedir.

**Anahtar Sözcükler:** KOBİ, KOBİ'lerin Zorlukları, KOBİ'lerin Başarı Şansı, KOBİ'lerin Gelişmesi

## ACKNOWLEDGEMENT

First and foremost, I want to express my gratitude to the Almighty Allah for assisting me in every situation and making my journey a success, which would not have been possible without his will. Second, I would like to express my heartfelt gratitude to my thesis advisor, Asst. Prof. Dr. Nur Özer Canarlan, for all of her guidance, patience, constructive comments, and priceless suggestions that have contributed to the overall success of this research. Special thanks also to Engr. Ibsa Ibrahim and Dr. Anwar Yimam for their invaluable contributions and comments that served as a road map for the success of this study.

Furthermore, I would like to express my heartfelt gratitude to my beloved parents for their upbringing, love, support, and the best education I have been able to obtain over the years. This is a dedication to them, specifically to the memory of my mother Burtukan Jemal, who always believed in my ability to succeed academically. “You are no longer with us, but your faith in us has enabled me to embark on this journey”.

Last but not the least, I would like to express my heartfelt gratitude to all of my family and friends for their unwavering support in helping me complete this thesis successfully and I want to thank the Turkish government scholarship team for giving me the opportunity to study this program and for providing me with a lot of the necessary support.

## STATEMENTS OF COMPLIANCE WITH ETHICAL PRINCIPLES AND RULES

25/03/2022

I hereby truthfully declare that this thesis is an original work prepared by me; that I have behaved in accordance with the scientific ethical principles and rules throughout the stages of preparation, data collection, analysis and presentation of my work; that I have cited the sources of all the data and information that could be obtained within the scope of this study, and included these sources in the references section; and that this study has been scanned for plagiarism with “scientific plagiarism detection program” used by Anadolu University, and that “it does not have any plagiarism” whatsoever. I also declare that, if a case contrary to my declaration is detected in my work at any time, I hereby express my consent to all the ethical and legal consequences that are involved.

.....

(Signature)

Hanan Tahir Ahmed

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## ACRONYMS AND ABBREVIATIONS

<b>ADA</b>	: Appui Au Développement Autonome
<b>ADLI</b>	: Agriculture Development Led Industrialization
<b>CSA</b>	: Central Statistics Authority
<b>EDC</b>	: Entrepreneurship Development Centre
<b>EPA</b>	: Environmental Protection Authority
<b>FDRE</b>	: Federal Democratic Republic Of Ethiopia
<b>FeMSEDA</b>	: Federal Micro and Small Enterprises Development Agency
<b>GDP</b>	: Gross Domestic Product
<b>GNP</b>	: Gross National Product
<b>GTP</b>	: Growth and Transformation Plan
<b>IDS</b>	: Industrial Development Strategy
<b>LDCs</b>	: Least developed Countries
<b>MFI</b> s	: Micro Finance Institutions
<b>MOUDH</b>	: Ministry of Urban Development and Housing
<b>MSMEs</b>	: Micro, Small, and Medium Enterprises
<b>NGO</b>	: Non-Governmental Organization
<b>OECD</b>	: Organization for Economic Cooperation and Development
<b>SMEs</b>	: Small and Medium-sized Enterprises
<b>SPSS</b>	: Statistical Package for Social Sciences
<b>TVET</b>	: Technical and Vocational Education and Training
<b>UNDP</b>	: United Nations Development Programme
<b>UNICEF</b>	: United Nations International Children's Emergency Fund
<b>UNSDCF</b>	: United Nations Sustainable Development Cooperation Framework
<b>USAID</b>	: United States Agency for International Development
<b>WB</b>	: World Bank

## **Chapter 1: Introduction**

This chapter provides a brief overview of research and concepts that serve as a context for the study under consideration. Furthermore, it lays out the major issues that the research intends to address, as well as the research objective, research hypothesis, significance, and scope of the study in general.

### **1.1 Background of the study**

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the development of countries' economic growth and social development (Mehta, 2013). Moreover, MSMEs are critical for the development of a modern, dynamic, and knowledge-based economy because these enterprises encourage entrepreneurship and entrepreneur skills. Besides that, these enterprises are more adaptable to marketing changes, climate change, and flexible in their behaviors than large enterprises. Besides this, MSMEs encourage the creation of new jobs (Govori, 2013). Overall, the development of MSMEs has the potential to benefit the country's economy by producing substitute goods locally, making goods for domestics, and exporting goods to foreign markets. Furthermore, the growth of MSMEs increases productivity and cash inflow. Further to that, it enhances aggregate economic growth by increasing GDP (Gross domestic product) and GNP (Gross National Product) (Reinert, 2007).

Ethiopia is a country where agriculture is the primary source of income for the majority of the population. Agriculture is the primary source of employment, cash inflow from export food, and job security for the general public. Besides that, the majority of the country's population lives in rural areas, and their income is based on small businesses that are frequently vulnerable to drought (Lie and Berouk, 2018). What's more, as a developing and emerging country, the economic development system is supported by federal government investment. As one of the least developed African countries, Ethiopia relied on agriculture sectors to combat poverty and promote growth. Recently, the Ethiopian government has played an important role in increasing productivity, particularly in the

agricultural sector. However, the agricultural sector's achievements in terms of economic development are unsatisfactory, as they are in other developing countries that rely solely on agriculture sectors. As a result of this problem and stagnation in agriculture sectors, the federal government devised various policies, strategies, and plans aimed at reducing poverty through the promotion of economic growth, particularly by supporting private sectors.

Ethiopia's national government adopted various development strategies, including Agriculture Development Led Industrialization (ADLI) and Industrial Development Strategy (IDS). ADLI is a government-sponsored industrialization strategy that was implemented by the Ethiopian Peoples Revolutionary Democratic Front (EPRDF) in 1994. This strategy combines the emphasis on agriculture and industries at the same time. ADLI's primary concern at first was agricultural development, followed by increased industrialization. In other words, increasing agricultural productivity leads to industrial development because agricultural development leads to industrial development. However, the overall goal of ADLI is to transform the agriculture-dominated economy into an industry-dominated economy (Dube et al., 2019; Hirvonen et al., 2019; p.6). In addition, the IDS (Industrial Development Strategy) were adopted in 2003. The primary aim of this program is to focus on export-led industrialization, labor-intensive industries, infrastructure improvement and development, and the development of small enterprises in order to achieve economic growth and reduce unemployment by creating job opportunities for a large portion of the population (The Federal Democratic Republic of Ethiopia (FDRE), 2002: cited in Hirvonen et al., 2019, p.6). This shows that the main root of growth from an agricultural-based economy to an industrial-based economy is through the development of MSMEs particularly the manufacturing sectors.

In the majority of developing countries, MSMEs contribute significantly to GDP and employment growth (Govori, 2013). MSMEs development is particularly important for industrial development in developing countries (Meyanathan, 1994). Furthermore, the development of MSMEs benefits the larger society and overall economic growth. The development of MSMEs can be evaluated by various factors such as access to finance, market, technology, infrastructure and good government policies. Moreover, MSMEs are

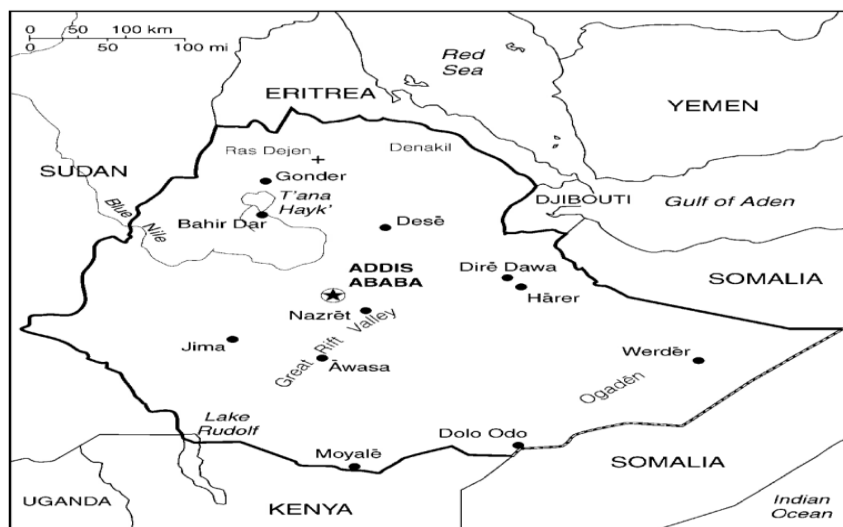
valuable tools for addressing the issues of unemployment, economic growth, and income inequality. MSMEs, like in most other developing countries, plays a significant role in reducing poverty, unemployment, and income inequality in Ethiopia (Eshetu, et al., 2013). According to the National Bank of Ethiopia (2021), 111,547 new Micro and Small Enterprises (MSEs) established in 2019/20 alone created employment opportunities for approximately 1.6 million people in the country.

Despite the contribution of MSMEs to economic growth and development, particularly the creation of job opportunities for a large portion of the Ethiopian population, due to various constraints such as a lack of skilled human resources and finance to produce high-quality products, Gross Domestic Product (GDP) from the manufacturing sector in particular and MSMEs in general remains unsatisfactory (Abdissa & Fitw, 2016; Esubalew & Raghurama, 2017). In other words, despite the fact that the Ethiopian government recognizes MSMEs as a tool for growth and has developed various strategies to support the sectors, MSMEs development in Ethiopia is still in its infancy. Considering this, the purpose of this study is to assess and analyze various significant factors that are hindering the development of MSMEs in Ethiopia.

## **1.2 Background of the country**

Ethiopia is the oldest country in the world, and it is home to the 3.2 million-year-old ancestor of humanity, Lucy Australopithecus Afarensis, discovered in 1974 by an American Professor Donald Johanson (Gonfa, n.d.). Moreover, Ethiopia is home to one of the world's oldest civilizations, dating back to the first millennium BC. The Kingdom of old Ethiopia was known as the (Kingdom of Axum) or Aksumite empire, which was located in present-day high lands of Eritrea and Tigray and extended its height from Sudan's Nile Valley to Southwest Arabia. The Aksumite empire was a trading state that dominated the Red Sea and trade between the Nile Valley and Arabia (Library of Congress Federal Research, 2005,). Furthermore, Ethiopia is one of the few African countries that have successfully defended itself against European colonization. Historically referred to as independent black nations ( Adejumobi, 2007, p.22).

Ethiopia is a landlocked country in North East Africa with a land mass of 1,104,300 km<sup>2</sup> and borders Eritrea in the north, Sudan and South Sudan in the west, Kenya in the south, and Djibouti and Somalia in the east. Besides that, Ethiopia has a diverse climate and landscape, ranging from equatorial rainforest in the south and southwest with high rainfall and humidity, to Afro-Alpine on the summits of the Simien and Bale Mountains, to desert-like conditions in the north-east, east, and south-east lowlands (World Bank group, 2020).



**Figure 1.1** Map of Ethiopia (Adejumobi, 2007)

Ethiopia is officially known as “The Federal Democratic Republic of Ethiopia (FDRE)”. Ethiopia's current government structure is ethno-federalist, with nine regions (Tigray, Afar, Amhara, Oromia, Somalia, Benshangul/ Gumuz, Southern Nations, Nationalities and Peoples (SNNP), Gambela, and Harari Peoples) and two city administrations, Addis Ababa and Dire Dawa. Ethiopia's capital and largest city is Addis Ababa. Aside from Nigeria, Ethiopia is the second most populous country in Africa, with a population of over 115 million people in 2020. Ethiopia is one of the horn African countries that have experienced rapid economic growth since the fall of the Dergu regime in 1991. As a developing country with a market economy, the government devised a Growth and Transformation Plan (GTP) to transform the country's economy from one based on agriculture to one based on manufacturing through the ADLI program (Lie, & Berouk, 2018). Ethiopia is one of Africa's fastest growing economies (Hirvonen, et al., 2019).

According to “United Nations Development Programme, (UNDP, 2014)”, Ethiopia has experienced remarkable economic growth during the year of 2013/2014 by annual growth average rate of 10.9% and it also registered double annual growth rate in sub Saharan Africa. This lead the country, being rated as one of rapid economic growing in the continent and in the world. During this time, domestic saving of the country has been growing from “12.8% GDP in 2010/11 to 17.7% of GDP in 2012/13”. In addition the growth of industry during these years was very strong and registered 18.5% annual growth rate. Moreover, the growth average of Ethiopia’s economy between 2010/11 and 2019/20 is 9.4%. This gives to the strong, broad-based growth. However due to Covid -19 the real gross domestic product (GDP) growth declined to 6.1% in 2019/20. According to the World Bank (2021), the industries, construction, and service sectors have all contributed to this growth. Furthermore, the country's ongoing economic growth has contributed to positive trends toward poverty reduction, with the proportion of Ethiopians living below the national poverty line falling from 30 percent in 2011 to 24 percent in 2016.

Ethiopia's economy is dominated by the agricultural sector. Because these sectors employ more than 80% of the population and generate 46% of the national GDP (Ethiopian investment commission, 2017). Despite the fact that agriculture has a high employment share, the service sector leads in terms of its contribution to the gross GDP. During the fiscal year 2013/14, agriculture contributed 43 percent of GDP, industry contributed 12 percent, and services contributed 45 percent. Overall, agriculture is the main source of employment in the country, while service and industry have not been able to generate much employment (UNDP, 2014).

The Ethiopian government's goal in Growth and Transformation Plan (GTP II) is to make Ethiopia a middle-income country by 2025. So, in order to achieve this goal, the country's government concentrated on three factors. These include increasing and improving agricultural productivity, strengthening the industrial base, and expanding export goods (Lie, & Berouk, 2018, p.12). Ethiopia has providing plentiful opportunities for the manufacturing sector. Because the manufacturing sector is an important component of Ethiopia's second five-year Growth and Transformation Plan (GTP II). The primary goal of this plan is to spur vital growth in the manufacturing industry. According to the World

Bank, the Ethiopian government has begun a new 10-year strategic plan. The plan will be in effect from 2020/21 to 2029/30. The plan's main goal is to maintain the remarkable economic growth achieved under GTP I and GTP II, particularly by focusing more on private sector growth and development.

### **1.3 Research gap and research problem**

Unemployment is a major barrier to development in all countries, but it is a particularly serious economic and political issue in Least Developed Countries (LDCs) such as Ethiopia. According to Lie and Berouk (2018), “Unemployment is one of the most serious political problems and worrying economic issues confronting Ethiopia today”. The majority of Ethiopia's population, estimated to be around 70%, is youth. According to this estimation, approximately 60% of the country's youth population is unemployed. Unemployment is a major problem in the country, causing a variety of social and political problems. Unemployment and unequal income distribution are two major critical problems that the country has recently faced (Lie, and Berouk, 2018, p.12).

The significance of MSMEs in job creation and overall economic development in both developed and developing countries cannot be overstated. Instead, it is recognized as a major driver of economic growth, and because of its low initial cost, it is viewed as a significant opportunity. However, the transition from micro-enterprises to small enterprises and then to medium-sized enterprises is hampered by a lack of available funds, as well as market-related and management-related problems (Mwalyego, 2018).

The Ethiopian federal government, as well as international and local Non-Governmental Organizations (NGOs), supports the development of MSMEs in Ethiopia. Ethiopia's federal government supports MSMEs through various strategies, plans, and programs such as ADLI and IDS. ADLI is a government-sponsored industrialization strategy. ADLI's strategy is to enhance agricultural productivity and since agricultural development leads to industrial development. However, ADLI's overarching goal is to transition agriculture-dominated economy sectors to industry-based economy sectors, respectively (Debelo et al., 2016; Lie & Berouk, 2018, p.12). The main concern of the IDS program is to focus on export-led industrialization, labor-intensive industries, infrastructure

improvement and development to boost economic growth and the development of small enterprises in order to reduce unemployment and poverty in the country (FDRE, 2002 cited in Hirvonen et al., 2019, p.6).

The Ethiopian government's other initiative program that has been supporting the development of MSMEs in the country is the program of urban development through the development of MSMEs. The “Ministry of Urban Development and Housing (MOUDH)” is supporting this program as well as the development of “Technical and Vocational Education and Training (TVET.)”. Moreover, the country's (TVET) program assists entrepreneurs by offering education and various skill development training (MOUDH, 2016). Besides that, the Ethiopian government was supporting MSMEs by establishing and arranging microfinance and small saving institutions, specifically for micro and small enterprises, as well as arranging credit from banks to medium enterprises. The “Federal Micro and Small Enterprise Development Agency (FeMSEDA)”, Micro Finance Institutions (M.F.I.s), and other government and private banks are the major institutions that support the development of MSMEs in Ethiopia.

Despite various constraints associated with the development trend of MSMEs in Ethiopia, there are opportunities for growth in this sector. The reason for this is that Ethiopian government policies aimed at enhancing productivity and development of MSMEs in order to support poverty alleviation and overall economic growth (Reinert, 2006). MSMEs receives funding and training from a variety of local and international institutions and organizations, in addition to support from the Ethiopian local and federal governments. United Nations Children's Funds (UNICEF), World Bank (W.B.), United Nations Development Programme (UNDP), United States Agency for International Development (U.S.A.I.D.) and other similar organizations support the development of MSMEs in Ethiopia.

Despite the fact that the government of Ethiopia recognizes MSMEs as a tool for growth and that these sectors are supported by the government and international organizations, the performance and productivity of these sectors are still in their infancy due to a variety of factors. Thus, lack of access to finance (credit-related problem,

collateral, late payment, and low level of saving), market-related problem (place to produce products, low-quality products due to a lack of raw materials and many to buy, low-level strategy to penetrate the market, absence of market strategy, low promotion, and inadequate price strategy), lack of infrastructure throughout the country, which is related to the availability of (electric supply, water, bad roads, and shortage of transportation facilities), lack of technology, lack of managerial skill, environmental problems, and government policies like tax-related issues were some of the major factors limiting the productivity and development of MSMEs in Ethiopia.

Moreover, previous studies on MSMEs suggest that government support seems to be the primary solution for the growth and development of MSMEs. Despite the federal government's various initiatives, plans, and strategies to support MSMEs in Ethiopia's, the contribution of MSMEs to economic development, particularly the contribution of manufacturing sectors, remains stagnant in comparison to other countries. Furthermore, the output generated by these enterprises is insufficient. As a result of this, the study intends to assess and analyze significant challenging factors that hinder the development of MSMEs in Ethiopia.

## **1.4 Research objectives**

### **1.4.1 General Objective of the Study**

The general objective of the research is to assess and analyze the challenges and prospects of MSMEs development in Ethiopia.

#### **1.4.1.1 Specific objectives**

- To assess, if a lack of access to finance, management, marketing, infrastructure, technology, workplace, political, and legal issues are hindering the development of Micro, Small, and Medium Enterprises (MSMEs) in Ethiopia.
- Identifying various prospects and making recommendations to help in the development of MSMEs in Ethiopia.

#### **1.4.1.2 Research Question**

The study's research questions are based on the study objectives, which are driven from the specific objectives mentioned above.

- Do finance, management, marketing, infrastructure, technology, workplace, political, and legal issues hinder the development of Micro, Small, and Medium Enterprises (MSMEs) in Ethiopia?

### **1.5 Conceptual Framework**

The term conceptual framework refers to the use of concepts to explain the research problem that relates variables to one another. Various factors influence the development of Micro, Small, And Medium Enterprises (Weldeslassie et al., 2019). Internal or external factors could influence the development of this enterprise. Financial, marketing, infrastructural, technological, workplace, political, and legal factors are external factors that influences MSMEs development. Management factors were identified as internal factors influencing the development of MSMEs (Ebitu et al., 2016; Getahun, 2016; Muhammad, et al., 2015; Seyoum, et al., 2016; Tambunan, 2019; Weldeslassie et al., 2019; Zamberi Ahmad, 2012). However, for the purposes of this study, the conceptual framework is drawn specifically from Admasu Abera's (2012), Gethun's (2016), Abiy Serawitu's (2016) theory of firm growth.

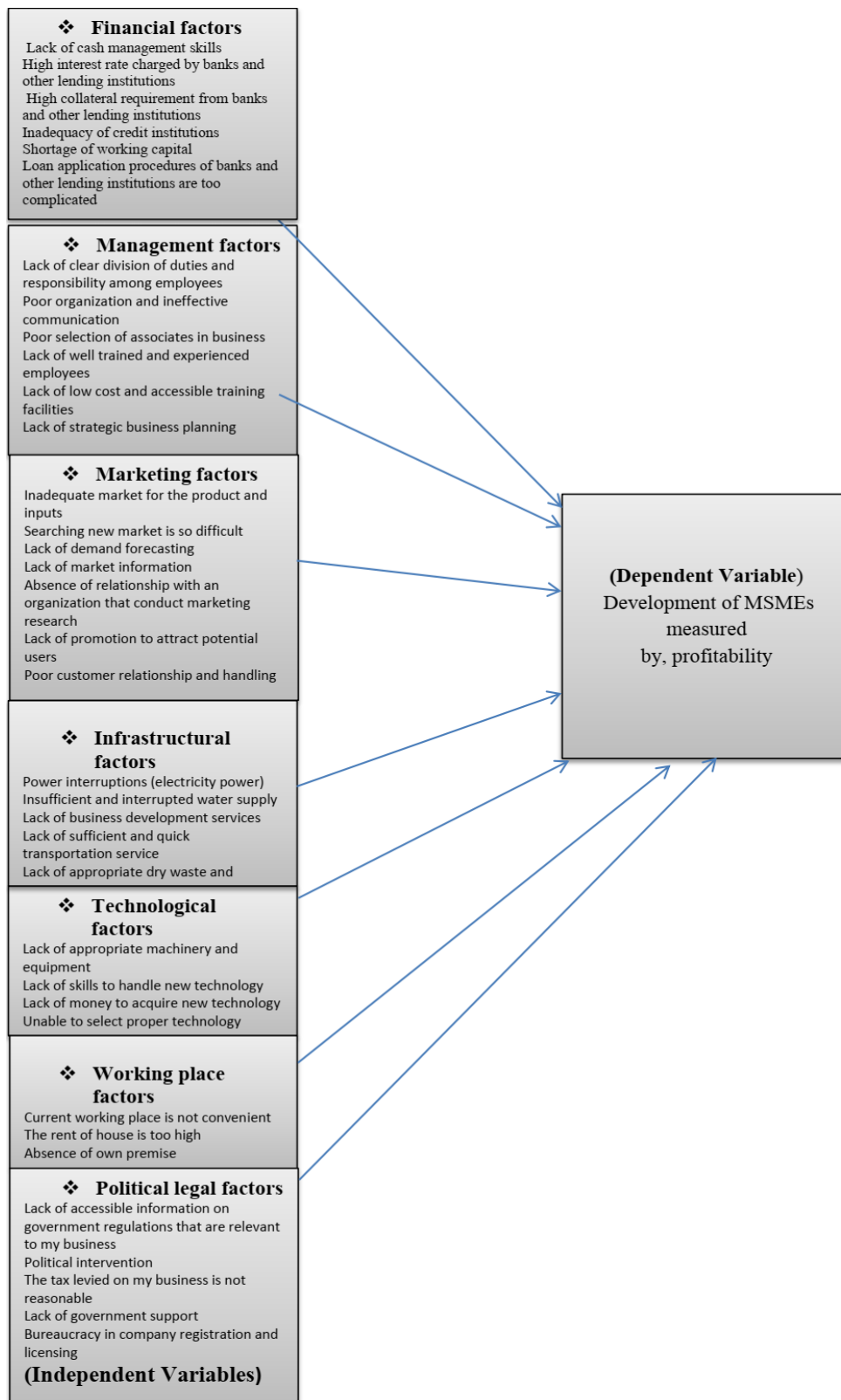


Figure 1.2 Conceptual Frame Work (Abera, 2012; Getahun, 2016; Serawitu, 2016)

### **1.5.1 Hypothesis of the Study**

Hypothesis for this study derived from research specific objectives and research questions. And also used as independent and dependent variables, the variables that are written in the above conceptual frame. Researcher puts the null hypothesis in the form of ( $H_0$ ) and alternative hypothesis in the form of ( $H_1, H_2 \dots H_7$ ).

$H_1$ : Lack of access to finances negatively influences the development of MSMEs in Ethiopia.

$H_0$ : Lack of access to finances positively influences the development of MSMEs in Ethiopia.

$H_2$ : Lack of marketing skills negatively influences the development of MSMEs in Ethiopia.

$H_0$ : Lack of marketing skills positively influences the development of MSMEs in Ethiopia.

$H_3$ : Lack of management skills negatively affects the development of MSMEs in Ethiopia.

$H_0$ : Lack of management skills positively affects the development of MSMEs in Ethiopia.

$H_4$ : Lack of infrastructures negatively affects the development of MSMEs in Ethiopia.

$H_0$ : Lack of infrastructures negatively affects the development of MSMEs in Ethiopia.

$H_5$ : Lack of technology negatively influences the development of MSMEs in Ethiopia.

$H_0$ : Lack of technology positively influences the development of MSMEs in Ethiopia.

$H_6$ : Lack of Working Place negatively influences the development of MSMEs in Ethiopia

$H_0$ : Lack of Working Place positively influences the development of MSMEs in Ethiopia.

$H_7$ : Issues related to Political-legal factors negatively influences the development of MSMEs in Ethiopia.

$H_0$ : Issues related to Political-legal factors positively influence the development of MSMEs in Ethiopia.

### **1.6 Significance of the Study**

This study will have significance for the following categories:

- **Academicians**

The output of this study will help students, academicians or researchers who wanted to study in this area in general. It also encourages them to look further into areas that will not be covered in this study due to time and budget constraints. The study will also help academicians or researchers study in specific areas related to the topics.

- **Society**

The findings of these studies will assist business owners, managers, employees, and entrepreneurs in identifying the real problems that their companies are facing and prioritizing primary problems in order to find solutions and refocus their efforts in order to change their strategy in order to increase their output, income, and productivity.

- **Government**

The findings of this research are expected to help Ethiopia's federal and regional governments in identifying significant challenges that impede the development of MSMEs in Ethiopia and to focus on industry sectors for supporting overall economic growth. Furthermore, the study's findings will assist the Ethiopian government in identifying the main problem areas in the sectors that require assistance.

- **Non-Government Organizations (NGO)**

The findings of these studies will benefit the following Non-Government Organizations: (UNICEF), World Bank (W.B.), United Nations Development Programme (UNDP), and United States Agency for International Development (USAID). These are organizations that promote the growth of MSMEs in the country. So, in order to identify disadvantaged areas for funding money in the right place and right time, or to search new market for MSMEs, the outcome of this study is expected to show the significant problems that require priority.

### **1.7 Scope and limitations of the study**

The study assessed challenges and prospects of MSMEs development in Ethiopia. Although there are numerous issues that can be investigated in relation to MSMEs, the study concentrated on independent variables such as finance, managerial skill, marketing,

infrastructure, technology, working place, and political and legal factors, all of which were measured using a likert scale questionnaire, and the dependent variable (development) was measured in terms of profitability. The study target population also delimited MSMEs in Ethiopia particularly in Addis Ababa city Nifes silk lafto sub city. Nifes Silk Lafto subcity is one of Addis Ababa's ten administrative sub districts. Although there are various sectors in which MSMEs engaged in Nifes Silk lafto sub city, this study delimited to manufacturing sectors particularly wood and metal work, textile and garment, and food processing.

### **1.8 Structure of the Paper**

The paper is structured as follows: chapter one is an introduction, chapter two is a presentation of theoretical and empirical literature, and chapter three is a discussion of research methodology. The fourth chapter discusses data presentation, analysis, and interpretation, while the fifth chapter concludes and makes some recommendations.

### **1.9 Operational Definitions of Terms**

**Enterprises:** Refers to the specific attribute of a business organization or activity that operates in the manufacturing or service sectors.

**Manufacturing:** Mechanical, physical, or chemical transformation of a substance, component, or raw material into higher-value products using labor, equipment, or machines.

**Micro Manufacturing Enterprise:** Those enterprises that employ one person or up to five people, including family members and business owners, and have a total asset of less than 100,000 Ethiopian Birr (ETB).

**Small Manufacturing enterprises:** Those enterprises that employ 6 to 30 workers, including relatives of the owner, owners, and other workers. Besides have a total asset of ranging from 100,000 to 1,500,000 ETB.

**Medium Manufacturing Enterprises:** Those enterprises that employ 32 to 100 employees including relatives of the owner, owners, and other workers. Besides have a total with capital ranging from 1,500,000 to 20,000,000 ETB.

**Factors:** A factor is a thing or situation that has an effect on something, either positively or negatively. So in this study factor is an influencing aspect such as finance, management,

marketing, infrastructure, technologies, working place, and political-legal issues that affect the development of MSMEs.

**Prospect of MSMEs:** prospect of MSMEs in this study refers government support strategies and activities to enhances these enterprises productivity, growth and development.

**Development of MSMEs:** Development of MSMEs refers growth, success and expansion .But in this paper development defined in terms of profitability of the MSMEs.

## **Chapter 2: LITERATURE REVIEW**

This chapter presents the various concepts, theories, and definitions reviewed by the researcher in relation to the topic of study: Micro, Small, and Medium Enterprises (MSME). Aside from that, it contains various approaches that are deemed important for the purpose of analysis, as well as deals with discussions of various concepts such as the role of MSMEs in economic, social, and industrialization development. Key factors that influence the growth and development of MSMEs, prospects for the development of Micro, Small, and Medium Enterprises in Ethiopia, as well as the empirical studies related to the subject topic are also discussed.

### **2.1 Defining Micro, Small, and Medium Enterprises (MSMEs)**

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of every nation's economic development and an important part of the economic and business systems of many countries (Ebitu et al., 2015). According to Getahun (2016), countries cannot achieve economic growth unless they develop small-scale businesses. As a result, the most important thing for development is the establishment of MSMEs. MSMEs are important for economic development for the following reasons: MSMEs play an important role in increasing productivity and as a result the overall growth, reducing unemployment rates, and enhancing the quality of life. Despite these contributions, no universally accepted and confirmed uniform definition of MSMEs exists (Agyapong, 2010; Gidado & Babakura, 2019). Instead it is based on the perspectives of individual countries, regions, or organizations. As a standard, most countries used the following criteria to define these enterprises: capital, number of employees, output, and so on (Gidado & Babakura, 2019). It is difficult to provide a standard definition for MSMEs in this case. The reason behind these is the variety of the business different from one country to another, the country's economic situation, and political and legal factors. Because each of these countries has its own set of standards and goals for defining the sector from its own point of view (Van Scheers, 2012). Furthermore, countries and regions have defined MSMEs based on their local operations and the conditions of the sector's activities (Agyapong, 2010, p. 28). The main reason for this is that small-scale enterprises differ from region to region, country to country, and from

time to time. It also depends on the stage of development and on government policies and administration systems based on individual countries (Getahun, 2016). Moreover, the characteristics and behaviors of MSMEs differ across countries. Micro-enterprises in some countries may be medium-sized enterprises in others (Ebitu et al., 2015).

MSMEs are defined using various criteria; some countries use employment as a criterion, while others use capital. However, some countries use both of these criteria simultaneously (Yoshino, 2016). Furthermore, some countries define enterprises through subsectors such as service, manufacturing, wholesale and retail, transportation, manufacturing, construction service, and trade (The Ethiopian Ministry of Urban Development and Housing (MOUDH), 2016). For instance, India defined MSMEs by categorizing sectors into manufacturing and services. Manufacturing industries are classified according to their investment and plant machinery. In terms of investment equipment, service is defined (Mehta, 2013). According to Ghatak (2010), micro-manufacturing enterprises in India have a capital of US \$ 50,000, small enterprises have a capital of US\$ 1 million, and medium enterprises have a capital of US\$ 2 million. On the other hand, micro service enterprises have capital of up to \$20,000, small service enterprises have capital of up to \$400,000, and medium service enterprises have capital of up to \$1 million. Furthermore, defining small scale enterprises is difficult because of the sector's diversity. The numerical definition of MSMEs, on the other hand, varies by country. The majority of countries base their definitions on the number of employees and the value of assets. "Employment-based MSMEs definitions are misleading" because the size of a country's market and economy can influence. Other firm characteristics, such as degree of formality and technological sophistication, are better to use as segment factors than the number of employees, according to Hallberg (2000). For statistical purposes, "Organization for Economic Cooperation and Development (OECD)" (2017), defines enterprises for OECD members such as these: Micro enterprises have 1 to 9 employees, small enterprises have 10 to 49 employees, and medium enterprises have 50 to 249 employees.

Both developed and developing countries use MSMEs definitions as a framework to support the development of MSMEs. MSMEs are defined differently in each country based

on the country's level of development and economic condition. Most countries use employment, net asset, total asset, total sales turn over, and paid up capital as criteria to define MSMEs (MOUDH, 2016), even if each country has its own classification and definition based on national policy (Abe et al., 2015; Govori, 2013). The international definition of MSMEs is based on three criteria. They are as follows:

- Number of employment
- Total asset, net asset, and paid capital
- Total sales turnover (Abe et al., 2015; Esubalew & Raghurama, 2017; Ghatak, 2010; MOUDH, 2016)

Every country uses all or one of the above-mentioned criteria to define MSMEs; however, there is no globally established and accepted definition for MSMEs. To summarize, even though there is no internationally accepted definition of MSMEs, MSMEs are the economic backbone of both developed and developing countries, contributing to economic growth, job creation, and the delivery of public goods and services, as well as mitigating poverty and inequality (Ke Liu, 2009).

### **2.1.1 Definition of MSMEs adopted by the Ethiopian Government**

Defining MSMEs aids in the development of enterprises in a variety of ways. It is easier to design loans, investments, grants, and statistical research if the country has a common definition of MSMEs (Geiger, & Moller, 2015). According to the “Ethiopian Ministry of Urban Development and Housing (2016)”, the main reasons for the definition of MSMEs are as follows:

- To develop a prominent framework for a variety of organizations that promotes the development of MSMEs.
- To establish consistent organizational foundations that aid in the development of MSMEs.
- Obtaining information about MSMEs is simple.
- Enabling, controlling, and evaluating various types of support provided to MSMEs.
- To align the international definition of MSMEs with the domestic definition of MSMEs.

In general, the definition of MSMEs was based on several factors, including the country's business culture, population size, industry size, and level of international economic integration (Geiger & Moller, 2015). In addition to these, the definition of MSMEs is based on both quantitative and qualitative criteria. The quantitative measures include the number of employees, sales volume, and investment capital. The qualitative definition, on the other hand, is based on financial practices, training style, management system and internal structure, and decision-making process rather than numerical criteria (Wami, 2020).

Various government bodies in Ethiopia define the MSMEs sectors at different times by using different criteria and categorizing the sectors in different categories. Banks in Ethiopia, for example, define MSMEs based on the annual revenue of the business, the size of the loan, and the number of employees in the enterprise (Geiger & Moller, 2015). The country's government adopted various definitions for the sector, categorizing it as either manufacturing or service. The following discussion is based on the various government bodies that defined MSMEs;

#### **The Federal Democratic Republic of Ethiopia's Ministry of Urban Development and Housing Micro Small Development Strategy (MOUDH, 2016)**

The revised definition by the “Federal Republic of Ethiopia's Ministry of Urban Development and Housing Micro Small Development Strategy (MOUDH) included both criteria of the international definition of MSMEs as well as the previous 2005 and central statistical Authority definition. Furthermore, this revised definition takes into account international definition criteria such as employment, paid-up capital, and inflation. MOUDH's new and revised definition is provided below;

**Micro Enterprise:** According to MOUDH, Micro Enterprises are those enterprises that employ one person or up to five people, including family members and business owners, and have a total asset of less than 100,000 Ethiopian Birr (ETB). The sectors have been divided into two categories: industrial and service. The industrial sector includes manufacturing, mining, and construction with a total asset of no more than 100,000 ETB. On the other hand, the service sector includes retail trade, transportation, tourism,

information technology, and service maintenance—these sectors in terms of employment were the same as industrial sectors employing up to five people, which included owners as well. However, in the service sector, the total asset should not exceed 50,000 ETB.

**Small Enterprise:** Enterprises with 6 to 30 employees are classified as small businesses. Furthermore, their total asset ranges from 100,000 ETB to 1,500,000 ETB for industrial sectors such as manufacturing, mining, and construction. On the other hand, service sectors such as retail trade, tourism, hotels, information technology, and service maintenance have total assets ranging from 50,000 ETB to 500,000 ETB, and hiring ranges from 6 to 30 employees, the same as industrial sectors (MOUDH, 2016; Wami, 2020).

### **Definition of the Federal Small and Medium Manufacturing Industry Development Agency of Ethiopia**

- According to the Federal Small and Medium Manufacturing Industry Development Agency in Regulation No. 373/2016, Manufacturing is defined as “A mechanical, physical, or chemical conversion of a substance, component, or raw material, using labor, equipment, or machine, into products of higher value”.
- Small manufacturing industries have capital ranging from 100,000 to 1,500,000 ETB, excluding construction. Furthermore, small manufacturing industries employ from 6 to 30 workers, including relatives of the owner, owners, and other workers.
- Medium Enterprises manufacturing industry is an industry with capital ranging from 1,500,000 to 20,000,000 ETB, excluding building and sector employees ranging from 32 to 100 employees. The owner, a relative, and other employees were among them ("Federal Small and Medium Manufacturing Industry Development Agency of Ethiopia", 2016).

In summary of the preceding discussion, the Ethiopian Government's current definition of MSMEs is as follows:

**Table 2.1** *The Ethiopian Government's definition of MSMEs*

Level of Enterprises	Sector	No of Employee	Total Asset in ETB	Total Asset in USD
Micro Enterprises	Industry	≤ 5	≤ 100,000	≤ 6,000
	Service	≤ 5	≤ 50,000	≤ 3,000
Small Enterprises	Industry	6-30 Person	100,000-1,500,000	≤ 90,000
	Service	6-30 Person	50,000-500,000	≤ 30,000
Medium Enterprises	Industry	32-100 Person	1,500,000- 20,000,000	

(Debelo et al., 2016; Federal Small and Medium Manufacturing Industry Development Agency, 2016; MOUDH, 2016; Wami, 2020)

According to Geiger & Moller (2015), MSMEs suffer from poor market segmentation due to a lack of in-depth customer knowledge and a proper business strategy. Aside from that, the lack of a standard definition for MSMEs by Ethiopian financial institutions leads to poor market segmentation for MSMEs in the country.

## **2.2 Characteristics of Micro, Small, and Medium Enterprises (MSMEs) in Ethiopia**

MSMEs exhibit a wide range of behaviors. The primary reason for this variation is that the sectors operate in a variety of industries, ranging from traditional manufacturing such as cottage industries to modern manufacturing businesses ranging from service to merchandising. Furthermore, these enterprises' behaviors are more dynamic, innovative, and growth-oriented. In addition, these enterprises operate in the informal sector of the economy by primarily employing wage-earners. And this resulted in a comprehensive participation in the market in an organized manner. Small enterprises control a large proportion of the labor force in developing countries. This demonstrates that in developing countries, Small and Medium-sized Enterprises (SMEs) are more labor-intensive than large corporations. As a result, SMEs are critical to the growth of employment in these countries. Despite these contributions to the economy, one feature that distinguishes SMEs from large

enterprises is that small enterprises have a high birth and death rate. Because of these characteristics, most small enterprises in developing countries fail to grow. Moreover, most SMEs fail during their first year of operation due to inefficient capacity to maintain financial records, accounting formats, and poor management skills (Gidado & Babakura, 2019; Hallberg, 2000).

SMEs are the most common type of business. They are easier to establish than large corporations. Because it requires less capital and the legality form process is not as complex as that of large enterprises. As a result, these sectors are attracting government, non-government organizations, and individuals (Gidado and Babakura, 2019).

### **General Characteristics of MSMEs**

- MSMEs are more labor-intensive
- They have lower capital intensity when compared to large enterprises
- They will create a variety of jobs with little investment (Alauddin & Manir Chowdhury, 2015).

Small enterprises find it easier to adapt to changes and be flexible in challenging environments than large businesses. The reason for this is that small enterprises are usually managed and owned by the owner. Moreover, the systems and structures of those small enterprises are not as complex as those of large corporations. Furthermore, small enterprises have positive relationships with their customers and employees. Because of the small size of enterprises, it is easier to manage employees and consumers than it is to manage employees and consumers in large enterprises. In addition to these benefits, small enterprises are typically known for utilizing local resources (Ebitu et al., 2016). In contrast to all of this, Osotimehin et al. (2012) argued that the recent growth of SMEs in Nigeria is due to people preferring to be self-employed rather than being easy to establish or manage.

MSMEs in Ethiopia included a wide range of industries, ranging from traditional mining to high manufacturing, from wholesale to retail trade, restaurant, mining, agro industries, wood and metal work, textile, construction, food and beverage processing, and IT services (Eshetu et al., 2013, p.25). Besides, these enterprises in Ethiopia have relied more on local resources (Getahun, 2016). Further to that Small enterprise are commonly

distinguished by their low initial capital requirement, a low fixed asset requirement, an uncomplicated management structure, and a highly localized operation area (Ebitu et al., 2016).

MSMEs in Ethiopia produce goods for the local and regional markets; little is produced for the national market, and none is produced for the international market (Weldeslassie et al., 2019, p. 46). The main reason for this is that the majority of small enterprises in the country rely on outdated technology or traditional machinery. As a result of these factors, the product they produce is of low quality, and the services they provide are not suitable for international standard quality products. It is also difficult for them to compete in the domestic market with large industries and in the global market with other firms. Moreover, the use of antiquated and outdated machinery has caused significant problems that have hampered the development of small enterprises in the country (Getahun, 2016).

MSMEs fail in various countries during their first five years, and even those that survive do not grow to medium or large enterprises; they remain small (OECD, 2017). According to Seyoum et al. (2016), there are many startup MSMEs in Ethiopia that have entered and registered to obtain a license from the government office in charge of MSMEs. Despite their registration, the growth from micro to small and small to medium is minimal. There are various stages of growth for MSMEs. These enterprises face a variety of challenges and constraints at various stages of development. According to Seyoum et al. (2016), the stage of development and their challenges are as follows:

- **Startup stage:** In the startup stage, small businesses face challenges such as a lack of starting and working capital, a lack of business management skills, a lack of entrepreneurship knowledge and skill, and a lack of information about policy and regulation in the area.
- **Growing stage:** The growing stage is the stage in which small businesses become profitable and successful in the market. However, enterprises in these stages are constrained by a variety of issues such as a lack of adequate technology, a lack of

technical skill, a lack of finance, a lack of working space, and rent-seeking behaviors.

- **Maturity stage:** These are the stages at which businesses are successful and want to expand. However, the stage was hampered by a lack of information and knowledge about products in accordance with international standards (Seyoum et al., 2016).

Despite receiving various government subsidies, the development of MSMEs in Africa is hampered by the continent's market being based on a small local market, a low level of regional integration, a difficult business environment, which is exacerbated by a lack of infrastructure and an inadequate financial system (Akugri et al., 2015). However, Getahun (2016) argued that, despite lack of practical support from the government and unfavorable competition with large enterprises, small businesses play an important role in Ethiopia's economic growth and development.

### **2.3 The Role of Micro, Small, and Medium Enterprises (MSMEs) in the Economy and Social Development**

In both developed and developing countries, MSMEs play a critical role in poverty alleviation, income generation, job creation, and economic development (Eshetu et al., 2013, p. 25). MSMEs contribute significantly to the domestic, national, regional, and global economies' healthy growth and development, as well as to the creation of new businesses (Dawson, 2019; Yahaya, et al., 2016). MSMEs are the primary engines of economic development in developing countries, assisting in the development and expansion of exports. These boost the country's Gross Domestic Product (GDP) and create a significant number of job opportunities which results in poverty reduction in the countries and overall economic growth (Muhammad et al., 2015).

MSMEs are the backbone of every nation's economic development (Getahun, 2016; Osotimehin et al., 2012). According to Getahun (2016), countries do not achieve economic growth unless they develop small scale enterprises. As a result, the most important thing for development is the establishment of MSMEs. MSMEs are important for economic development for the following reasons: MSMEs play an important role in production

activities, unemployment reduction, overall growth, and improving the quality of life in countries. As a result, economic development and growth are dependent on the development of enterprises. In their study on MSMEs, Osotimehin et al. (2012) stated, similarly to Getahun, that “MSMEs are the backbone of national economic development”. If a country wants to see actual development and growth in its economy, it should not ignore or dismiss the importance of MSMEs and their contributions to the country's social and economic development, because the development of MSMEs can boost economic development.

According to a World Bank (2018) report, 90 percent of businesses in the world are SMEs, and approximately 50 percent of employment in the world are employed in these sectors, with formal SMEs accounting for 40 percent of national income or GDP in emerging economies. When the informal sector is included in the report, the contribution is greater than these figures. Furthermore, in a developing country economy, SMEs create seven out of every ten jobs. Small and Medium-sized Enterprises account for approximately 99 percent of all firms in OECD member countries. 70 percent of jobs in SMEs have come from the sectors, which generate 50 to 60 percent of value-added. According to the OECD (2017), in emerging economies, SMEs account for approximately 45 percent of total employment and approximately 33 percent of GDP.

MSMEs contribute to development in a variety of ways. SMEs serve as a link between the development of the large industry and the development of the small industry. Furthermore, these businesses are critical for a competitive and efficient market. Nkwe (2012) contends that SMEs are critical tools and engines for achieving industrial growth and economic development. MSMEs sectors are labor intensive and cost-effective; additionally, the overall contribution of the sector is providing a job for the population, which will reduce poverty in the the long run. Furthermore, the MSMEs sector is the primary foundation for industrialization and industrial growth, contributing to economic development by increasing GDP (Alauddin & Manir Chowdhury, 2015). MSMEs are important for global economic development, particularly for the expansion of industrialization in developing countries such as Ethiopia. MSMEs excel at leveraging local capacity by utilizing local resources. And these contribute to the economy's long-term

growth and provide advantages for long-term capacity development (Sintayeheu, 2019). According to Sintayeheu (2019), small scale manufacturing has played a significant role in creating jobs, tax revenue, and investing in capital goods and modern technology, resulting in the country's industrialization.

MSMEs encourage export by assisting large industries. Today, the majority of businesses rely on one another to survive. Many small enterprises supply raw materials and semi-finished goods to larger enterprises. As always stated in various studies, small enterprises lack the ability to produce a product on a vast scale due to a lack of capital and skills; However, many small enterprises serve as a bridge and link for export promotion by facilitating material to large businesses. Large corporations may be able to export their products as a result of this process (Abehi, 2017). MSMEs contribute to the national economy by increasing employment, innovating, investing, and exporting. This increases the national economy by reducing poverty in the country, attracting more foreign investors, and increasing international trade through exports (Akugri et al., 2015). According to Akugri et al. (2015), MSMEs development significantly improves human well-being, the elimination of hunger and poverty, and the creation of useful and productive jobs for all peoples. The ability to harness all available resources, both human and material, to transfer the nation's potential is the foundation of national development.

Even if they are small in size, SMEs generate and distribute income; through various activities, SMEs generate income for nations of the country, and this supports economic development by paying employment payments and taxes to the government (Abe & Proksch, 2017). Besides that, MSMEs contribute to community and social development in rural and small-town. In addition, small businesses play an important role in promoting private investment. And these contribute to the nations' economic growth, because these enterprises generate new jobs and opportunities for a large population by investing capital (Weldeslassie et al., 2019). MSMEs, particularly small businesses, provide an excellent opportunity for the government to reduce rural-urban migration. As a result, enterprises in rural and semi urban areas will reduce and mitigate rural-urban migration (Abehi, 2017).

MSMEs are critical to the economic well-being of both developed and developing countries. MSMEs provide immediate and long-term benefits by increasing income levels and contributing to poverty alleviation by creating jobs through innovation and supporting MSMEs' development (Agyapong, 2010, p. 28). MSMEs promote overall growth and the development of women entrepreneurs by creating a favorable business environment for them (Tambunan, 2019, p. 12). Similarly, according to the review of Agyapong (2010), small businesses play an important role in creating jobs for low-income and vulnerable people, particularly women. Furthermore, small businesses pay taxes, support exports, and contribute to import revenue by producing goods locally, as well as supporting human resource development, innovation, and entrepreneurship (Agyapong, 2010, p. 28). Both in developed and developing countries, MSMEs play an important role in achieving sustainable development goals by encouraging economic development and growth, creating job opportunities for vast nations, supporting and promoting sustainable industrialization in the countries, increasing innovation, and decreasing income inequality between nations, promoting social well-being, and adding value to the economy.

Furthermore, MSMEs are a great opportunity and significant network channels for social and economic development by up increasing mobility, which includes the participation of young people, women, the disabled, and ethnic minorities, and it creates work opportunities for these disadvantaged groups to fully participate in economic activities to change their own situation and solve their country's problem. Likewise, small businesses are the primary contributors to sustainable development, particularly at the local level, increasing economic productivity and playing an important role in resolving environmental issues and strengthening community relations (OECD, 2017).

SMEs are recognized as a link between the informal and formal sectors in various economies. And these provide economic opportunities for developing and developed countries, resulting in equitable economic growth opportunities and outcomes. Furthermore, these sectors have a comparative advantage over a large corporation. The reason for this assumption is that the industry has the capacity to create massive jobs at a "rapid rate". Besides, the sectors are more labor intensive as a result of which they create employment, jobs, and training for unskilled labor, the sectors are more efficient, serve as a

foundation for technological innovation, foster entrepreneurship, and serve as a safety net during economic and household shocks (United States Agency for International Development (USIED), 2006). The growth of MSMEs has not only contributed to the growth of the economy. Instead, it promotes the development of urban areas, particularly in countries such as Ethiopia, where rural areas are home to more than half of the population (MOUDH, 2016). The importance of MSMEs in economic growth and social development cannot be overstated. Despite numerous challenges, SMEs play an important role in all global economies (Gidado and Babakura, 2019).

### **2.3.1 Micro, Small, and Medium Enterprises' (MSME) Contribution to the Employment and Development of Entrepreneurship**

MSMEs are the main source of employment and poverty alleviation (Lumnije, 2012, p. 63). MSMEs have created job opportunities for both developing and developed countries. In the MSMEs' area, there are various job segments that employ a variety of labor force, including high skill workers and low skill workers. This promotes skill development for a low-skilled workers and provides an excellent opportunity to upgrade their skills. MSMEs will reduce poverty and promote economic growth by creating job opportunities and adding value to the country's economy, particularly in emerging and low-income countries like Ethiopia. The growth of MSMEs benefits both the formal and informal economies, particularly the productivity of small businesses. These promote economic growth and social well-being by improving the quality of life and employment opportunities for low-skilled workers (OECD, 2017). MSMEs employ and create jobs for a large number of people in both low-income and developed countries (Abraham & Schumkler, 2017). According to Abe and Proksch (2017), SMEs in Korea and Taiwan employ approximately 82 percent of the labor force of the countries, 87 percent in the United States, and 74 percent in Japan. According to the authors, the average labor force of SMEs in these countries is greater than 70%. Furthermore, MSMEs provide revenue for self-employment in both rural and urban areas. MSMEs accounted for a sizable proportion of employers in both developing and developed countries. These outcomes resulted in development and economic growth. As more people earn a living in the sector, the unemployment rate will fall, alleviating poverty and promoting social development (Appui

au Développement Autonome (ADA), 2016). The recent increase in in-country population has resulted in current problems for the Ethiopian economy, when a country's population grows, so does the demand for land and other resources, resulting in resource scarcity. As a result of these factors, the government of Ethiopia managed to create a large number of job opportunities by establishing MSMEs development strategies. According to Getahun (2016), MSMEs have improved on these issues because the small enterprises are labor-intensive. This generates a large number of job opportunities in the country. Therefore, we can say that SMEs are engines for job creation. Furthermore, by creating more jobs, these businesses are promoting employment. And this will boost the country's innovation and creativity. As a result, the presence of supports and the improvement of MSMEs' capabilities will increase employment and entrepreneurship, resulting in the development and growth of the economy by increasing income through job creation (Agyapong, 2010).

### **2.3.2 MSMEs development and job creation**

MSMEs are important job creators, particularly in urban and semi-urban areas; creating jobs is one part of the country's development plan which is clearly stated in the Growth and Transformational Plan (GTP). MSMEs are unquestionably important in creating jobs for a large population, particularly in developing countries such as Ethiopia, where the population is rapidly increasing and has recently surpassed 105 million. In reality, MSMEs play a significant role in job creation and employment generation in developing countries, as well as a critical role in developed countries such as China, Japan, and the European Union. MSMEs play a critical role in creating job opportunities and strengthening countries' economies (MOUDH, 2016).

### **2.3.3 Micro, Small, and Medium Enterprises' (MSME) contribution to Gross Domestic Product (GDP)**

Ethiopia's economy has expanded rapidly over the last year. The Ethiopian government's economic and social-programs to support the economy are the driving forces behind this development and growth. MSMEs are recognized as critical players in Ethiopia's economic and social development. They are viewed as a development engine by both the regional and federal government. Both government bodies place a high priority on the development of small businesses, developing a variety of plans, strategies, and policies

to help small businesses thrive (MOUDH, 2016). In Ethiopia, the service and agriculture sectors contributed 90% of GDP, while the manufacturing sector contributed only 4%. According to Geiger & Moller (2015)'s world bank group survey, growth transformation plans are unable to pursue structural transformation. As a result, the manufacturing sector's GDP has remained constant for decades. According to this survey, progress in shifting labor from agriculture to industrial jobs is still slow. This is because the government plays no significant role in this. The service sector accounts for the lion's share of the Ethiopian economy, accounting for 90 percent of the country's GDP. In Ethiopia, agriculture employees account for 73% of the workforce and accounts for 37% of GDP (ADA, 2016). According to the report, service sectors, which are the second largest contributors to GDP after service tourism, play an important role, while industry has been the weakest. It only contributed 16 percent of GDP.

According to the discussion papers of Yoshino (2016), small and medium-sized enterprises account for 98 percent of all enterprises on the African continent and employ approximately 66 percent of national labor. Furthermore, SMEs contributed approximately 38% of Asia's GDP. In India, for example, MSMEs account for 45 percent of manufacturing output and 40 percent of total exports. MSMEs in India employ approximately 42 million people, and approximately 6000 products are produced in these sectors. MSMEs are critical contributors to manufacturing, employment, and exports (Ghatak, 2010). In India, MSMEs contributed 45 percent of manufacturing output, 40 percent of total export, and 42 million employees. The overall contribution of MSMEs to Indian industrial production is 38.75 percent, and the contribution to GDP is 5.94 percent (Weldeslassie et al., 2019). According to Van Scheers (2012), SMEs account for 90% of all businesses in Africa, and they account for 50% of the continent's GDP and employment. Van Scheers also mentions that the sector contributes positively to South Africa's development, and that it accounts for 50% of all jobs in the country. In comparison to Ethiopia, the contribution of MSMEs sector to GDP and employment in countries such as India is high, with 45 percent of manufacturing and exports coming from these sectors, and around 60 million people employed in these sectors (MOUDH, 2016).

#### **2.3.4 Micro, Small, and Medium Enterprises' (MSME) contribution to income generation and poverty reduction**

Micro, Small, and Medium-sized businesses are the main source of employment and poverty alleviation (Lumnije, 2012, p. 63). MSMEs are crucial for development from a strategic standpoint. They are particularly important in developing countries such as Ethiopia, where the majority of the population is young and lives in poverty. MSMEs play an important role in reducing poverty by creating jobs for a large population. Furthermore, MSMEs contribute to faster development by reducing poverty (MOUDH, 2016). According to Eshetu et al. (2013, p. 25), MSMEs play a significant role in poverty alleviation, income generation, job creation, and economic development in both developed and developing countries. In Ethiopia, these enterprises play a significant role in the country's economic development especially in terms of poverty reduction and job creation. According to Getahun (2016), MSMEs are ideal for developing countries such as Ethiopia to collect significant savings and entrepreneurial skills from semi-urban and rural areas. MSMEs improve the social welfare of the country and ensure the equitable distribution of wealth, income, and political power. It also has a positive economic and political impact on the country. The country has benefits more as a result of the equitable distribution of income and wealth from these sectors. MSMEs are critical in Ethiopia for creating jobs, generating income for citizens, and contributing to economic development at the local, regional, and national levels by increasing GDP and eradicating poverty (Weldeslassie et al., 2019, p. 46).

MSMEs play an important role in the equitable distribution of income and wealth, promoting growth and resulting in equitable distributions of income and wealth to citizens (Hallberg, 2000). According to Nkwe (2012), SMEs contribute to the development of the rural and urban economies by providing employment and income to the population. And this improves the economic situation and raises citizens' per capita income. SME generates more income and helps to balance income distributions among citizens. In exchange, it stabilizes or contributes to the stability of the country's economy. The rapid rise in unemployment may cause instability and political problems in countries; to alleviate these problems, the development of SMEs is critical (Al-Hyari, 2013, p. 138). Small and

Medium-sized Enterprises (SMEs) play a critical role in alleviating poverty and promoting development for all nations. According to Enoil (2014), one of the major poverty alleviation and development tools is SMEs (Enoil 2014, cited in Abe & Proksch, 2017). MSMEs have a strong capacity to lift poverty, unemployment, and other disadvantaged groups out of poverty in the country (MOUDH, 2016).

### **2.3.5 The significance of Micro, Small, and Medium Enterprises (MSME) subsectors in the Ethiopian Economy**

Micro and Small Enterprises (MSE) enterprises play an important role in economic growth and development in developing countries such as the African continent, particularly in Sub-Saharan Africa, by creating jobs for a large number of people (ADA, 2016). According to Osotimehin et al. (2012), Micro and Small Enterprises (MSEs) is an engine for economic and social development, particularly in terms of achieving national economic development goals such as macroeconomic goals and creating jobs at a low initial investment.

- ❖ The primary reasons for the importance of small enterprises to the country's development are:
  - They are more labor-intensive in their behaviors
  - They have more equitable income distributions than large enterprises.
  - They play a significant role in the generation of employment.
  - They have reduced poverty in the country by providing jobs for the different society, such as women and low-income people.
  - They are cost-intensive (Sintayeheu, 2019).

Ethiopian MSMEs operated in a variety of sectors. This has ranged from retail trade to manufacturing, mining, agro-industry services, and so on (Eshetu et al., 2013, p. 25). According to the Entrepreneurship Development Centre ((EDC), 2020) survey report, there are approximately 1.5 million MSMEs in Ethiopia; they employ approximately 4.5 million people and generate approximately 40.7 billion Ethiopian birr per month. According to EDC estimates, the income and jobs generated by these enterprises, which are mostly owned by women and youth, support approximately 6.3 million household members, with

approximately 1.5 million MSMEs found in the country. However, according to estimates from the Federal Urban Job Creation and Food Security Agency cited in an EDC (2020) survey, approximately 800,000 enterprises in the country are Micro, 12,000 are Small Enterprises, and 8,000 are Medium Enterprises.

The private sector is a key player in the countries' efforts to eradicate extreme poverty and hunger. Small enterprises, in particular, are critical to the development of human capital, which leads to social and economic development (United Nations Sustainable Development Cooperation Framework (UNSDCF), 2020). Besides this, MSMEs are important sectors in Ethiopia's economy because they create job opportunities, generate income and equity, and play a significant role in poverty reduction. As a result, the government prioritizes small enterprises growth (Geneti, 2018). Ethiopia uses MSMEs as economic growth and development tools because the MSMEs can ensure economic growth and development by creating job opportunities, alleviating poverty, and assisting in the development of the country's industries (Assefa et al., 2014; Weldelessie et al., 2019).

MSMEs in Ethiopia produce products for the local and regional markets, with only a small amount produced for the national market and none produced for the international market (Weldelessie et al., 2019). According to a study conducted by Seyoum et al. (2016), the Ethiopian government is currently focusing on the development of the MSMEs sector. However, they stated that the sector's success and performance in terms of employment, export, manufacturing output, foreign exchange, and GDP are not as well known as MSMEs in developed countries. MSMEs in Ethiopia are critical target sectors; however, their performance in terms of employment, export, total manufacturing output, and GDP are not satisfactory when compared to other countries (Assefa et al., 2014).

#### **2.3.5.1 The contribution of Micro, Small, and Medium Enterprises (MSME) toward the development of Industrialization**

Small enterprises in Ethiopia have relied more on local resources. The use of local resources is important for lowering national costs, which helps enterprises use small resources more effectively. Small enterprises are the primary source of input for large enterprises, particularly those whose activities are related to the manufacturing and

construction industries. Small enterprises help those industries by providing semi-finished goods, accessories, and component material, and in this way, large enterprises benefit from small enterprises (Getahun, 2016).

MSMEs play an important role in Ethiopia's industrialization program. The goal of Ethiopia's economic development program is to create job opportunities for its citizens. MSMEs are an important source of job creation for these groups, primarily in cities and towns (Weldeslassie et al., 2019). Industrialization is a driving force in the country's transition from an agricultural to an industrial economy (Sintayeheu, 2019). SMEs are a powerful tool for achieving the development and growth of the country's industrial sectors. Small and medium-sized enterprises (SMEs) play a significant role in economic advancement and industrial development. The development of MSMEs is vital to the rapid growth of the manufacturing sector. This, in turn, aided the country's modern industrial development (Akugri et al., 2015).

MSMEs development is the foundation for the country's industrial development. The Ethiopian government has a plan that promotes industrial development by fostering the growth of small enterprises. To turn this plan into a reality, it has devised a strategy known as Agricultural Development Led Industrialization (ADLI) (MOUDH, 2016). This strategy incorporates both industrial developments and the growth of small enterprises. Growth and Transformation Plan (GTP), includes transforming the country into a middle-income industrialized economy and increasing citizens' per capita income, and this plan is focused on utilizing the country's resources and comparative advantage in manufacturing sectors such as garment and textile, leather product, sugar, cement, metal, and engineering industries. Industrialization benefits low-income countries by increasing job creation, equity, poverty reduction, and income growth. However, the service and agriculture sectors account for 90 percent of Ethiopia's GDP, while the manufacturing sector contributes only 4 percent (Geiger & Moller, 2015). According to Geiger and Moller (2015) survey of the World Bank Group, the GTP is unable to pursue structural transformation. As a result, the manufacturing sector's GDP has remained constant for decades. According to these surveys, the progress of shifting labor from agriculture to industrial jobs remains slow, owing to the government's lack of a significant role. MSMEs are critical to the growth of

manufacturing sectors. In many developed countries, large corporations obtain a large proportion of their manufacturing inputs for their operations from MSMEs. Aside from these, the contribution of MSMEs to large scale manufacturing enterprises has not been as interesting in developing countries such as Ethiopia as it has been in developed countries. Furthermore, the marketing link between large scale manufacturing and MSMEs manufacturing is weak. These contributed to the enterprise's low-level development (MOUDH, 2016). The country's industrialization development is still at a low level. Manufacturing industries, in particular, contribute a lower share of GDP; the percentage of GDP contributed by these industries is only 16.7 percent in 2016 (UNSDCF, 2020).

#### **2.4 Key factors enhancing the growth and development of MSMEs**

MSMEs' growth is influenced by a variety of factors. These are managerial ability, owner objectives, access to finance such as capital and credit, and technology (Weldeslassie et al., 2019). According to Weldeslassie et al. (2019) findings, three factors influence MSMEs' survival: access to credit, capital size, and the gender of the MSMEs' owner/manager. Similarly, skills, finance knowledge regarding network and information, adequate infrastructure, innovation, training and education for workers and managers are critical factors for the development of MSMEs (OECD, 2017). Several factors contribute to the expansion and development of SMEs. For instance, in Muhammad et al. (2015)'s study, they discovered that managerial skills, access to finance, and government support are important factors for the development of SMEs in Pakistan. Whereas, Indarti and Langenberg (2004), found out that marketing, access to capital and technology have a positive effect on the success of SMEs businesses.

In Mabhungu and Van Der Poll's (2017, p. 151) "A review of the critical and success factors of MSMEs performance", they identified twelve factors, which include manager commitment, information management, revenue management, cost management, customer and supplier management, entrepreneur resource, finance management, planning regulators management, innovation management, and competitor management. According to Ebitu et al. (2016), the three most important skills for enterprise success are managerial, financial, and marketing, which are encompassed by management skill, technology, and an

effective and efficient policy environment. Furthermore, Hallberg (2000), stated that value chain adaptation may aid in the development of small businesses and assist them in integrating domestic and international markets. Therefore, they are more competitive in a variety of markets. In contrast, small enterprises are hampered from entering profitable markets by a variety of factors. The first is the size of the enterprise; due to their small size, the capacity of the enterprise to obtain resources and information is limited, as is the ability to use modern technology and the skills needed to use it. They also lack access to business services that can help them. All of these factors are putting small enterprises' competitiveness in the domestic and international markets at risk. To address these issues, MSMEs require training, education, consulting, and a variety of other services to help them grow. This non-financial service primarily addresses an internal issue. However, the lack of these services is a significant impediment to the development of MSMEs. Another system for addressing MSMEs' problems is the development of business services. There were seven types of supports included in these services. These include market access, technology, input supply and product development, consulting and technical support, infrastructure development, financing, marketing services, and information access (Reji, 2013).

According to Aragon and Rubio (2000) (Cited in Leyva Carreras et al., 2018), there are five key factors that determine the development of Small and medium enterprises:

- Having an educated and experienced manager who has the knowledge toward oriented sales
- Improving formal strategic planning and alliances as well as increasing innovation and flexibility
- Obtaining an organizational structure that has primarily focused on finance and accounting
- Having knowledge and information and using new technology, correctly using communication and IT resources, and using software application regarding enterprise management

- Using various systems to forecast annual budgets in order to analyze the financial and economic situation, cost accounting, and to create multiple business designs.

Entrepreneurs' knowledge, skills, and attitudes all play an important role in the growth of MSMEs (MOUHD, 2016). To sum up, MSMEs are regarded as a foundation for economic development due to their ability to attract investors and entrepreneurs.

#### **2.4.1 Management skills and Micro, Small, and Medium Enterprises (MSME) development**

Small and Medium Enterprises (SME) are viewed as an important means of economic development in both developing and developed countries. As a result, various national governments prioritize public policies for SMEs. SMEs, on the other hand, since they are critical development tools, require various improvements in terms of business competitiveness. In this regard, managerial skills are the most important factors in improving the internal problems and competitiveness of SMEs. Management skills are required to develop adequate and appropriate strategic planning, which aids in the development of MSMEs. And these management skills assist managers in determining and implementing enterprise goals. Enterprises will achieve market competitiveness through management skills (Leyva Carreras et al., 2018).

The competitiveness of a nation's firms determines its development and wealth creation. According to Muhammad et al. (2015), regardless of firm's size, the creation of wealth, social and economic development is based on firm competitiveness. They stated that the competitiveness of these firms was determined not only by the ability or capacity of the entrepreneurs, but also by the manager's effectiveness, competency, and efficiency. According to Leyva Carreras et al. (2018), competitiveness is the capacity and ability of enterprises to sustain and improve their profitability, as well as the ability to capitalize on market opportunities for their products and services. To support corporate competitiveness, the management team should be dynamic. These included organizational and technological transformation, as well as giving priority to a member of an organization or enterprise to provide needed resources.

MSMEs should be associated with collaborative and corporate competitiveness in order to achieve sustainable market opportunities, and for this, they should have managerial skills that have rapidly adopted technological and organizational transformation. Most MSMEs have management issues that impede their growth; as a result, it is critical for MSMEs to have knowledge of managerial skills such as strategic planning and management, which assist MSMEs in determining current constraints and problems in business and improving the problems, as well as staying within the business objective to achieve their goals and lead their business appropriately (Leyva Carreras et al., 2018).

A managerial skill could increase the value of an enterprise in terms of planning and decision making. It primarily assists businesses in hiring the best people for the job. This can make enterprise operations more effective and efficient in terms of business performance (Gidado and Babakura, 2019). The success of MSMEs is based on the knowledge of the entrepreneur and his or her employees. Skilled labor is critical for the development of MSMEs. The development of MSMEs is hampered by the lack of skilled labor. According to Getahun (2016), an unskilled workforce poses incalculable challenges to the survival of these enterprises.

Management is a practical and efficient process that uses resources by performing management functions such as planning, organizing, directing, and controlling (Gidado & Babakura, 2019). According to Smit (2004), as cited in (Ikupolati et al., 2017), management is a process to achieve the objective or goal of enterprises through effective and efficient methods by using management functions such as planning, organizing, and controlling enterprise resources.

According to Popescu et al. (2020), managerial skill is critical in the adaptation and implementation of new environments and modern technology, particularly in emerging and developing countries. SMEs are now tools for the long-term development of both developed and developing economies. The performance of SMEs is heavily influenced by the entrepreneur or manager. Managers influence not only the internal business environment, but also the ability to be flexible in an externally changing environment as

well as mastery in the enterprises and pressure on enterprise performance by the level of his skills, capacity, capability, knowledge, and attitude.

Entrepreneurs must have managerial skills in order for MSMEs to grow and develop. Management skills are not inherited; rather, they are acquired through training and practical experience (Muhammad et al., 2015). For the enterprise's survival and good performance, the manager or owner's commitment to work, the commitment of employees who work in the enterprise, innovation, cost management, planning, supplier and customer information, competitors, access to sources of finance and credit, resources, and compliance with regulations are all important factors. This means that the survival of these businesses is jeopardized in the absence of these critical factors (Mabhungu & van der Poll, 2017: p. 151).

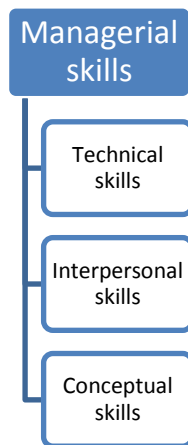
The success of SMEs is determined by an entrepreneur's or managers managerial abilities. This means that managers have the ability to make businesses succeed or fail (Popescu et al., 2020). According to the findings of Leyva Carreras et al. (2018) strategic planning and managerial skills are internal factors that influence SMEs' competitiveness. According to Muhammad et al. (2015), internal and external factors are vital to the success and performance of SMEs entrepreneurs in their businesses. Internal factor skills related to SMEs management such as conceptual, technical, and interpersonal skills are crucial for developing MSMEs.

According to Nicolescu O et al., as cited in Popescu, L, et al. (2020), whether an organization is micro, small, medium, or large, the manager who operates that organization should have the managerial skills that can help in pursuing the goal and objective of the organization as well as the performance of their group. Popescu, L, et al. (2020), and Gidado and Babakura (2019), stated that skill refers to the capability, ability, capacity, prowess, competence, and deftness required to complete specific tasks or activities with efficiency and effectiveness based on valuable knowledge. According to Muhammad et al. (2015), managerial skills are the most important factors influencing the development of SMEs.

Managerial skills propel businesses to success. They ensure business growth by efficiently and effectively allocating available resources to solve problems related to marketing, financing, accounting, and so on. Furthermore, these skills help SMEs profit, perform well, and align with the enterprise's goals and objectives (Gidado and Babakura, 2019). Managerial abilities are critical factors in determining the positive performance as well as the long-term viability of businesses (Popescu, L,et al., 2020). Managerial skills could increase the value of an enterprise in terms of planning and decision making. They, in particular, assist businesses in hiring the right people for the job. These can improve the effectiveness and efficiency with which businesses conduct their operations (Gidado and Babakura, 2019).

Management in SMEs necessitates a variety of skills, including technical, information system, behavioral, and economic knowledge. According to Popescu et al. (2020), managerial skills are critical for the adaptation and implementation of new environments as well as modern technology, particularly in emerging and developing countries today. Hence, SMEs are tools for sustainable development. In their study, Muhammad et al. (2015), discovered that entrepreneurial knowledge related to managerial skills such as conceptual, technical, and interpersonal skills improves the development of SMEs. According to the result of their study, the success level of an enterprise is determined by technical and conceptual skills rather than interpersonal skills. In other words, of these three skills, technical skills have the most influence on the development of businesses. Management skills are classified in two ways by Ikupolati et al., (2017). These are technical and conceptual skills. Whereas, Katz, R. L. (2009), in "Skills of an Effective Administrator," classified managerial skills into three categories: technical, conceptual, interpersonal, or human skill.

**Figure 2.1** *Managerial skills (Katz, 2009)*



#### **2.4.1.1** *Technical skills*

Technical skills are the understanding of knowledge and proficiency in performing activities that require the use of specific methods, processes, procedures, for performing the especial function. And these comprehended techniques are the equipment, tools, and methods for carrying out required activities (Ikupolati et al., 2017; Katz, 2009, p.8). According to George and Jones, as cited in Muhammad et al., (2015), if a business encounters a problem, the first person to step in to fill the void is an entrepreneur. As a result, entrepreneurs in SMEs should have technical skills in financing, accounting, bookkeeping, budgeting, and marketing. Technical skills are essential for enterprise managers or entrepreneurs in order to efficiently and effectively manage their businesses. Hence, technical skills contribute to the enhancement of services through the use of information technology (Ikupolati et al., 2017). According to Leyva Carreras et al., (2018), management skills are important for effective and efficient management innovation; However, technical skill capability is not sufficient for efficiency. Besides, vocational and job training are important in developing technical skills (Muhammad et al., 2015; Katz, 2009, p.8).

#### **2.4.1.2 Conceptual skills**

Conceptual skill is the ability and capacity to see the business as a whole. In other words, viewing an organization holistically entails recognizing and admitting the relationship as well as perceiving the critical role in any situation or condition (Katz, 2009 p.8). Conceptual skill included the ability to think entrepreneurially, process information appropriately, and plan strategically (Ikupolati et al., 2017). According to Kunen in Muhammad et al. (2015), conceptual skills are the awareness of how different functions of the organization are related to one another and what is going on in the organization, how the transformation of one element can influence the other, and how to solve or improve problems. According to Katz (2014), effective coordination of different parts of the business is dependent on the manager's conceptual skills, as is the general future direction and organization of the business. This indicates, the success of any decision is dependent on the conceptual skill of the manager who makes the decision and those who put the decision into needed action. Assume that business owners or entrepreneurs have conceptual abilities. In this case, it encourages and motivates all enterprise employees to become more goal-oriented and confident in providing critical solutions to problems impeding enterprise performance (Ikupolati's et al., 2017). In contrast, inadequate conceptual skills place businesses at a severe competitive disadvantage (Katz, 2009).

#### **2.4.1.3 Human skills**

Human skills are the ability to work within people. This skill is also known as an interpersonal skill. Interpersonal skill refers to the ability or capacity to work effectively and efficiently as a team member while also leading or directing the team. According to Katz. R. L. (2009, p.8), while technical skills involve working within things, interpersonal skills work within people, in other ways, with the primary goal of working within people, understanding other people's behavior and communicating effectively with them. Moreover, this creates a positive atmosphere, encouraging and motivating them at work, and involving them in planning and carrying out activities together. A very important point to be noted is the fact that interpersonal skills are not one-time activities; But rather, they are a day-to-day activity and an essential component of any organization.

#### **2.4.2 Financing and Micro, Small, and Medium Enterprises (MSME) development**

Finance is the driving force behind the growth and development of SMEs. It increases credit to businesses, assisting capable firms in increasing productive capacity, and laying the groundwork for long-term development in the area (Geiger & Moller, 2015). Finance or capital is one of the most important factors in the development of MSMEs. Finance can assist the development of enterprises from start-up to operation throughout their life cycle. Finance can include the cost of organizing and arranging products, machines and equipment, and sales premises in a startup (MOUDH, 2016). Finance supports the development of SMEs in a variety of ways. The first is that it increases their investment, which supports the growth of production in businesses, export, product and service diversification (World Bank, 2018). Access to credit, particularly adequate and timely credit supply, promotes enterprise development and helps to solve problems (Getahun, 2016).

According to Abraham et al. (2017), MSMEs employ and create jobs for a large number of people in both low- and high-income countries. However, SMEs face difficulties in making the greatest contributions to job creation when compared to large-scale enterprises that receive funding from external funding institutions. Hence, the financing gap between these businesses is wide. According to Abraham et al. (2017), the financing constraint is not only a problem for SMEs in developing countries, but also for SMEs in developed countries. There are two issues with financing SMEs. These are known as supply and demand problems. According to Abraham et al. (2017), a supply side problem occurs when SMEs projects are valuable or profitable, but the bank or other external funds have not financed their projects. Aside from that, there is information asymmetry, market imperfection, and weak creditor protection. On the other hand, the demand side problem arises when SMEs are unable to obtain financing from external sources due to lack of creditworthiness. Banks will not take the risk of financing SMEs if they are not creditworthy. Because banks may incur losses if they lend to them in these circumstances. Furthermore, factors such as the macroeconomic environment constrain external funds from lending to SMEs. In other words, during a physical deficit, banks prefer to lend to the government rather than the private sector because there is less risk in funding the

government and a high risk in lending to the private sector, according to their assumptions. Besides, most small businesses do not have accounting records because of that financial institutions, such as banks, are hesitant to lend money to these enterprises. Majority of the time, SMEs are classified as informal sectors, which means they are not officially registered as legal or licensed. This makes it difficult for financial institutions, such as banks, to assist SMEs. The other is associated with credit guarantee schemes; credit guarantee schemes are a process in which a third party guarantees repayment to the lender. As a result of these factors, the creditor may face lower risk and require less collateral.

Lack of finance is one of the major challenges that impede the development, growth, and productivity of MSMEs (Owens & Wilhelm, 2017). According to Owens & Wilhelm (2017), the credit gap problem exists not only in developing countries but also in developed countries that have helped MSMEs and expanded their finance growth. According to the World Bank (2018) 400 million small enterprises in developing markets face a credit shortage to operate their businesses; of those enterprises, approximately 180 from 220 million require between USD \$2.1 and USD \$2.6 trillion. According to the report, the major issue in the market for finance is the credit gap between the supply and demand sides, because SMEs' credit demand exceeds supplier capacity. However, the World Bank identifies the following as the main reasons why SMEs do not have access to credit: collateral requirements for obtaining a loan, financial documentation, multi-week decision time frames, and high interest rates and taxes. Moreover, due to weak legal and regulatory environments, most developing-country banks do not prefer movable collateral such as machinery and similar assets. Banks prefer immovable assets or fixed as collateral from SMEs for these and other reasons. Over and above this, the investment that many SMEs in developing countries have is movable collateral, which contributes to SMEs' difficulties in obtaining bank financing (Abraham et al., 2017).

### **2.4.3 Marketing and Micro, Small, and Medium Enterprises (MSME) development**

Nowadays, MSMEs often anticipate new updates to their existing products and services. New technology has a greater impact on today's market. And this cutting-edge technology has an impact on overall business operations and opens up new market potential for products. Firms must be able to modify and update themselves at all times in order to

stay in business. Marketing and marketing knowledge are the most crucial and significant in this regard. Furthermore, marketing knowledge helps in distinguishing between successful and unsuccessful businesses. The marketing-driven strategy is advantageous in this aspect because it incorporates marketing knowledge. Marketing knowledge is one of the most important tools for MSMEs' growth and development. Marketing knowledge assists enterprises in determining what is going on in the market, particularly in terms of market opportunities and threats. Marketing knowledge helps SMEs gain a competitive edge in the market by increasing customer demand and understanding, as well as identifying and capturing the target market position (Jovanov and Stojanovski, 2012).

Marketing is an essential component of any company's growth and development. The fundamental goal of SMEs is to make money by inventing or creating new products, services, and ideas to sell to the market in order to make money. By satisfying the target market, marketing plays an important part in the success, growth, and development of SMEs as well as entrepreneurs and business owners. Entrepreneurs can earn profit from these target markets and expand their markets by using marketing knowledge. The primary aim of marketing is to produce goods and services, then inform potential or target customers about them in order to sell and profit from the sales of those goods, services, or ideas. Through these marketing in SMEs plays a key role by presenting new product that are produced by SMEs, informing clients about the products, and making a profit for the enterprises (Ebitu et al., 2015). According to Ebitu et al. (2015), marketing assists entrepreneurs or enterprise managers in determining market size, identifying and allocating market segmentation, and selecting segments to reach potential customers and satisfy segment needs and wants. Marketing not only assists enterprises in market segmentation, but also in implementing numerous tactics to reach out to available and potential customers.

Owners of SMEs or entrepreneurs should be familiar with marketing concepts such as product quality, pricing strategy, inventory management, product development, supply chain management, market competition, and customer care and services. In this regard, small scale enterprises require managerial skills as well as various experts to control, maintain, and measure product and service quality as well as manage customers in the market for their product, in addition to searching for new domestic and global markets in

order to compete and sustain their business (Muhammad et al., 2015). One of the most important components in the growth of MSMEs is marketing. Product creation, pricing, sales, increasing marketing share by introducing new products to the market, and building and keeping strong relationships with customers were all examples of marketing function (Van Scheers, 2011).

Marketing is an important component of an organization's life cycle, particularly for small enterprises, because it helps them develop and flourish. In other words, the mortality rate around these enterprises is higher than it is around large enterprises; as a result, marketing skill can solve this problem and help and boost productivity in these sectors. In addition, the characteristics of SEs differ from those of large corporations. Most of the time, marketing in SMEs has been driven by size, resource restrictions, a strong sales focus, influenced more by the owner or entrepreneur's personal contact, and a keen awareness of traditional marketing. Marketing strategies support enterprise development; in particular, well-planned and implemented marketing strategies aid SMEs in establishing strong customer loyalty by establishing a strong value proposition. Furthermore, marketing is a crucial component in the development of MSMEs, predicting the business's long-term performance or whether the business fails, survives, or succeeds in the operation, according to Jovanov and Stojanovski (2012).

In the lack of marketing skills, it isn't easy to get potential customers for product and services. According to Van Scheers (2011), no one will do business with you if the potential consumer in the market does not have adequate information or awareness about the product and service you provide. In line with these, the same author stated that marketing implementation and applications are more important than planning and strategy for business or enterprise success. SME success can be measured in five different ways. Profitability, customer growth, and seeing customers as tools were all part of this strategy, as were customer satisfaction, employee satisfaction, and owner satisfaction.

According to a study conducted by Bateman and Snell, referenced by Van Scheers (2011), if marketing and managerial abilities are insufficient to sustain the firm, there are major problems for SMEs to become lucrative and successful. Strong management and

marketing skills are key components for the creation and expansion of SMEs. On the contrary, a lack of these skills and lack of proper financial management is a key impediment to the growth of SMEs and a cause of business failure. The problem with the management, which has a low marketing importance, is one of the key obstacles for SMEs. Marketing is one of the most important variables in determining a company's profitability. Managers who undervalue these elements may end up paying a hefty price. The owner, manager, or entrepreneur in charge of the firm or companies is responsible for marketing. And, according to his research, the marketing concept should be shared by the entire company. Otherwise, this concept's inadequacy could lead to the company's failure (Van Scheers, 2012).

Obtaining market access helps MSMEs grow and strengthens their relationships with one another (firms). These factors may boost enterprises' capacity to invest, develop, and create a favorable market environment. It is critical to offer market services in order to connect small businesses with the market. Market services make it simple for the producer to integrate with the market (Reji, 2013). Various marketing functions assist businesses by providing market information, such as opportunities and threats, as well as informing enterprises about their own strengths and opportunities, allowing them to develop policies and strategies to improve their strength and exploit market opportunities, as well as to reduce their weaknesses and learn more about their competitors. These teach enterprises how to compete in the market by recognizing and using their strengths and possibilities (Ebitu et al., 2015).

#### **2.4.4 Technology, Innovation, and MSMEs development**

MSMEs are the input of innovation; they support and promote innovation and technological development, and technological advancement increases MSMEs' growth (OECD, 2017). MSMEs' development relies heavily on innovation and new technologies. MSMEs benefit from innovation because it creates new technological services, jobs, improves efficiency and competitiveness, and attracts new domestic and international investors. These are the ways in which technology aids social and economic progress. The reason for this is that innovation will introduce new technology and working methods. To put it another way, it boosts productivity by lowering production costs, increasing speed,

efficiency, and effectiveness, and shortening the time it takes to produce goods and services. Technology has the potential to boost productivity while also strengthening the link between MSMEs and industrial development. The issue of unemployment will be alleviated when industries flourish. As a result of the growth of MSMEs, employment will expand. This formation aided in the growth of income, value export, GDP, and general economic development (UNSDCF, 2020). "Entrepreneurial approach" means "taking advantage of market opportunities in a dynamic, proactive manner," according to Jovanov and Stojanovski (2012).

The characteristics and behaviors of today's market are different from those predicted previously. The fundamental cause for this is rapid technological advancements. These technology advancements have an impact on the corporate environment by increasing competitiveness and displacing rapid change in the marketplace. New technology, on the other hand, opens up new market potential for entrepreneurs. Rapid technological change can lead to firms and corporations being more innovative and using numerous tactics to keep their product and service innovations going. These help businesses reach out to their target market or customer with a new product. Furthermore, it is crucial for enterprises to be successful in the market. In reality, technology influences or pressures business, and market conditions can also force enterprises (Jovanov and Stojanovski, 2012).

Using modern technology is essential to produce the product at good quality and to increase the quantity of product. Besides, technology is significant for enterprise to produce the product quickly and minimize costs. As access to technology support enterprises growth, but lack of adequate technology hinders the development of MSMEs. Lack of adequate technology is a common problem among MSMEs in Ethiopia (Wami, 2020 ). Modern technology can shorten the time of production, costs of production, and other costs, improve production and services, Support the competitiveness of small enterprises in the market, and increase capacity of small enterprises. For economic growth, innovation, and progress, research and development are essential tools. In the opposite direction, a lack of Research & Development (R&D) could have a negative impact on enterprises, particularly on SMEs. The reason for this is that, in most cases, large firms have greater capacity and ability to invest in research and development, giving them a

competitive advantage in both the domestic and foreign markets. However, SMEs find it difficult to compete in the local and worldwide market due to a lack of capacity and ability to invest in R&D (Yoshino, 2016). They also stated that information technology is critical in today's business. In many industrialized countries, sales are aided by items such as smart phones, computers, and tablets. As a result, in these countries, e-commerce is preferred over traditional sales. However, in many LDCs MSMEs find it difficult to use e-commerce due to a lack of ICT infrastructure and other constraints (Yoshino, 2016). Small businesses in developed countries, for example, have better access to modern technology than small businesses in underdeveloped countries like Ethiopia. To overcome the problem of market competitiveness, MSMEs must invest in technology and operational improvements, as well as maintain a strong commitment to change (MOUDH, 2016).

#### **2.4.5 Adequate infrastructure and Micro, Small, and Medium Enterprises (MSME) development**

Infrastructure development is vital to the growth process. Moreover, infrastructure is a critical component in the establishment, growth, and survival of businesses (Aruwa, 2006). Infrastructure supports all processes, including economic, social, political, and other activity. Because infrastructure facilitates these activities directly or indirectly. The production process in firms or organizations, whether it be service or good, cannot function properly without infrastructure (Mugo et al., 2019). The provision of suitable infrastructure is a critical aspect in enhancing MSMEs' growth and development, as well as their performance and competitiveness in diverse markets. The term "infrastructure" refers to all physical and technical structure that let people go about their daily lives. Water, electricity, transportation, and communications are important physical infrastructural facilities for MSMEs' growth and development. Hence; MSMEs rely on access to this infrastructure for their production and distribution processes. As a result, infrastructure facilities are crucial for the growth and development of small enterprises (Aruwa, 2006; Mugo et al., 2019). Furthermore, efficient infrastructure, such as transportation and network, supports and improves the country's growth. Other infrastructure, such as reliable energy system generation, helps MSMEs grow by introducing modern technologies and processes. This boosts the capacity of enterprises, allowing them to collaborate and achieve economies of

scale. This ensures the competitiveness of MSMEs. Despite this, infrastructure deficiencies, such as a lack of power sources, pose a significant threat to production efficiency and competitiveness (Aruwa, 2006).

According to Mugo et al. (2019), infrastructure is the most important factor in production and economic development. The availability of infrastructure could have an impact on the production process and enterprise performance in terms of quality and quantity of output, revenue, and profit. Moreover, infrastructure availability boosts MSMEs' long-term profitability. Furthermore, it enables businesses to operate in a favorable and ideal atmosphere. The finding from Mugo et al. (2019), study indicates that an infrastructure factor has strong positive effect on growth of SMEs. To sum up, adequate infrastructure is associated with increased production of MSMEs. Because good infrastructures can boost an organization's effectiveness by facilitating business activities with services like water, roads, and electricity. On the other hand, a lack of infrastructure limits an enterprise's ability to perform (Wami, 2020). Furthermore, according to Obokoh and Goldman (2016), a lack of infrastructure has a negative impact on MSMEs' production and profitability.

#### **2.4.6 Government policy and regulation and its effect on MSMEs' development**

The government's assistance for small businesses can boost citizens' social advantages. MSMEs are more productive than larger firms in terms of producing a large number of job opportunities for a large number of people. However, due to several constraints such as a lack of access to capital and institutional issues, the sectors' benefits are limited. Furthermore, government support for MSMEs can boost economic development and growth, particularly in emerging countries (Agyapong, 2010, p. 28). Effective government policy and regulation, according to Muhammad et al. (2015), fosters the development of SMEs. According to them, these well-understood legal and regulatory frameworks that remove corruption and establish a stable political environment can considerably aid the development of businesses (Muhammad et al., 2015). According to Osoimehin et al. (2012), government assistance for SMEs in the form of financial, marketing, managerial, and technical skills is critical to their development. "Direct government support of MSMEs can thus help countries gain social benefits". Second, while

MSMEs are generally more productive than large corporations, their growth is restricted by the failure of financial markets and other institutions to provide money and other non-financial support. As a result, upcoming financial and institutional improvements, as well as direct government support for MSMEs, can help the economy expand and thrive" (Agyapong, 2010, p. 28).

## **2.5 Prospects of Micro, Small, and Medium Enterprises (MSME) development in Ethiopia**

The vision of Micro, Small, and Medium Enterprises (MSME) in Ethiopia is "to see vibrant and competitive micro and small enterprises capable of providing diversified and solid foundations for industrial development". Furthermore, the general objective of the Ethiopian government to support MSME is :to support the formation of industrial development through linkage of ruler development, to generate work opportunities, to enhance income, to reduce poverty, to build a more equitable income distribution and to build a wide range of advancing investors in the urban core (MOUDH, 2016).

### **2.5.1 National plan and strategies supporting the development of MSMEs in Ethiopia**

National micro and small enterprise development strategies were formed in 1997, with the overarching goal of integrating SMEs and assisting SMEs in their transition to medium and large enterprises. Following this plan, several strategies to support the development of MSMEs were devised. The second strategy is the Plan for Accelerated and Sustained Development to end poverty (ASDEP). Between 2005 and 2010, this plan was implemented. In many ways, this strategy promoted the development of MSMEs in Ethiopia. Business management, business development services and training, entrepreneurial development, and governmental financial support were among the benefits. GTP I and GTP II, also known as the growth and transformation plan, are the third and fourth strategic plans for development. GTP I began in 2010/11 and ended in the 2015. During this plans, 16,4 million ETB (Ethiopian Birr) loans were disbursed to MSMEs. GTP I support MSMEs by providing workspaces, facilitating and fevering market access, through market linkage to ensure finance is available to MSMEs, and by providing business development services and training (ADA, 2016). The goal of GTP I was to encourage

broad-based economic growth and development. GTP's overarching goal is to alleviate poverty through job creation.

The development of SMEs is a critical success factor for this strategy (Assefa et al., 2014). Among other plans and policies, GTP is the most significant and benchmark plans. Furthermore, GTP linked and integrated the principles and objectives of future sustainable development. Overall, the key goals of GTP are to eradicate poverty, transform the country into a middle-income country, and increase the country's GDP per capita to 1271 USD by 2025 (Environmental Protection Authority (EPA), 2012). GTP II is a long-term plan that runs from 2016 to 2020. The strategy places a greater emphasis on manufacturing development, productivity, and competitiveness. During this plan, ETB 21 billion was distributed to businesses through various institutions such as Microfinance Institutions (MFIs). The plan included transforming the country into a middle-income industrialized economy and increasing citizens' per capita income. These are centered on maximizing the country's resources and comparative advantage in manufacturing sectors such as garment and textile, leather product, sugar, cement, metal, and engineering (Geiger & Moller, 2015). Furthermore, Ethiopia's Growth and Transformation Plan II (GTP II) is a continuation of the GTP I plan. This plan was in effect until 2020. It aims to transform the country's economy from agrarian to modern industrialized (Seyoum et al., 2016). Overall, the MSMEs policy and strategy have been formed to foster the development of enterprises (Alauddin & Chowdhury, 2015).

#### ***2.5.1.1 National Micro and Small enterprises development and promotion strategy (NMSEsDPS)***

The NMSEDPS's objectives are to provide a supportive environment for MSE development and to strengthen economic growth by creating jobs. Furthermore, this strategy aimed to strengthen links between SMEs, medium-sized enterprises, and large enterprises, as well as to promote export development by establishing a network between them. Furthermore, the emphasis of this strategy is on the development of the manufacturing sector as well as self-employment, particularly among the disabled, women, and youth unemployed. The strategy was particularly focused on expanding and supporting women businesses.

### ***2.5.1.2 Industrial Development Strategy (IDS) and National Industries Extension Services (NIES)***

The Industrial Development Strategy (IDS) aims at assisting agriculture in leading industrialization by developing and expanding labor-intensive industries such as MSEs. Some other aim of this strategy is to encourage and enhance the private sector by strengthening MSEs and empowering exports. The main aim of National Industries Extension Services is to make and support MSEs capable and competent enough in the market, to enable MSEs to generate adequate and sustainable job opportunity and to improve income through creating and providing jobs.

### ***2.5.1.3 Federal Micro and small enterprises development agency (FeMSEDA) and National micro-credit and saving directives***

Two of these agencies were established on behalf of the government to support and promote the development of these enterprises. Orderly, the main goal of FeMSEDA is to implement the strategies mentioned in the MSE development and promotion strategy, as well as to implement MSEs policies and strategies that support the development of small enterprises. On the other hand, the overall objectives National micro-credit and saving directives are addressing the financial problems of MSEs operating in Ethiopia at the federal and regional levels by establishing and facilitating credit systems that are primarily aimed at enterprises engaged in import substitute goods, export, and construction. Furthermore, the government provided various supports to MSMEs by creating a favorable environment and policies to implement legal frameworks, investigate and establish a friendly business environment for MSMEs, as well as by facilitating finance, providing training, technology infrastructures, and marketing linkages (Assefa et al., 2014).

### ***2.5.1.4 MSMEs development strategy***

The main objective of MSMEs development strategies is to reduce poverty by creating job opportunities for wide nations, to create a more equitable distribution of wealth, and to increase countries' income. Besides, through agricultural development, aims to increases industrialization and supports sustainable growth. The Ethiopian government is taking a number of initiatives to assist MSMEs in this regard. The government provides this

assistance at various stages, including startup, growth, and maturity (Weldeslassie., 2019).The supports are as follows:

- **Startup stage support:** In the startup stage, small enterprises are challenged by a lack of starting and working capital, a lack of business management skill, a lack of entrepreneurship knowledge and skill, and a lack of information about policy and regulation in the area. To tackle these issues and promote development, the country's government devised a number of strategies, including assisting small enterprises in startup by easing legalization and formalization procedures and processes, facilitating access to finance, and providing training in areas such as management, production, technique, marketing, and entrepreneurship (Seyoum et al., 2016). During the start-up stage, the government supports enterprises by providing startup capital to encourage small businesses to register legally (MOUDH, 2016; Seyoum, et al., 2016; Weldeslassie et al., 2019).
- **Growing stage supports:** The growing stage is the stage at which small enterprises are profitable and successful in the market. However, enterprises in these stages face a variety of challenges, including a lack of appropriate technology, a lack of technical skill, a lack of finance, a lack of working space, and rent-seeking behaviors. To address these challenges, the country's government launched a comprehensive policy and strategy aimed at facilitating finance, skill training, and the provision of technological support and development (Seyoum et al., 2016). Furthermore, the government supports enterprises in this stage by providing finance, capacity-building training, technology, and facilitating market linkage and opportunities (MOUDH, 2016; Seyoum, et al., 2016; Weldeslassie et al., 2019).
- **Maturity stage supports:** This is the stage at which businesses are successful and want to expand. However, the stage can be hampered by a lack of information and knowledge about international production standards. So, in these stages, the government's goal is to improve MSMEs in terms of product quality standards and productivity (sintayehu, 2019). In maturity stage, helping enterprises to strengthen their competency by providing needed material and tools to support enterprises in transitioning from micro to small from small to medium, and finally accepting and

recognizing those transferred enterprises (MOUDH, 2016; Seyoum, et al., 2016; Weldeslassie et al., 2019).

#### **2.5.1.5 *Technical and Vocational Education and Training (TVET) SYSTEM***

TVET is a national institution that offers a variety of skills, training, and education.

As an example:

- It provides high-quality skills and education for training and consulting on problem-solving skills and working methods. These facilitate the operation of MSMEs in order for them to become productive.
- It enables MSMEs to gain access to new technologies and improve existing ones.
- Provide integrated education and training to aid in development. Furthermore, this institution not only provides skilled labor to MSMEs, but also to large corporations.

As a result of these factors, TVET is a crucial institution in the country that supports the development of MSMEs; however, the institution's productivity in the country is questionable when compared to the global TVET system (MOUDH, 2016).

Governments in both developed and developing countries use a variety of methods and programs to assist small and medium-sized enterprises. Even though this supportive program benefits SMEs in developed countries, many SMEs in developing countries have not benefited from strategies and programs. As a result, the performance of SMEs in developing countries is lower than that of SMEs in developed countries. The main reason for these countries' low performance is SMEs' lack of knowledge in order to apply the created strategies, as well as their lack of skill in using the strategies effectively. This means that putting strategies or plans on paper does not guarantee the development of a SME. Instead, effectively and efficiently implementing the plan can ensure the sector's development (Hallberg, 2000). Ethiopia's economy has been performing well in recent years. This is accomplished through the development of strategies, plans, policies, and programs that promote economic and social development. Despite the fact that policies and strategies support overall development, MSMEs' performance and development remain at a low level in the country (EPA, 2012). Government assistance to MSMEs has the potential to increase citizens' social benefits. MSMEs are more productive than larger firms in terms

of creating a large number of job opportunities for citizens. Furthermore, government support for MSME can boost economic development and growth, particularly in developing countries. However, due to constraints such as access to finance and institutional problems, the benefit from small business is limited in developing countries (Agyapong, 2010, p. 28).

## **2.6 Problems and challenges of Micro, Small, and Medium Enterprises**

Understanding the overall challenges that constraint the development of MSMEs is a critical and pivotal point. Because some challenges or factors can stifle enterprise growth or have a negative impact on the establishment of SMEs, these factors may have an immediate impact on the firm's operation or internal growth. However, in the long run, it has an impact on overall economic development (Abraham et al., 2017).

MSMEs make significant contributions to job creation, income generation, and economic development, particularly in Ethiopia; however, a variety of external and internal issues limit MSMEs' development and growth. External factors included challenges such as a lack of finance, unfavorable computation, a scarcity of marketplace, production, a scarcity of markets in which to sell their products and services, and market entry barriers (Seyoum et al., 2016). These enterprises are not only confronted with micro issues. Besides, macroeconomic issues such as "macroeconomic imbalances, originating in part from debt service obligations" constraint these enterprises. These macroeconomic problems make it difficult for businesses to obtain critical foreign exchange. Furthermore, there is a shortage of banking sector and capital market, a shortage of skilled human labor in the labor market, a low level of innovation "ecosystem," and a lack of fundamental resources for operating enterprises, particularly energy (UNSDCF, 2020). As a result, SMEs are not only challenged by internal factors, but also by increased external competition, such as the problem of rapid demand change in the market. Due to various obstacles, such as a lack of innovation, knowledge constraints and a lack of creativity, and technological changes, it is difficult for SMEs to adapt to these rapid changes. As a result, it is difficult for SMEs to fully utilize their potential in order to grow and improve their performance (Yoshino, 2016). Due to various problems, some survived and grew from micro to small, small to

medium, but many of these small enterprises in Ethiopia failed and closed their operation (Seyoum et al., 2016).

In addition to the aforementioned problems, a lack of business service development is a serious hindrance to the growth of small enterprises. Furthermore, small enterprises are prevented from entering profitable markets due to a variety of factors, the first of which is the size of the enterprises. These enterprises are, by nature, small in size. As a result, the enterprise's ability to obtain resources and information is limited. As a matter of fact, the ability to use modern technology and the skills required to use it are also limited. Besides that, they do not have widely accessible business support to enable them. And, these problems pose a particular threat to the competitiveness of small enterprises in both the domestic and international markets (Reji, 2013). Furthermore, various constraints are limiting the development of entrepreneurs in developing economies, particularly those involved in the activity of small enterprises business, who face challenges such as a lack of finance and capital for their business operation. What's more, the lack of adequate infrastructure, poor macroeconomic policies, a lack of managerial experiences and knowledge, and corruption are some of the barriers to the development of these enterprises in these countries (Zamberi Ahmad, 2012, p. 227). Further to that, Zamberi Ahmad (2012), stated that the problems mentioned above are not only challenges to the development of enterprises. Besides, problems such as a lack of adequate marketing and production, a limited capacity of enterprises to hire skilled employees and a shortage of skilled labor, as well as a lack of technical and conceptual skills are some of the problems that small enterprises face. Specifically, a lack of skilled and qualified human resources, as well as high unit costs in comparison to large enterprises, hampers SMEs' competitiveness in both domestic and international markets (Al-Hyari, 2013, p. 138). A lack of marketing and modern technology, in particular, undermines the enterprise's ability to export products (Tambunan, 2019, p.12). As a result, small firms' inefficiency in allocating resources and a lack of relevant information can lead to market failures. High fixed costs, a lack of information on foreign buyers, distribution channels, quality standards, and new technology all have a negative impact on MSMEs' ability to enter effectively and efficiently in export markets. What's more, MSMEs have a lower demand for training or consulting than large

enterprises. The main reason seems to be that most SMEs do not recognize the value of training for productivity and growth. Besides this, the sectors' ability to use training effectively was hampered by a lack of information (Hallberg, 2000).

Lack of investment and entrepreneurial skills restricts the ability to obtain and use technologies to boost productivity. The production process is hampered by a lack of market access as well as entrepreneurial knowledge. Furthermore, market failure barriers, policy sphere, and insufficient unfavorable business environment are some constraints that SMEs face. As a result, market failure and other constraints can limit MSMEs' access to strategic resources such as skills, finance, management capacity and knowledge, networks, and information. In addition, a lack of access to these things can jeopardize the enterprise's competitiveness in both the local and global economies (OECD, 2017). According to OECD (2017), the critical problem of SMEs is a lack of information knowledge, appropriate management skills, and a lack of coordination to connect adequate skill partners and networks at the local, national, and global levels. MSMEs' productivity and ability to innovate are hampered by a lack of skill, poor management practices, and limited workforce training. Poor management practices and a lack of an appropriate government structure, in particular, are challenges that many SMEs in the deferent country face. These problems are primarily caused by financial constraints, administrative and regulatory challenges, and tax burdens.

MSMEs in the country have faced a variety of challenges, including structural, institutional, and economic problems. According to Seyoum et al. (2016), some of the challenges that MSMEs in the country face are a lack of capital, a lack of marketing skills, a lack of work place, a lack of raw material supply, and a lack of skilled human labor. Other constraints to the development of this sector include a lack of infrastructure, a lack of credit, a lack of consultancy, a lack of information, a lack of extension service, and a problem with prototype development.

### **2.6.1 Lack of access to finances**

Access to finance is one of the most important factors that allow MSMEs to keep growing. However, many African MSMEs, which include Ethiopia, are experiencing

difficulties obtaining financial support. Although some African countries have established institutions to facilitate loans to small enterprises, most of Sub-Saharan Africa countries remain financially constrained (ADA, 2016). One of the most significant barriers to the growth and development of SMEs in developing and emerging countries is a lack of access to finance. In comparison to large enterprises, the ability of SMEs to obtain bank loans is limited. Because of this problem, most SMEs rely on an internal resource, such as cash from their own savings families and friends, especially during the startup period (World Bank, 2018). Despite the fact that finances are required for businesses to start, develop, or expand in a more successful way, the majority of MSMEs in Ethiopia are financially constrained. These challenges affect the enterprises both during the startup phase and in ongoing activities; for instance, a lack of capital hindered the establishment of the enterprises, while other access affects ongoing business activities (Wami, 2020). Besides that, the growth and competitiveness of small businesses are hampered by a lack of access to financing and a high cost of credit. High risks and transaction costs are the primary barriers to SMEs obtaining credit from a formal institution. Assume, for example, that lenders do not have enough information about borrowers. In this case, lending is difficult, and the contract is enforced for banks. Due to a lack of information on the creditworthiness of SMEs, it is difficult to determine which SMEs can potentially take on debt. In other words, if banks or other lending institutions determine that the risk of the enterprise outweighs the profit, they will either raise interest rates or refrain from lending. As a result, MSMEs' ability to access finance is limited by the lack of creditworthiness. Furthermore, SMEs' access to credit is hampered by a lack of collateral (Hallberg, 2000).

In Ethiopia, the demand for credit exceeds the capacity of credit suppliers. According to research reports, Assefa et al. (2014), the country's MFIs only meet about half of the demand for finance and credit. The real value of loans given to MSMEs is low, but as the cost of goods and services rises over time, these loans cannot provide the necessary leverage for those businesses. According to the WBG survey conducted by Geiger & Moller (2015), 40 percent of micro-enterprises, small firms, and 18.5 percent of medium firms in Ethiopia are constrained by finance. The biggest obstacle to the development of MSMEs, particularly in the private sector, is limited access to finance (Alauddin &

Chowdhury, 2015). The financial constraint is not only a problem for MSMEs in Ethiopia; it is also regarded as a significant challenge for the global development of MSMEs. In the long and medium term, MSMEs suffer from a lack of access to credit, financial resources, and capital (Osotimehin et al., 2012). According to Osotimehin et al. (2012), financial constraints are the factors that prevent MSMEs from obtaining finance for their businesses on time and in a reasonable timeframe. These factors include a lack of financial resources and supply funds, a lack of capacity on the part of the entrepreneur or manager of the enterprise to raise finance for the growth of the enterprise, a lack of collateral to access finance from a financial institution such as a bank, a lack of knowledge about their business, a poor business history.

Enterprises obtain their funding in two ways. One came from within the company, while the other came from outside. Internal sources included savings and retained earnings, while formal sources included security finances, implicit borrowing from payable accounts, and explicit borrowing from both formal and informal financial sources. Credit associations and rotating savings (Iqub), for example, are the most important sources of finance for small businesses in Ethiopia. Even though access to finance, particularly from formal institutions, is an undeniable factor in the development and growth of enterprises, it is difficult for small enterprises founded in developing countries such as Ethiopia to obtain a source of finance from formal institutions such as banks (Ageba & Amha, 2006, p.70). Access to credit, particularly adequate and timely credit supply, promotes enterprise development and solves problems. Nevertheless, in Ethiopia, many enterprises experience a lack of capital due to a low level of creditworthiness. Further to that, most of these enterprises are owned or managed by the owners of themselves. This enterprise faces a feasibility report problem because it is managed solely by the owner and receives little support from others. According to Getahun (2016), it is difficult for financial intuition to advise and serve MSEs when the report is not feasible.

Another issue concerning finance is the limited ability of Ethiopian MFIs to lend to MSEs. As a result, there is a significant disparity between credit supplied and credit demanded. Credit demand exceeds credit supply in Ethiopia, owing to the low level of capacity of Micro Finance Institutions. Low capacity of MFIs is not only a barrier to

MSMEs' access to finance; rather, an internal problem of MSMEs related to a poor culture of repayment behavior, misusing credit, and a lack of experience in using credit appropriately and enhancing competitiveness is another critical barrier to the development of this sectors in Ethiopia. Aside from a lack of a system to assess SMEs' creditworthiness, low-level awareness of the value of training, a lack of capacity for production and market access, and a lack of a business plan from MSEs all impede funding institutions such as banks, MFIs, and other organizations from enhancing sector development. Furthermore, the disposal of money from various non-governmental organizations has had a negative impact on MSEs' saving and credit, particularly as this increases MSEs' dependency attitude (MOUDH, 2016).

What's more, small enterprises in Ethiopia are more likely to be denied a loan or line of credit than large businesses. SMEs are discouraged from applying for loans due to the lending institution's high collateral requirements (Geiger & Moller, 2015). Banks, for example, require collateral such as land, personal property, and buildings; majority of this institution prefers fixed assets. However, the capacity of small enterprises to have these assets, particularly during their early stages, is limited (Getahun, 2016). Besides that, the majorities of this enterprises are unviable and lack a financial record. Banks and other financial institutions, on the other hand, preferred asset as a primary criterion for providing financial support for these enterprises. However, many small enterprises are characterized by a lack of assets or collateral. As is well known, the startup capital of many small enterprises comes from their own savings, family, or friends. As a result, obtaining additional assets, particularly fixed assets, to serve as collateral for banks or other formal institutions is difficult for small businesses (Tambunan, 2019, p. 12).

Furthermore, rising many for SMEs is more difficult than for large enterprises. According to Yoshino (2016), banks prefer to lend to large enterprises rather than SMEs. Accounting information and risks in large enterprises are lower than in SMEs due to the lack of clear financial statements in SMEs. As a result, MSMEs face more financial constraints than large corporations due to the lack of credit and collateral bias (Weldeslassie et al., 2019).

A large proportion of Ethiopian small enterprises are hampered by a lack of startup capital during their establishment. What's more, during their establishment, the main problem of MSEs was that they did not use the loan provided for start-up capital appropriately. As a result of the challenges, small businesses' ability to obtain funds from institutions to run their operations are limited (MOUDH, 2016). Individuals or groups who want to start a small business in Ethiopia should have their own savings at first to establish their businesses, according to MOUDH (2016); otherwise, it is not permissible to get start-up credit from the government. The government of the country can only provide financial assistance to those who have a viable business proposal and contribute to saving before starting a business.

### **2.6.2 Lack of access to market and marketing skill**

Every enterprise or organization that is involved in business requires marketing in order to continue or survive. Marketing is critical for businesses to identify their customers' needs and desires. Customer satisfaction is more important for businesses to make a profit, grow, and survive. In this perspective, marketing supports enterprises by determining market size, targeting markets such as niche markets, identifying appropriate strategies, and selecting market segments. Although marketing is essential in the development of enterprises, a variety of marketing-related problems and other factors are adversely affecting the growth of these enterprises. SMEs face a variety of challenges, including access to finance or capital, inefficient management, a lack of skilled labor, a lack of infrastructure, and a lack of marketing skills, particularly in marketing research and development. According to Ebitu et al. (2016), most small enterprises are unaware of the value of marketing research and development. And this hindered the development of these enterprises in comparison to large enterprises because marketing-related problems are problems related to marketing barriers that limit the growth and development of small enterprises and other firms. Moreover, marketing issues are the primary impediments to enterprises making a profit, as well as obtaining consumer satisfaction, generating income, and creating value for enterprises. Besides that, problems related to marketing skills, such as the inability to analyze market opportunities, a lack of promotion and advertising for their product, inefficiency in operation and production, a lack of product standardization,

low level quality products, and a lack of an effective pricing strategy, are some factors that affect the performance and profitability of these sectors (Ebitu et al., 2015). What's more, a lack of in-depth customer knowledge and a proper business strategy leads to poor market segmentation in MSMEs. However, poor market segmentation of small businesses is not solely the result of insufficient marketing skills; rather, a lack of standard definition by financial institutions, particularly in Ethiopia, has contributed to poor market segmentation of sectors (Geiger & Moller, 2015).

Financial management and marketing weaknesses, according to Jovanov and Stojanovski (2012), contributed to the failure of SMEs. According to these authors, small enterprises are more affected by marketing problems than large enterprises. Because these enterprises are small in size, they have a limited customer base, limited marketing activities, expertise, and impact. Moreover, these enterprises are characterized by an excessive reliance on the owner or manager of the business. Because these enterprises are small in size, all activities are controlled or managed by the owner or manager, every marketing decision is based on the manager's marketing ability. These have their own negative or positive effects on the performance of the enterprise. Assume, for example, that the manager or owner has strong marketing skills. In this case, it positively contributes to enterprise growth; however, if the manager or owner of the enterprise lacks marketing skills or knowledge, the decision made by he or she negatively contributes to enterprise growth. Entrepreneurs' or managers' lack of marketing skills may result in a marketing constraint (Van Scheers, 2012).

Other marketing-related challenges are related to strategic production locations, such as a lack of a marketplace and high rental rates, a lack of money for product promotion, high competition from imported goods, and bias against local goods. Another marketing constraint is the lack of adequate information; information is essential for MSMEs to identify and gather information about the market, policy regulation, and legislation (Waim, 2020). A lack of relevant information about customers can have a negative impact on the performance of an enterprise. In this regard, most of the time, small enterprises' ability to conduct market research has been limited due to factors such as a lack

of funds and marketing skills. Both of these factors contributed to the failure of small enterprises (Ebitu et al., 2016).

Furthermore, marketing-related problems, particularly those relating to products and services, are common among small enterprises. Small enterprises in Ethiopia are distinguished by the sale of low-standard and low-quality goods and services in order to make a quick profit. The desire to profit from these perspectives may render small businesses uncompetitive in local and regional markets. If they want to succeed in the market, they must produce products of standard quality and sell them at standard prices that are appropriate for the products. Otherwise, the one who produces a high-quality product and sells it at a reasonable price will win and control market computation. Using marketing mix strategies to solve product and pricing problems is essential. However, most small enterprises lack marketing skills. The scarcity of these skills, which are primarily related to marketing mix strategies, holds back the development of small enterprises. SMEs found in Ethiopia would not be using marketing strategies such as price, product, service, and customer quality. Besides that, they lack marketing research and development. In this regard, they lack the ability and capacity to identify their target customers for their products and services through marketing research. To expand their market, marketers must understand the marketing mix or 4Ps, which stands for product, price, place, and promotion. However, a lack of marketing skills for 4Ps is primarily affecting the country's MSMEs (MOUDH, 2016).

Another barrier to the growth and development of MSMEs in Ethiopia is a lack of market access and land availability. The most significant constraint to the development of MSMEs in Ethiopia is a lack of available land. The supply and demand gap regarding this problem is high, particularly in capital cities. The main factor contributing to a shortage of land or working places is that demand exceeds supply (Geiger & Moller, 2015). As a matter of fact, market access is critical in order to obtain raw materials, semi-finished materials, and sell what they produce; however, lack of market access has hampered the development and expansion of MSMEs (Wami, 2020).

MSMEs' growth is limited by the lack of market access and a weak link between enterprises. Internal enterprise weakness and resource scarcity are two problems related to market access and weak linkage between enterprises. Because of these problems, small enterprises make a low profit, which has an impact on their ability to grow and invest (Weldeslassie et al., 2019). Besides, the low level of production and service provided by SMEs to the market has an impact on their market competitiveness in terms of product quality and price. Besides that, MSEs' limited capacity and inability to produce competitive and high-quality products and services makes it difficult for them to gain market access for their products. As a result of these factors, the majority of Ethiopian SMEs face market access challenges for their products. Moreover, the low effort of these enterprises to expand their market contributed to a lack of market access (MOUHD, 2016). Even though market access is necessary for running a business, a lack of market access may limit business operations. All things considered, in Ethiopia, a lack of working spaces, sales spaces, and sales premises has been a major impediment to the development of MSMEs (Assefa et al., 2014).

According to Assefa et al. (2014), the federal government facilitates various market linkage opportunities for SMEs, but the majority of these enterprises do not take advantage of these opportunities adequately. Due to enterprises' inability to use market linkage effectively, the products produced by these enterprises are not available to sell at the appropriate time. In this regard, they sold their products at a loss. These have a negative impact on the profitability of small enterprises. Furthermore, it has an impact on loan repayment for enterprises because it is difficult for enterprises to pay their debts on time if their business is not profitable.

In addition to the preceding paragraphs, Ebitu et al., (2015) identified the following main marketing problems associated with SMEs:

- Inability and lack of capacity to apply modern marketing techniques and strategies
- Difficulty in managing and controlling firm's advertising and promoting tools
- Difficulty in managing computation from large enterprises
- Lack of market research and development

- Using poor and backward technologies for production
- Lack of financial resources to fund marketing activities
- Low-level production quality
- Lack of standardization, warehousing, poor transportations as well as inventory control
- Using poor and backward facilities for branding and packaging products.

### **2.6.3 Lack of managerial skills**

Managerial skills are required to efficiently and effectively manage, control, and operate the activities of MSMEs. Moreover, for small enterprises, skilled human labor and material resources are essential tools for running their operations efficiently and effectively. Despite the fact that managerial skills and knowledge are the most important factors for businesses, the majority of MSMEs in developing countries lack managerial skills such as planning, organizing, directing, and controlling. Furthermore, small businesses in these countries have been constrained by a lack of basic skills and techniques to operate and sustain their operations (Abehi, 2017). Properly planning, organizing, directing, and controlling human resource management are the most critical factors towards enterprises development and growth. These are the main skills that a manager must have in order to run activities. However, most small enterprises owners and managers lack the aforementioned managerial skills. In other words, these enterprises are run by owners who lack the necessary skills for proper planning, organizing, directing, and controlling human resources. As these skills are critical to the development of these businesses, without them, it is difficult for businesses to achieve the desired results (Ebitu et al., 2016).

Having a skilled workforce is one of the most important factors for a company's productivity, growth, and development. However, most LDCs, particularly in Ethiopia, are constrained by a lack of skilled labor. Ethiopia's low productivity and growth were exacerbated by a skilled labor shortage, particularly in the manufacturing sector (Geiger & Moller, 2015). The productivity of these enterprises will increase if the labor force in the country is literate and trainable. These, in turn, will open the door to investment for both domestic and international investors. In the opposite direction, a lack of skilled labor

affected overall productivity and growth. According to MOUDH (2016), low-level entrepreneurial mindset, rent-seeking behaviors, low confidence, and backward working culture among Ethiopian SMEs managers significantly hampered sector development. Besides that, training programs provided by various institutions, particularly TVET, were not "marketable skills and result-oriented," contributing to a low level of skilled workforce, which has a negative impact on the development of enterprises. Moreover, these sectors are distinguished by a lack of strategic orientation as well as a scarcity of skilled labor forces in terms of competence, commitment, and leadership ability. Furthermore, a lack of openness to adopting new technology and improving working methods is a critical problem that prevents the development of these enterprises in the country.

#### **2.6.4 Lack of adequate infrastructure**

Adequate infrastructure is essential for overall development. Besides, it is the most important factor for the survival and growth of small enterprises (Ebitu et al., 2016). Hence, the least developed countries in the world are known for low infrastructural development, and as Ethiopia is one of those countries, according to Getahun (2016), the country economy has characterized by low-level infrastructure. And this low-level development of infrastructure constrained the overall economic growth, particularly the productivity of small enterprises. According to Geiger & Moller (2015), the main barriers to the development of MSMEs in Ethiopia are, after land, a lack of infrastructure such as electricity, roads, and telecommunications.

Adequate infrastructures such as power, water, roads, raw material, drainage system, and marketing access are critical factors for small enterprises to run their operations and increase production. Because adequate infrastructure will increase both the quality and quantity of output. Moreover, it will shorten the production and delivery time. As a result, overall costs will be reduced. However, in Ethiopia, the main constraints to the development of small businesses have been a lack of infrastructure, specifically a lack of power supply, water, poor roads, raw material, drainage problems, and marketing access. Lack of infrastructure has a negative impact on production in terms of quality, quantity, and timeliness. Furthermore, a lack of infrastructure contributed to low capacity and power utilization (Getahun, 2016).

The majority of MSMEs in Ethiopia operate in an infrastructure-challenged environment. MSMEs in various regions of the country, in particular, are constrained by a lack of infrastructure such as roads, water, electricity, ICT and communication, market places, and transportation. Besides that, the majority of the government-created marketplaces for small enterprises were poorly designed. What's more, the government-built work sites for these enterprises are located far from the center of business districts. Because of this problem, it is difficult for businesses to attract customers for their products. Further to that, according to MOUDH (2016), these buildings are built in areas where there is insufficient water, road, and electricity. Besides this, these facilities are not intended for manufacturing industries. All of these problems had a negative effect on the overall competitiveness and productivity of small enterprises. Furthermore, a lack of adequate infrastructure hindered Ethiopian MSMEs' competitiveness in both the domestic and international markets. Overall, the government should make infrastructure more accessible. Small enterprises in developing countries, on the other hand, are hampered by a lack of water, electricity, roads, internet, and medical services. Manufacturing sectors, in particular, rely on the availability of infrastructure such as electricity. However, the absence of this and other infrastructures hampered the operation of these sectors. Besides, these problems contributed to low MSMEs growth and development in developing countries (Ebitu et al.,2016).

### **2.6.5 Lack of Access to Technology**

Technology is an important factor in the growth and development of MSMEs. MSMEs benefit from access to technology in a variety of ways. The use of modern technology will increase enterprise productivity because technology will change product quality and quantity. This boosts the overall growth of businesses. Moreover, technology, particularly the use of modern technology, reduces production costs in businesses by shortening the production time. As a result, while access to technology promotes enterprise productivity and growth, inadequate technology hampered internal operations and overall growth. Besides that, a lack of adequate technology is a common problem among Ethiopian MSMEs (Wami, 2020).

As stated in the preceding paragraph, technology, particularly modern technology, is the most important factor influencing the development of MSMEs. Small enterprises in developed countries use modern technology in their manufacturing processes. This increased the productivity and competitiveness of these businesses. Besides that, small businesses in these countries are more competitive in both the domestic and international markets than small businesses in developing countries. Further to that, having modern technology has opened up significant market opportunities for these enterprises in the global market. Small enterprises in developing countries, on the other hand, are constrained by a lack of technology. And these problems are a common barrier to the development of small enterprises in Ethiopia. Due to a lack of access to modern technology, the majority of these enterprises in the country have been using outdated technology. And this problem had a negative impact on the production capacity of these businesses. Besides that, when compared to the smaller enterprises, large enterprises have greater access to modern technology than small firms. Besides, having modern technology benefited large scale enterprises in the market over small scale enterprises. Because the products offered to the market by those large-scale enterprises are more in line with market standards in terms of quality, quantity, and price. And this has an impact on the competitiveness of Ethiopian small enterprises in both the domestic and international markets (MOUDH, 2016).

#### **2.6.6 Lack of supportive government policy and regulation**

MSMEs promote equitable development, which boosts overall economic growth. Despite this, a variety of factors have an impact on the growth and productivity of MSMEs. Among these factors, one major impediment to the development of this sector is government-related problems. Government problems include a lack of transparency and integrity, as well as red tape and corruption. Lack of transparency and integrity, particularly from public administration to SMEs, could have a wide-ranging impact on business growth and development. Besides that, red tape and corruption are major hindrances to the development of these enterprises (Weldeslassie et al., 2019). According to Zamberi Ahmad (2012, p. 227), an "Unfriendly business environment" and a lack of supportive government policy and regulation could have a negative impact on the development of Micro, Small, and Medium Enterprises in a variety of ways. For example, how they protect "intellectual

property rights" and how the government can protect these rights affects the business environment of enterprises. Access to public procurement is more difficult for MSMEs than for large corporations. As a result, MSMEs are more vulnerable to limited information about the current opportunity, limited access to some contracts, limited time to submit tenders and large volumes and broad capability requests, and dispositionally high technical and financial qualification level demand. Furthermore, small enterprises are more reliant than large enterprises in their behavior. In this regard, policy inefficiency, market inconsistency and failure, regulatory complexity and uncertainty affect these enterprises more than large enterprises. Because large enterprises have more capacity and can obtain information more easily than small businesses. In addition most SMEs are at a disadvantage in terms of fixed costs such as tax and record-keeping payment processes (OECD, 2017).

Overall, effective government policy and regulation is a critical factor in development, particularly in the development of MSMEs. Such factors as a development-oriented democratic culture, appropriate institutional support, and effective policy and program implementation are critical for the growth of MSMEs. However, according to MOUDH (2016), in Ethiopia, MSMEs are hindered by the lack of a development-oriented democratic culture, practical institutional support, and sound policy and program implementation. Furthermore, government intervention in the market and policy elimination, such as bias to enter the market, creates a cost disadvantage for small enterprises. Furthermore, poor coordination, inadequate monitoring, inconsistencies in policy, and government intervention hampered overall economic growth, particularly the transformation of MSMEs enterprises (Weldeslassie et al., 2019).

## **2.7 Empirical review**

### **2.7.1 Previous studies and findings related to the challenges and problems that hinder MSMEs' development and growth**

Many factors contribute to MSMEs' slow growth and development. According to Van Scheers' (2012) research on marketing challenges in South African SMEs, insufficient marketing skills have hampered the development of small businesses. Furthermore, the study results show a positive relationship between ineffective marketing and a low level of

Small business development in South Africa. According to Van Scheers (2012), marketing challenges accounted for a large portion of the study area's business failure rates, particularly in South Africa.

Tambunan (2019), used secondary data to investigate the development of MSMEs in Indonesia. Various factors, according to the author, hindered MSMEs in Indonesia. The findings show that a lack of access to finance, difficulty obtaining raw materials, and a lack of an appropriate market for their product, a lack of access to technology, business information, a lack of human power due to a lack of skill, government policy and regulation are some of the constraints to the development of MSMEs in Indonesia. Similar to Tambunan, Zamberi Ahmad (2012), studied the problems and constraints in the development of MSMEs in Saudi Arabia. According to the study's findings, major constraints to the development of MSMEs in Saudi Arabia include a lack of financial support as well as credit options from financial institutions, a lack of supportive government and bureaucracy, an unfriendly business environment, and unexpected policy and regulatory changes. According to the study findings of (Al-Hyari, 2013, p. 138), the major problems that hindered the development of SMEs manufacturing in Jordan are problems such as a lack of financial support, a lack of skilled and qualified human resources, regulation and rigid business rules, and huge computation barriers from both SMEs and large enterprises. Popescu et al. (2020), also studied the role of managerial skills in the development of SMEs in Romania. According to the study findings, SMEs low level of self-awareness is a potential barrier to the country's sustainable development of sectors.

Abe et al. (2015) conducted research on "Financing Small and Medium Enterprises in Asia and the Pacific". The study found that a lack of finance, a lack of accounting skills related to managing their capital, particularly by the owner of the enterprise, a lack of information between banks and MSMEs, and an inadequate market strategy had hindered the development of MSMEs. Yoshino (2016), conducted research on "The challenges that Small and Medium Enterprises face in Asia" and identified various factors that influenced the development of SMEs. Thus, higher transaction costs, a lack of access to network information, a lack of know-how, knowledge, and experience in local and global markets, a lack of resources such as a lack of access to finances, skilled human capital, access to

market technology, as well as a lack of market information, as well as a lack of R&D and innovation. All of these factors have a negative impact on the production process and organization.

Govori (2013), analyzed the “External factors influencing the development of Small and Medium Enterprises (SMEs)”. External factors such as a lack of finance, market competition, corruption, and government policies, according to the study findings, have a significant negative impact on the development of SMEs. Besides that, government policy changes and bureaucracy, inconsistent monetary policy, inflation, unfair computation, multiple taxes for medium enterprises, lack of raw material in local market, country instability, unfair computation in global market, global sourcing, global market crises, recession, and lack of state government support during crises are some of the challenges that MSMEs face, according to Kazimoto (2014). In addition, lack of access to finance, insufficient and timely banking finance, limited capital for startup, high cost of credit, lack of knowledge, lack of modern technology, and low production capacity to produce quality goods are some of the factors that have constrained the development of SMEs. Furthermore, problems with storage, product design, product packaging, product display, and ineffective market strategy, lack of market research and development, lack of access to the regional and global markets, and insufficient infrastructure facilities such as roads, electricity, water, and transportation have all hindered the development of MSMEs (Mehta, 2013).

Appui Au Development Autonome (2016) conducted research on "Small and Growing Businesses in Africa: Profiles, Successes, and Challenges." This research was carried out in five African countries, including Ethiopia, Kenya, and Madagascar. Around 83 Small Business Growing owners were interviewed for the sec objective of the study. According to the study findings, Small Growing Businesses (SGB) in these countries are primarily constrained by a lack of credit for business startup. The main barrier for these countries' MSMEs in obtaining credit from a formal institution is a lack of collateral. As a result, the majority of small growing businesses in these countries are funded by their own savings, family, or friends. Furthermore, access to micro-credit is provided to these sectors after the enterprises have established themselves, rather than during the startup phase. Non-

financial services, on the other hand, such as market linkage and training in technical and managerial skills, contribute significantly to the productivity and development of MSMEs. However, the study's findings indicate that the need for non-financial services in the sectors is lower than the need for financial services. According to the study, the primary reason for this is that some SGB in these countries were unable to recognize the value of these non-financial services for business growth. Furthermore, while some of these businesses are aware of the benefits of non-financial training, they have limited knowledge of the agencies or institutions that provide it.

Ebitu et al. (2016) studied “Nigeria's MSMEs growth challenges and prospects”. According to the study's findings, limited access to finances, a lack of marketing and managerial skill, a lack of research appreciation, a lack of an action plan, and technical expertise are crucial challenges for the development and growth of MSMEs in Nigeria. Besides, Ebitu et al. (2015) studied problems in SMEs performance in Nigeria. According to the study's findings, inability to apply modern marketing techniques, technology, strategies, and difficulty in managing SMEs is a problem related to SMEs marketing constraints. Furthermore, a lack of promotion, advertising tools, difficulty in controlling computation from large enterprises, a lack of marketing research, a lack of modern technology for production, a lack of access to finance to fund marketing activities, low-level product quality, a lack of product standardization, improper inventor management, a lack of transportation for the product, inadequate packaging, and a lack of branding style hindered the performance of SMEs in Nigeria. Moreover, marketing problems have a negative impact on SMEs' performance in Nigeria, particularly profit and sales. Besides that, it hampered overall business expansion. Because of these problems, enterprises' ability to reach potential customers, target markets, and establish enterprise value is limited. According to the study, the primary cause of this problem is the managers of SMEs. Because the majority of managers in SMEs are constrained by a lack of knowledge about marketing practices and principles.

Osoimehin et al. (2012) conducted research on “An evaluation of the challenges and prospects of micro and small scale enterprise development in Nigeria”. According to the study findings, the development of SMEs in Nigeria has been hindered by the lack of

management skill and financial resources. Overall, these problems were impeding the performance of these businesses. Besides that, the majority of these enterprises were operating in areas with inadequate infrastructure. As a result, the sectors' competitiveness in domestic and international markets was low. Further to that, all of these problems have made it difficult for MSMEs to enter various markets. Abehi (2017), conducted a similar study in which he investigated the problems and prospects of SMEs growth and development in Nigeria. The author identified eight factors holding back the growth and development of SMEs. Thus, lack of managerial skill, lack of finances, lack of innovation, politics and regulation, social and culture, lack of infrastructural facilities, environment, and economy. Getahun (2016) studied “The Challenges and Prospects of Small Scale Enterprises in Ethiopia: A Survey of Some Selected Small Scale Enterprises in Addis Ababa City”. The study’s findings show that low managerial skill, low capacity in the industry, lack of access to finance, instability of government policies, unfavorable business environment and lack of infrastructure are main challenges of SMEs. Wami (2020), used a mixed research design to investigate the challenges of group-based SMEs’ performance in Addis Abeba. The study's findings indicate that a lack of a workplace, credit facilities, a market, and an insufficient supply of inputs hindered the enterprise's performance. The main obstacles to the performance of those enterprises are a lack of premises, market access, and access to finance. Besides that, bankruptcy, complex rules, regulations, and policies, as well as government procedures, have a significant impact on the development of SMEs.

External and internal factors affect the performance of SMEs, according to Abdissa and Fitwi (2016), who studied factors that affect the performance of SMEs in southwest Ethiopia. The lack of infrastructure, particularly water and electricity, has had a negative impact on the performance of enterprises in southwest Ethiopia. Besides that, a lack of work place, access to modern technology, and marketing linkages are, all significant problems that have hindered the performance of SMEs in the study area. According to a study conducted by Weldeslassie et al. (2019), the significant challenges that have hindered the development of MSMEs are the issue of sustainability, finance-related problems (lack of credit), weak market linkage between enterprises and institutions, insufficient training, a

lack of human resource development schemes, “dependency on government and spoon feeding”, price variation, weak links and poor market, as well as poor product development strategies. Despite the fact that the Ethiopian government developed various strategies to support the development of MSMEs in the country, these strategies have failed to achieve the desired results due to a lack of implementation. Maine's reasons for this are a lack of good governance, nepotism, and inefficient service delivery from small enterprises (Geneti, 2018). Ganet (2018) conducted a study on the challenges and opportunities for SMEs in Ambo City. The descriptive method was used by the author to collect data from 135 SMEs in Ambo, Ethiopia. According to the study findings, a lack of finance (inadequacy and inappropriate), marketing (lack of market places for their production), and good governance (inefficiency of service delivery) are some of the challenges that MSMEs faced in Ambo City. Besides, demand side and supply side problems such as long complexity delay and full delayed gaining loan from financial institutions, getting market access, startup passing selection criteria for registration, trade registration, licensing, preparing project proposal, and first registration of unemployment are other significant challenges of SMEs development in Ethiopia. Furthermore, the negative attitude and value of society to small enterprises, lack of commitment from unemployed society, and lack of understanding the benefit of those enterprises challenged the country's productivity and growth.

According to the findings of an Ethiopian development research institute research report by Assefa et al. (2014), the primary six constraints to the development of MSMEs in Ethiopia are a lack of credit and small size credit, a lack of working places and sales spaces, strict licensing requirements, and a shortage of rental machinery. Debelo et al. (2015) examined the factors affecting the development of SMEs in the administration of Illu Abba bor. According to the study findings, a lack of experience, promotion, poor infrastructure, poor marketing linkages, a lack of knowledge, a lack of professional supports, a negative attitude toward MSMEs, and a lack of integration between government sectors all have a negative impact on the development of SMEs in Illu Abba Bor, Ethiopia. Eshetu et al. (2013) conducted research on “The factors affecting the long-term survival of Micro, Small, and Medium Enterprises in Ethiopia”. The finding of random sample of 500 Small and Medium Enterprises (SMEs) revealed that inadequate finance, low-level education,

poor managerial skill, a lack of technical skills, and an inability to convert a portion of their investment are major constraint. According to their research, these factors are the primary cause of SMEs failure in the long run. Furthermore, they concluded that one of the main challenges of SMEs is a lack of finance access from a formal institution. Financing micro, small, and medium-sized enterprises boosts overall economic growth. However, in Ethiopia, 79 percent of SMEs found it difficult to obtain financing from a formal institution. The primary reason for the failure of MSMEs in the country was a lack of funds. Kibret et al. (2015) researched “The Opportunities and Challenges of Small Business Enterprises in Gedeo Zone, Ethiopia,” using a survey of eight randomly selected enterprises from Gedo's major town. The Ethiopian government, according to the study, emphasizes and attempts to liberalize and improve policy regulatory in the sectors. According to the survey results, there is a lack of actual implementations of the framework in the sectors. Besides that, high taxes, inefficient tax administration, input prices, insufficient skills, a lack of raw materials, a high interest rate, and a high collateral requirement from a formal financial institution all contributed to the sectors' poor performance. Further to that, a lack of policymaker support prevents the growth of MSMEs.

### **Chapter 3: RESEARCH METHODOLOGY**

In order to assess the various factors that hinder the development of MSMEs, using applicable research methodology is a must. This section will assess an overview of the research approach based on quantitative method strategies. In this chapter various research procedures are undertaken related to research design, sampling strategy, data collection, questionnaire design, data processing, analyzing and instrument development as well as ethical issues and the profile area.

#### **3.1 Research Methodology and Design**

Research methodology is concerned with solving research problems in a systematic and scientific manner, or in other words, “The science of studying how research is done scientifically”. Research methodology assists researchers in understanding and determining which techniques or research methods are relevant or best for the study, as well as which are not inaccurate for the study. So, using because not all techniques are appropriate or applicable to a specific problem. In order to decide research methodology, the researcher identifies various techniques that are appropriate for the study on the best and most applicable research techniques, researchers must first understand the various criteria for technique selection. So, in this context, the research method is a subset of the research methodology (Kothari, 2004).

“A research design is a blueprint or plan for collecting, measuring, and analyzing data; additionally, a research design is created to answer a research question”. In other words, a research design is a plan or strategy that specifies the method and procedures for gathering and analyzing the necessary data. And these ensure that the design is relevant to the problem in order to solve it and that it employs cost-effective procedures (Adams et al., 2007; Sekaran & Bougie, 2016, p.95). According to Kothari (2004), research design is the conceptual structure of how a study is carried out, as well as a key plan for the collection of relevant data, measurement, and data analysis. Furthermore, it comprehended the study's

outline from the beginning (the hypothesis writing) to the data analysis. Overall, research design serves as a road map for the study. Because it ensures various research operations while taking time and money into account by maximizing information and minimizing costs. Furthermore, it aids in the collection of relevant data for the study problem as well as the analysis of collected data (Kothari, 2004, p.31-32). In this case, the feasibility of the research design was determined by how well the researcher chose the appropriate research design for the study. This refers to how the researcher considers specific objectives, particularly research questions, as well as other constraints such as time and economic constraints that limit the researcher's ability (Sekaran and Bougie, 2016, p.96). As a result, research design assists the researcher in selecting the appropriate method and techniques for conducting the research.

A research method is a method for conducting research. Techniques and research methods are frequently used interchangeably. However, there is a distinction between research method and research technique because research method is more general than research technique. A research method is a behavior and an instrument used to select and construct research techniques. On the other hand, research techniques are instruments used to conduct research process. This includes observation, data recording, and data processing. However, in practice, these two terms are frequently used interchangeably (Kothari, 2004, p.7).

Both authors (Kothari, 2004; Sekaran & Bougie, 2016) classified research designs into three types: exploratory research, descriptive research, and explanatory research design. The primary goal of exploratory research is to formulate a problem for further investigation and to establish hypotheses from an operational standpoint. Furthermore, this type of research is concerned with discovering new ideas and insights. Descriptive research type in other hand concerned with describing or explaining the characteristics of specific individuals, groups, and situations, as well as determining the frequency with which an event occurs, whereas, explanatory research is a type of research that seeks the causal relationship between events. In other words, it is designed to investigate the relationship between the causes and consequences of events (Le Petite Chat, 2016).

In light of the foregoing, the researcher conducted the study using descriptive and explanatory research methods. Descriptive research is the most fundamental type of research. "Description is a process that defines, classifies, and categorizes phenomena of interest". Descriptive research is important because it provides significant information by collecting large amounts of data from a specific group or a vast population. This is done by describing the phenomena being studied or a specific "group being studied" (Marczyk et al., 2005). Surveys and fact-finding inquiries of various kinds were included in this type of research. The goal of this type of research is to describe the current state of affairs. The researcher has no control over the variables in this type of research study. It is simply a description of what happened and is happening. In other words, this type of research is carried out to describe the characteristics of the variables (Le Petite Chat, 2016)

As stated above, one of the primary goals of descriptive research is to describe the current state of affairs. The study then describes and critically evaluates the various challenges or factors impeding the development of MSMEs in Ethiopia, specifically in Addis Ababa's Nifes Silk Lafto Sub-city. The purpose of explanatory research designs in this study, on the other hand, is to establish the relationship between variables in terms of causes and effects (Le Petite Chat, 2016). The primary goal of using explanatory research in this study is to estimate as well as explain the relationship between the study's variables. Using these research designs, this study describes and evaluates the various challenges or factors hindering the development of MSMEs.

In research, there are two main approaches, quantitative and qualitative. The quantitative approach presents data in quantitative form so that it can be analyzed quantitatively in a formal and rigid manner, and it is subjected to attentive analysis. The quantitative approach is divided into three categories: inferential, experimental, and simulation. The objective of the inferential approach is quite different from the other two approaches; it is about forming a data base from inferring characteristics or relationships between populations. In this approach, survey research is used to determine the study by taking a sample of the population being studied. To conduct a survey, they use questions and observations to identify, define, and assign characteristics. They make inferences about the population that has the same character in the research using these (Kothari, 2004, p.7).

Generally speaking, this study employs quantitative research approach to address research purposes through empirical assessment by comprehending numerical measurements and conducting research analysis.

### **3.2 Data Collection**

Different types of data resources used in the study were discussed in this section. For research purposes, two types of data sources are used: primary and secondary data. Data are facts and figures gathered for records or statistical analysis (Adams et al., 2007). In general, both primary and secondary data were collected for this study.

#### **3.2.1 Primary Data Sources**

A primary source is a source that is required to conduct a new survey by gathering information at various levels in relation to the inquiry (Adams et al., 2007). This study used a well-designed questionnaire as the best instrument to collect significant data required to complete the study to achieve the study's goal. A questionnaire is a written form of a question that the target respondent is expected to answer. Questionnaires help researchers collect a large amount of quantitative data. Questionnaires are typically administered by researchers in various ways, including personally, electronically, or by mail to the target respondent. In general, this method of data collection was chosen for this study because it is less expensive and takes less time than other methods such as interviews and observation (Sekaran & Bougie, 2016, p.142). In other words, a questionnaire is a self-administered tool or instrument used to ask questions, and it is the most widely used survey method (Ruane, 2005, p.124).

Sekaran and Bougie (2016), critically stated three factors that researchers should focus on when designing research questionnaires to minimize bias in questionnaires. Thus, first, the issue of wording-related questions, second, the issue of variable planning and categorization, in other words, how to categorize the variables scaled it and coded the response which was collected from respondents. The overall appearance of the stated questionnaire is the third focus point for researchers when it comes to questionnaires. According to the same authors, the three focus points mentioned above are critical issues to minimize bias in the study. In other words, the questionnaires must be carefully prepared

and free of ambiguity by the researcher. The questionnaires used in the study were written in a clear and simple manner that allowed respondents to answer the questions. When preparing the questionnaires for the study, the researchers must use neutral language. This means that researchers must avoid using emotional or misleading language in their questions (Ruane, 2005, p.127). According to Adams et al. (2007), survey questions should be clear and unambiguous. To put it another way, the survey question must be completely clear to the respondent.

We carefully prepared the survey questions based on the above author's suggestion and discussion, using neutral language and avoiding misleading words and emotional language. Furthermore, in order to clarify the questionnaires for respondents, we translated questionnaires prepared in English into Amharic, the Ethiopian national language. The researchers translated the survey questions into Amharic because the majority of Ethiopians speak and understand Amharic. In addition, Amharic is the country's official working language. Furthermore, in a study conducted by various researchers in this area, the survey questionnaires were translated into Amharic, and they advised other researchers to use a local language that the community understands. And the questionnaires are strictly distributed to the MSMEs' managers or owners. The reason for selecting owners or managers of this enterprise is based on the assumption that manager's owners of businesses have direct responsibility related to their business activities and have in-depth knowledge related to problems ongoing in their business or challenges to their business's growth and development than other individuals working in their business. And the data collected from respondents by the questionnaires was directly or physically addressing them. Because personally administering questionnaires is a good way to collect data, especially when the required data will be collected from a congested local area. The advantage of this method of data collection over others is that the researcher will collect data from the target responses in a timely and comprehensive manner. Another advantage is for the respondent; thus, if the respondent has any questions about the questionnaire, they can ask the researcher. Furthermore, it is the best way for researchers to introduce the study topic while also inspiring target respondents to provide their responses (Sekaran & Bougie, 2016, p.143). In these studies, a literature review was used as a guideline to develop questionnaire, and

some questionnaire were adopted from other studies (Admasu Abera, 2010 and Getahun, 2016).

For the respondent, the question is stated in various forms. The most common types of questions are open-ended and closed-ended questions. Open-ended questions allow respondents to answer in any way they want, whereas closed-ended questions have the answer stated by the researcher and the respondent can only choose from the alternatives provided by the researcher (Sekaran & Bougie, 2016). Closed-ended questionnaires are advantageous in two ways. It is simple for the researcher to code the data collected from the respondent. As a result, it saves time when analyzing data when compared to open-ended questions. From perspective of respondent it easy to answer closed ended questions than open ended questions (Ruane, 2005, p.113). Thus, for this study researcher designed structured and closed-ended question by considering both perspective advantages stated in the above statement. Moreover, by considering research objective, the research problem that the study wants to address is supported by literature review. Nine closed-ended questions were designed to minimize time in coding data and to avoid complexity for respondent. Demographic questions of the study are stated in closed ended question form.

The other type of question used by the researcher was a five-point Likert scale. These scales are used in research to measure instruments on a continuous scale ( Abera, 2010). And the respondents were asked to rate the scales on a five or seven point scale. The five-point scales that range from strongly agree to strongly disagree are the most well-known Likert scales. As a result, strongly disagree = 1, disagree = 2, Some what agree = 3, agree = 4, strongly agree = 5 (Adams et al., 2007). The likert scale was divided into eight sections: management factors, marketing factors, financial factors, infrastructure factors, technological factors, working places, political-legal factors, adopted, from Abera's (2012), Gethun's (2016), Serawitu's (2016) theory of firm growth. Whereas development of MSMEs (profitability) adopted from Seyfedin Mohammed (2018).

### **3.2.2 Secondary Data Sources**

Secondary sources are those that have been gathered for various research purposes by different people over time. Secondary sources were used as the main source of data

collection in the study. Furthermore, it aids researchers in validating the study sample. These data source types are available in libraries and on the web, according to Adams et al. (2007). Secondary data sources for this study were obtained from various literature reviews related to the study. In order to make the study useful, policy papers, books, and journals, as well as various published and unpublished government documents, reports, newsletters, and websites, were reviewed.

### **3.3 Sampling Strategy and Procedure**

To conduct this research, the Nifes Silk Lafto subcity of Addis Abeba was chosen as the target population area. The main reason for selecting this sub city over the other ten in Addis Ababa was the convenience of the population for the study to collect necessary data in a short period of time. Furthermore, the critical point that the researcher chose cities for the study area is that the government of Ethiopia focuses on and recognizes MSMEs sectors as the primary strategy for economic development in urban areas ( Abera, 2010).

MSMEs in Ethiopia are active in a variety of growth and development-oriented sectors, such as metal and wood work, textile and garment, food processing, construction, services, urban agriculture, and others. All of the sectors mentioned are also active in the Nifes slik lafto subcity. However, for this study, the researchers chose metal and wood work, food processing, textile and garment as the target populations. The reasons for drawing a sample from this sector as a criterion for selection are as follows: first, this sector accounts for the lion's share of MSMEs operating in Nifes Silk sub city; as a result, there is a much higher concentration of this sector in this sub city than in other sectors. As a result, significant operator is absorbed to easily access required data, assisting the researcher to conduct the study. Second, because some sectors are dispersed throughout the sub-city and are small in size, it is difficult to reach their managers or owners, making accessibility difficult (Tegegne & Meheret, 2010, p.36-37).

#### **3.3.1 Sampling technique and sample size determination**

The sampling technique is the process of selecting a convenient sample with the goal of determining the character of the entire population. There are two types of sampling methods: probability and non-probability sampling. Every element of the population has an

equal chance of being selected in a probability sample, whereas non-probability sampling is based on personal judgment (Adams et al., 2007, p. 87). According to Dawson (2009, p.54), the sample size of a study is determined by the nature of the population being studied, the research type, and the purpose of the study. In this study, the total population for the study is 1183 MSMEs formally registered in “Addis Ababa City Administration Micro and Small Enterprises Development Agency” until May, 2021, which was used to determine sample size. Aside from that, the enterprises have a limited population and are heterogeneous in nature. To reduce bias in population sampling, the frame can be organized into relatively homogeneous groups or strata in order to select appropriate elements for the sample. According to the Addis Ababa City Administration Micro and Small Enterprises Development Agency, the strata include metal and wood work (608), food processing (339), and textile and garment (236) until May 2021. The sample size chosen by the researcher here is through undertaking the representative of metal and wood work, food processing, and textile and garment manufacturing. Given this, this study employs widely accepted and frequently used approaches to determine the required sample size of the study based on the desired precision of estimation (Kothari, 2004, p.175- 180).

The following formula was used to calculate sample size with a 95% confidence level ( $z_{\alpha/2}=1.75$  from the  $z$ -distribution table) and a 5% tolerable error ( $e$ ). Furthermore, according to Kothari (2004), the most conservative sample size for success proportion ( $p$ ) is 50%, so by using the most conservative sample size 50% ( $P$ ), the estimation of failure ( $q$ ) will be calculated as follows ( $q=1-p$ ). Then, in the formula, substitute the value of both:

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2(N - 1) + z^2 \cdot p \cdot q}$$

Where,  $n$  = sample size required

$N$  = number of population = 1183

$p$  = estimated success proportion = 50%

$q$  = estimated failure proportion = 50%

e = margin of error = 5

Z = confidence level = 1.96 for 95% confidence

Hence, applying the formula:

$$n = \frac{1.96^2 \cdot 0.5 \cdot 0.5 \cdot 1183}{5^2(1183 - 1) + 1.96^2 \cdot 0.5 \cdot 0.5}$$

$$n = 291$$

Therefore, as shown in Table 3.1 below, 291 Micro, Small, and Medium Enterprises (MSMEs) were chosen proportionally from the total population (N) according to size of each stratum identified in above paragraph. The sample unit for each sub-sector was selected by using non- probability sampling technique called convenience sampling method.

**Table 3.1** MSMEs sample to be selected

MSME sector	Total number	Percentage	Sample units
Metal and wood work	608	51	150
Food processing	339	29	83
Textile and garment	236	20	58
Total	1183	100%	291

### 3.4 Reliability Test

Reliability is a critical concept that deals with the psychological aspects of measurement and its precision. Furthermore, measurement is rarely perfect, especially when it comes to questionnaire responses or processes, which are difficult to precisely measure and thus frequently result in measurement errors (Adams et al., 2007). Reliability can be used to assess or measure consistency and stability. The consistency of the items measuring a concept refers to how well they hang together as a set. Cronbach's alpha is a

well-known test for testing reliability, particularly internal consistency. Cronbach's alpha is a reliability coefficient that shows how well items in a set are positively correlated with one another. And this was calculated using the average inter correlations of the items measuring the concept. The higher the internal consistency reliability, the closer Cronbach's alpha is to one. Cronbach's alpha is an adequate test of internal consistency reliability in almost every case (Sekaran and Bougie, 2016, p.289). Taking this into consideration, Table 3.2 below shows a reliability result of 0.953, which is nearly always acceptable. This is because the instruments were created with research questions and objectives in mind, making it possible to collect the necessary data from respondents.

**Table 3.2** *Result of reliability test*

<b>Reliability Statistics</b>	
Cronbach's Alpha	N of Items
.953	52

### **3.5 Data Processing and Analysis**

#### **3.5.1 Data Processing**

After data is collected from a sample of the population, it is analyzed to answer research questions. Sekaran and Bougie (2016), suggest that some preliminary steps must be completed before beginning to analyze data. Because it aids in ensuring that the data gathered is accurate, complete, and suitable for further analysis. In quantitative research, data collected via questionnaires is coded, keyed, and edited to filter out inconsistent and blank responses. The first step in preparing data in an organized manner is data coding. In other words, data coding is the process of assigning a number to a participant's response in order to enter the participant's response into a database. This is accomplished through the data entry process. The third step is data editing, which is the process of editing coded data. This entails editing or correcting a wide range of illogical and inconsistent data. Data transformation is the fourth step that the researcher should take before analyzing data. This step is taken to avoid various problems that may arise during the data analysis processing. This means that in this step, the original numerical representation of quantitative data coded

in the previous process will be changed to a different value (Sekaran and Bougie, 2016, p.271-276). As a result, both manual and computerized systems were used in these studies to process the study's data. Data processing procedures such as coding, editing, classification, and tabulation of data were used in the above-mentioned data processing procedure described by Sekran and Bougie (2016).

Following the collection of data from these studies, our next step will be to analyze the data gathered from MSMEs managers and owners. So, in order to analyze the data, we created categories to categorize row data in the application. We first coded, tabulated, and then drew statistical inferences. Because it is difficult to analyze large amounts of data, it is best to organize data in a manageable format, such as grouping or stating in tables. As a result, in our study, we classified row data into oriented function able categories. We used coding to convert data categories into symbols that could be tabulated and counted. The data should then be edited to improve the quality of the coding data. The data was then entered into a tabular format. The tabulation is done by computer to save us time (Kothari, 2004).

### **3.5.2 Data Analysis**

After completing the preceding preliminary steps, the next step in conducting research is data analysis. This means that in this step, the original numerical representation of quantitative data coded in the privies process will be changed to a different value. This is accomplished through the use of descriptive and inferential statistical analysis methods. In this study, the Statistical Package for Social Science (SPSS) 22 version was used to analyze data from questionnaires. In this study, descriptive statistics such as mean, standard deviation, and chart, as well as inferential statistical analysis such as correlation and regression, were used to analyze the data.

#### **3.5.2.1 Descriptive analysis**

The primary goal of descriptive analysis is to provide samples and measurements taken during the course of the study. In other words, descriptive statistics is a type of quantitative data analysis that involves various graphics analysis. Furthermore, descriptive statistics describe the data as it is presented or described. Descriptive statistics are

calculated by calculating the central tendency or variability. Graphs, tables, and general discussions are used. The mean, median, and mode are the most common measures of central tendency used by researchers in various studies. Furthermore, the primary goal of descriptive statistics is to condense large amounts of data into a simple summary. In other words, descriptive statistics provide a summary of various samples and data. Descriptive statistics are useful for two reasons. The first is to highlight the potential relationship between variables in the study. The other needs to understand the fundamentals of a variable in a data set (Sharma, 2019). In addition to other criteria, the performance grading criteria stated by Rubaish (2010) in the table below were used in this study for Likert scale questions.

**Table 3.3** *Performance grading criteria*

Performance Grading	Criteria		
	Mean	Median	Cumulative
<b>High</b>	3.6 & Above	4 & 5	> 80%
<b>Acceptable</b>	2.6 - 3.6	3	60% - 80%
<b>Improvement Required</b>	< 2.6	1 & 2	< 60%

*Source: (Rubaish, 2010)*

### **3.5.2.2 Inferential Analysis**

Inferential statistics are used to make inferences based on a set of observations. This refers to the conclusion reached as a result of observation (Sutanapong and Louangrath, 2015, p.1). Furthermore, inferential statistics examines or analyzes the relationship between variables and how several independent variables can explain and predict the variance in a dependent variable (Sekaran and Bougie, 2016, p.401; Zikmund et al., 2013, p.415). Inferential statistics can be performed in a variety of ways. The correlation and regression analysis methods were used by the researcher for this study.

#### 3.5.2.2.1 *Correlation analysis*

Correlation is the most well-known statistical method for determining the relationship between variables (Marczyk et al., 2005, p.231). Correlation is a statistical measure of how two or more variables fluctuate in order to gather. This means that positive correlation indicates the extent to which two variables increase or decrease in a parallel manner, whereas negative correlation indicates the extent to which one variable increases as the other decreases or inverses. Correlation thus measured or associated the degree and direction of association between variables. The correlation coefficient is used to determine how one variable changes when another does (Zaid, 2015, p.1). This means that if data was correlated, a change in one variable was associated with a change in another variable or vice versa (Schober et al., 2018). Correlation methods come in a variety of forms. The Pearson product moment correlation, also known as the (r) coefficient, was used in this study. Product moment correlation (r) assesses the relationship between two variables using a variety of scales, including ratio and interval scales (Marczyk et al., 2005). A correlation coefficient (r) indicates the direction of a variable's relationship. This means that r provides information about whether the relationship between variables is positive or negative. If the value of the coefficient is close to one, this is bounded (-1 to +1). If the relationship is positive or negative, it indicates a stronger relationship; thus, the coefficient indicates the strength of the association (Marczyk et al., 2005 p.231). Overall, Pearson correlation measures the direction, significance, and strength of a bivariate relationship between variables. This means that (r) compute the magnitude and direction of variables (Sekaran & Bougie, 2016). The Pearson product moment correlation coefficient (r) is used to determine the degree of relationship between variables. And the correlation is between 0 and 1. If r is near or close to -1, there is a strong negative linear association; if r is close to 1, there is a strong positive linear association; and if r is close to 1, the two variables are perfectly correlated (Adams et al., 2007).

**Table 3.4** Interpretation of correlation coefficient ( $r$ )

Absolute Magnitude of Observed correlation Coefficient	Interpretation
0.00 - 0.10	Negligible Correlation
0.10 - 0.39	Weak Correlation
0.40 - 0.69	Moderate Correlation
0.70 - 0.89	Strong Correlation
0.90 - 1.00	Very strong Correlation

Source: (Schober et al., 2018)

#### 3.5.2.2.2 *Linear regression analysis*

Linear regression is a method for explaining changes in one variable as a result of the influence of another variable. This means that while linear regression predicts the dependent variable through the involvement of an independent variable or variables, regression estimates the model parameter (Adams et al., 2007). According to Marczyk et al. (2005), linear regression is a technique for predicting the value of the dependent variable based on the value of the independent variable. Statistical regression analysis, like correlation analysis, examines the relationship between variables; however, the primary goal of regression analysis is prediction rather than association. There are two ways to use regression analysis. The first type of analysis is simple regression analysis, which deals with the prediction of a dependent variable using one independent variable, whereas multiple regression analysis deals with the prediction of a dependent variable using two or more independent variables (P. 239).

The researcher used multiple regression analysis because it fits with the study's goal of assessing the degree and nature of the association between the dependent variable and the independent variables. Furthermore, the regression coefficient is significant in predicting the dependent variable when each independent variable is used (Sekaran & Bougie, 2016, p.312).

### 3.6 Variable Measurement

This section explains why the researcher chose certain variables over others in order to assess or analyze the challenges impeding the development of MSMEs.

The development of MSMEs was used as the dependent variable in this study. According to Debelo et al. (2015), SMEs development refers to the growth, success, and expansion of a business. Factors, on the other hand, are things or situations that either positively or negatively influence the growth of a business, its success, performance, and expansion. According to Abera (2012) and Abebe's (2011) studies, performance measurement includes market share, sales volume, and company reputation, return on investment, profitability, and established identities. Both authors contend that these performance metrics are more applicable to large corporations than to small businesses. The reason for this is that some of these measurements are not entirely appropriate for measuring the performance of small businesses. In some studies, the development of MSMEs was calculated using four indicators: satisfaction with net income growth, satisfaction with the time required to reach the breakeven point, consider the business to be successful, and consider the business to be growing (Shanmugam and Bhaduri (2002) cited in Puspaningrum (2019). Business growth was used as an indicator for the development of SMEs. MSMEs' development is also measured in terms of profit, market, and employment growth (Walker and Brown, 2004 cited in Abebe (2011, p.13). Growth in Profit was chosen to measure dependent variable for these study. This means, in this study, profitability is chosen as a development measurement for MSMEs, because Small enterprises are more focused on profitability than other modes of measurement (Abera, 2012), even though there are other ways to measure MSMEs development in terms of performance, such as employment growth and market share. Because MSEs are primarily established as a source of self-employment, the researcher does not use other alternatives such as employment growth measurement (Abera, 2012, p.34). The independent variables for this study were derived from a variety of literature reviews that were relevant to the research objective (Abera, 2012; Debelo et al., 2016; Ebitu, et al., 2016; Getahun, 2016; Muhammad, et al., 2015; Osotimehin, et al., 2012; Serawitu, 2016; Tambunan, 2019; Zamberi Ahmad, 2012).

Financial, Managerial skill, Marketing, Technological, Infrastructural, Working place, and Political-legal factors were used as independent variables in this study.

### 3.7 Model Specification

Regression is a type of statistical modeling that relies on creating a model to discover the relationship between variables. Besides, the equation is constructed by employing independent variables that influence the dependent variable. In this study, linear regression is used to describe changes in some phenomena caused by independent variables. Estimating the coefficients of the explanatory variable included in this process to predict the dependent variable. Regression is a method of estimating the model's coefficients or parameters (Adams et al., 2007, p.198-204).

According to this;

$$y_i = \beta_0 + \beta_1 X_i + \varepsilon_i$$

**Multiple regressions is concept of forming model by using different explanatory variables**

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_n x_n + \varepsilon$$

Considering this, the regression model used to associate and assess the impact of financial, management, marketing, infrastructural, technological, working place, and political legal factors on MSME development (growth in profit) is shown below:

$$y_i = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7$$

$\beta_0$  is the intercept term-constant which would be equal to the mean if all slope coefficients are 0. Where  $\beta_0$  is intercept constant term at time zero,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ ,  $\beta_5$ ,  $\beta_6$ , and  $\beta_7$  are represent parameters of coefficient related with each independent variables.

**X1, X2, X3, X4, X5, X6, and X7 represent:**

X1=Finance, X2=Marketing, X3=Management, X4=Technology, X5=Infrastructure, X6=Working place, and X7=Political–legal are independent variables and  $\varepsilon$  are error term for variables. So,  $y_i$  is development of MSMEs measured in term of profit. In order to explain the association between dependent variables and independent variables the above statistical technique is used.

### **3.8 The Study Area Profile**

Addis Ababa is located on a plateau at an elevation of 2,408 meters, with a land area of 222 square kilometers. It receives 1,161 millimeters of rain per year. It is home to numerous international organizations and embassies, including the United Nations (United Nations Habitat, 2003). The city is divided into ten boroughs known as sub cities and 99 wards (Wikipedia, 2021). Nefas silk lafto sub-city, like other Addis Ababa sub-cities, is a rapidly growing sub-city in terms of population and economy. Accordingly, it has a total population of 335,740 people, with 158,126 male and 177,614 female (Mulu, 2017). The land area covered by Nifas Silk Lafto sub city is 5876.02 hectares, which accounts for 11.31 percent of the city's total land area, placing Nifas Silk Lafto fifth among the ten sub cities in terms of land area covered. There are 12 weredas in this subcity. Nifas Silk Lafto is a relatively flat and gently sloping sub city, with less than 10% slope composing 77.39 percent of its land area. In general, the altitude in the sub city ranged from 2074 to 2485 meters above sea level, a 411-meter range. The south west has highly elevated land, whereas the south has relatively lower elevation (Alamirew, 2016).

**Figure 3.1** Map of Addis Ababa and its sub cities



**Source:** *Addis Ababa Urban Planning and Information Institution (2014) cited in (Alamirew, 2016).*

### **3.9 Research Ethics/Ethical Considerations**

When conducting research, there is an ethical obligation to conduct the work honestly and with integrity (Adams et al., 2007). Professionalism and honesty must be upheld in all research endeavors. Every research decision, from planning to reporting results, should be made with ethics in mind. To be ethical in our work, we must be willing to evaluate our research plans and activities in light of generally accepted rules of conduct. In this study informed consent is obtained. The principle of informed consent refers to an individual's right to choose whether or not to participate in a research project. In particular, informed consent refers to research participants' right to be fully informed about all aspects of a research project that may influence their decision to participate. As a result, informed consent is based on the principles of choice and self-determination. No one should be coerced or duped into taking part in a research project. Informed consent forms should also remind participants that they have the option to withdraw their consent at any time during the study (Ruane, 2005). All of the research participants in this study were properly informed about the purpose of the study, and their willingness and consent were obtained prior to the distribution of questionnaires.

## **Chapter 4: DATA PRESENTATION, ANALYSIS, AND INTERPRETATION**

The study's main objective has been to assess and analyze the challenges affecting the development of MSMEs in Ethiopia by formulating hypothesis with the seven independent variables and one dependent variable. In order to meet the purpose of the research the data was gathered from the primary source by using questionnaire. This data was collected from business owners and/or managers of MSMEs found in Nifes Silk Lafto Sub-city. The questionnaire was physically distributed to MSMEs owners and/or managers of MSMEs operating in Nifes Silk Lafto Sub City of Addis Ababa City, Ethiopia. To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. As an analysis tool, Statistical Package for the Social Sciences (SPSS) was used for the analysis and presentation of data.

Two hundred ninety one (291) questionnaires were distributed across the three sectors (wood & metal work, food processing and textile and garment), respectively located in the Nifes silk lafto Sub-city. 268 of these were completed and successfully retrieved, representing a 92.1 percent response rate. Out of the 291 questionnaires distributed, 150, 83, and 58 were assigned to metal and wood work, food processing, and textile and garment manufacturing, respectively. The number of questionnaires obtained from metal and wood work, food processing, and textile and garment was 139, 77, and 52, respectively. This equates to a response rate of 92.6 percent in metal and wood work, 92.77 percent in food processing, and 89.6 percent in textile and garment manufacturing, respectively. According to Rubin and Babbie (2009), a response rate of 70% is "very good" for further evaluation. As a result, the response rate of 92 percent is significant in this case.

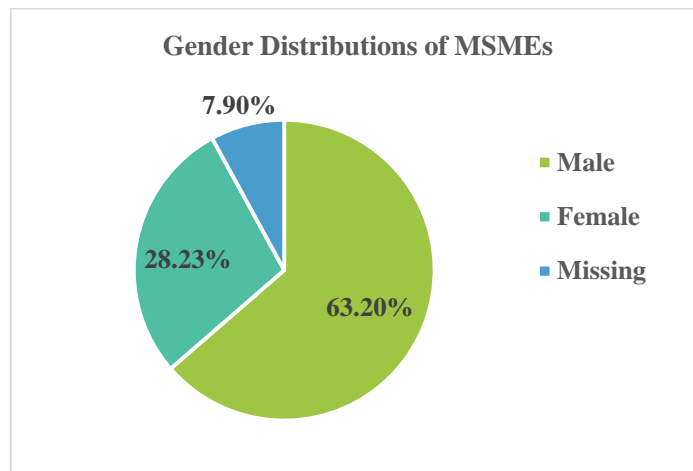
Overall, the data collected from primary sources using questionnaires was analyzed, presented, and interpreted using descriptive analysis, followed by inferential data analysis regression and correlation (Pearson product) in this section.

## 4.1 General Profile of MSMEs

### 4.1.1 Gender distribution of MSMEs

According to Figure 4.1, approximately 63.2 percent (184 MSMEs) of the selected sample populations were males, 28.23 percent (84 MSMEs) were females, and 7.9 percent (23 MSMEs) were missing. This reveals that the majority of MSMEs are owned or managed by men, and the participation of women as owners or managers of these businesses is lower than that of men, while the gender of the missing respondents is unknown.

**Figure 4.1** Gender Distributions of MSMEs



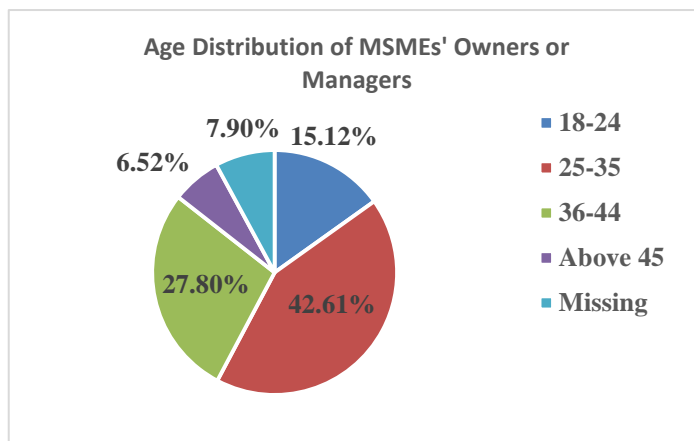
(Sample survey, 2021)

### 4.1.2 Age distribution of MSMEs owners or managers

Age is an important factor in distinguishing a productive work force from an unproductive one. The majority of people believe that young workers are more productive than other groups. According to Seyfedin Mohammed (2018), the age of the workforce differs for developing countries in comparison to developed countries, with developed countries dominated by old age work force and developing countries, particularly Ethiopia, dominated by young age group work force. According to Figure 4.2, the majority of respondents are between the ages of 25 and 35, accounting for 42.6 percent, with the age

group 36-44 accounting for 27.8 percent. The remaining 7.9 percent were discovered to be non-respondents. This demonstrates that the majority of MSMEs in Ethiopia are owned or managed by young people.

**Figure 4.2** Age Distribution of MSMEs' Owners or Managers

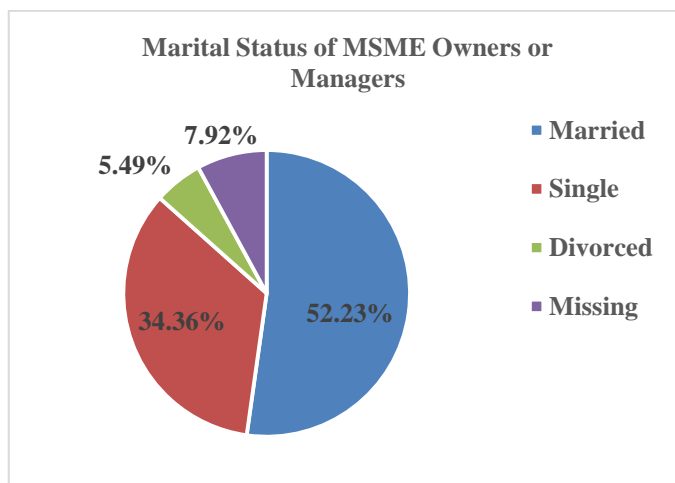


(Sample survey, 2021)

#### 4.1.3 Marital status of MSME owners or managers

According to Figure 4.3, the majority of respondents from the sample population were married, accounting for 52.23 percent, followed by single and divorced 34.36 percent and 5.49 percent, respectively, and 7.92 percent representing non-respondents.

**Figure 4.3** Marital Status of MSME Owners or Managers

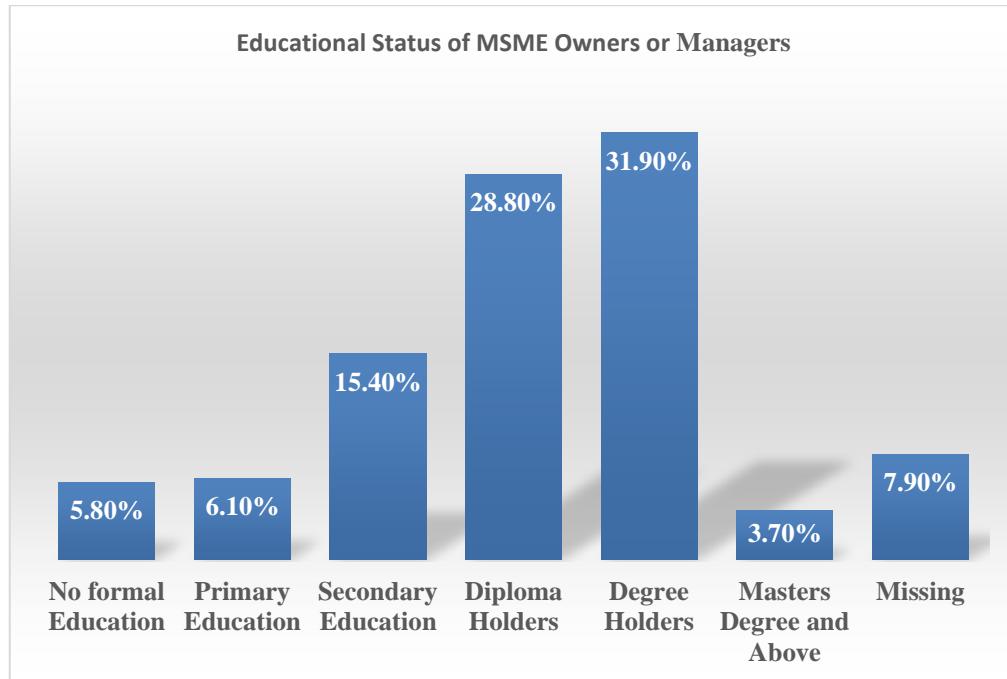


(Sample survey, 2021)

#### 4.1.4 Educational status of MSMEs owners or managers

Education is an important factor in promoting overall growth, particularly in the growth and development of businesses. The more educated they are, the more knowledgeable they are and the more successful they are in their activities. For this reason, the level of education has a significant impact on the success of a business. The results of Figure 4.4 show that 31.9 percent of respondents had a first degree, 28.8 percent had a diploma, 15.4 percent had secondary education, 6.1 percent had a primary, and 5.8 percent had no formal education, while second/Master's Degree and above holders accounted for only 3.7 percent. The percentage of missing respondents is 7.9 percent.

**Figure 4.4** Educational Status of MSME Owners or Managers



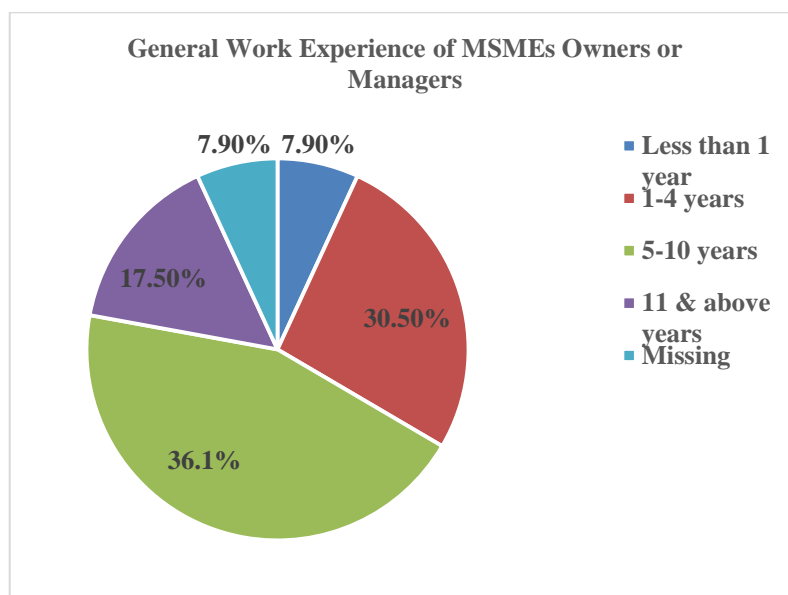
(Sample survey, 2021)

#### 4.1.5 General business experience of MSMEs owners or managers

Work experience is critical to a company's success. The more time an entrepreneur, business owner, or manager spends on business activities, the more knowledge and skills she or he acquires in marketing, technology, and management, which aids in the development and growth of their business. Given this, the skill gained through experience may have an impact on the profitability and performance of businesses. According to the

results of the survey shown in Figure 4.5, the majority of owners or managers in this study have 5-10 years of experience, followed by 1-4 years of experience, which accounted for 36.1 percent and 30.5 percent, respectively, 11 and above years of experience accounted for 17.5 percent, and those with less than one year experience accounted for 7.9 percent. The remaining 7.9 percent represents non-respondents.

**Figure 4.5** *General Work Experience of MSMEs Owners or Managers*



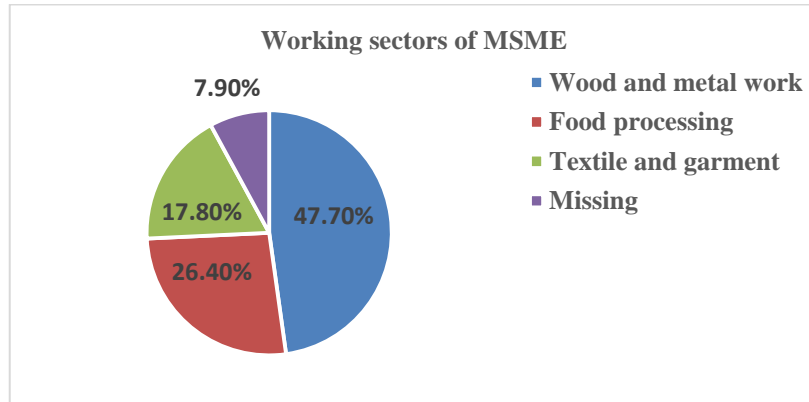
(Sample survey, 2021)

## 4.2 Business Related Profile of the MSMEs

### 4.2.1 Working sector of MSMEs

The Figure 4.6 below shows that out of a predetermined sample size of 150, 83, 58 for wood and metal work, food processing, and textile, respectively, was able to reach 139, 77, 52 sample units, achieving 92.6 percent, 92.77 percent, and 89.6 percent of the target sample size for each sector metal and wood work, food processing, and textile and garment, respectively. The majority of respondents (47.7 percent) worked in wood and metal work, followed by food processing (26.4 percent) and textile and garment (17.8 percent). The remaining 7.9 percent represents non-respondents.

**Figure 4.6** Working sectors of MSME

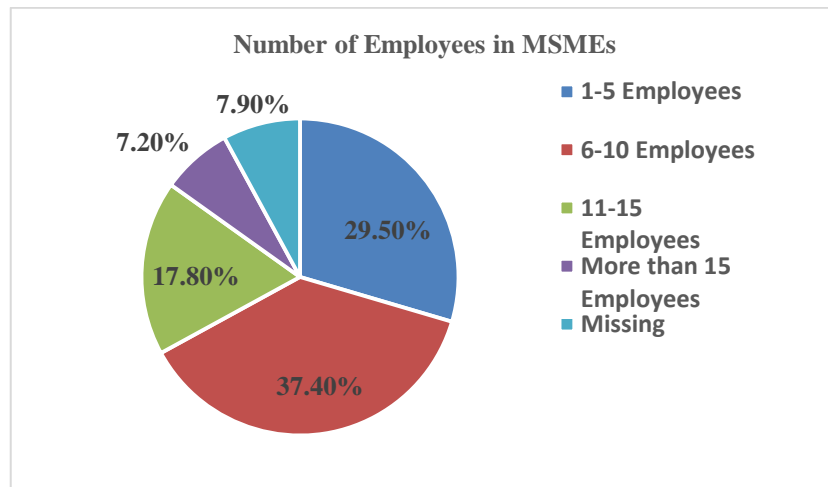


(Sample survey, 2021)

#### **4.2.2 Number of employees in MSMEs**

Knowing the number of employees helps in determining the enterprise's size, whether it is Micro, Small or Medium Enterprise. Figure 4.7 below indicates that 37.4 percent of the enterprises have 6-10 employees, followed by those enterprises who employed 1-5 person (29.5 percent) and 11-15 employees (17.8 percent). On the other hand, some enterprises have more than 15 employees which only accounted to 7.2 percent. The remaining 7.9 percent were non-respondents. In general, this study revealed that Small Enterprises dominated the majority of the survey. Micro and Medium Enterprises only contributed little part in comparison to Small Enterprises in this study.

**Figure 4.7** *Number of Employees in MSMEs*

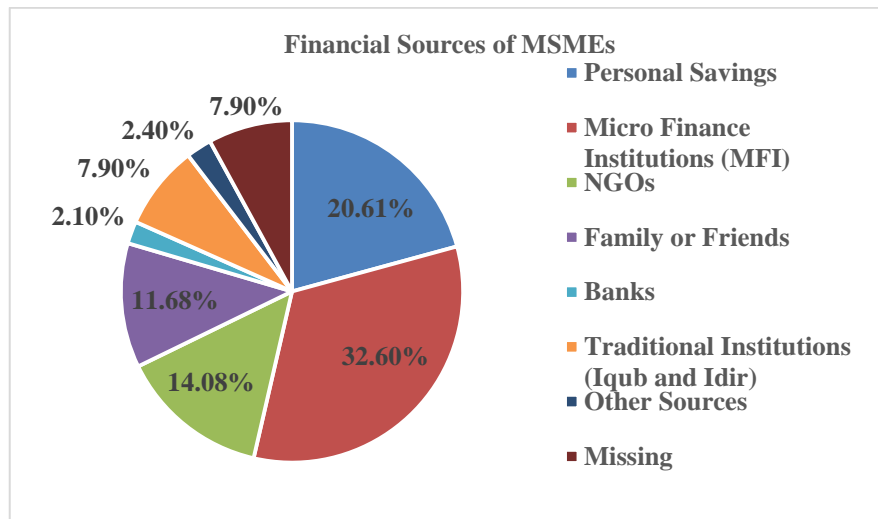


(Sample survey, 2021)

#### **4.2.3 Financial sources of MSMEs**

The financial source is a significant factor towards the startup or running of any business. Even if the entrepreneurs have a good business idea, without a financial source the business idea is nothing. When doing business, there are two sources of finance, one is equity while the other is debt sources, and both of them are used or needed in order to raise capital for their business. The difference between equity and debt finance is, while the equity source raises the needed capital by themselves, debt source represents the loan from different institutions. This means that the company will borrow money and then pay it back in debt financing, while equity financing will not pay it back. Considering this, Figure 4.8 below shows that the majority of MSMEs get financial source from Micro Finance Institutions (MFI) (which represents 32.6 percent of the MSMEs) followed by finance source from personal savings (20.61 percent) and NGOs (accounting to 14.08 percent). The remaining MSMEs depend on family or friends (11.68 percent), traditional institutions such as Iqub and Idir (7.9 percent), banks (2.1 percent), and other sources (2.4 percent); Whereas 7.9 percent were non-respondents. The result of the study indicates that the involvement of formal financial institutions such as MFIs and banks only represents 35.7%.

**Figure 4.8** *Financial Sources of MSMEs*

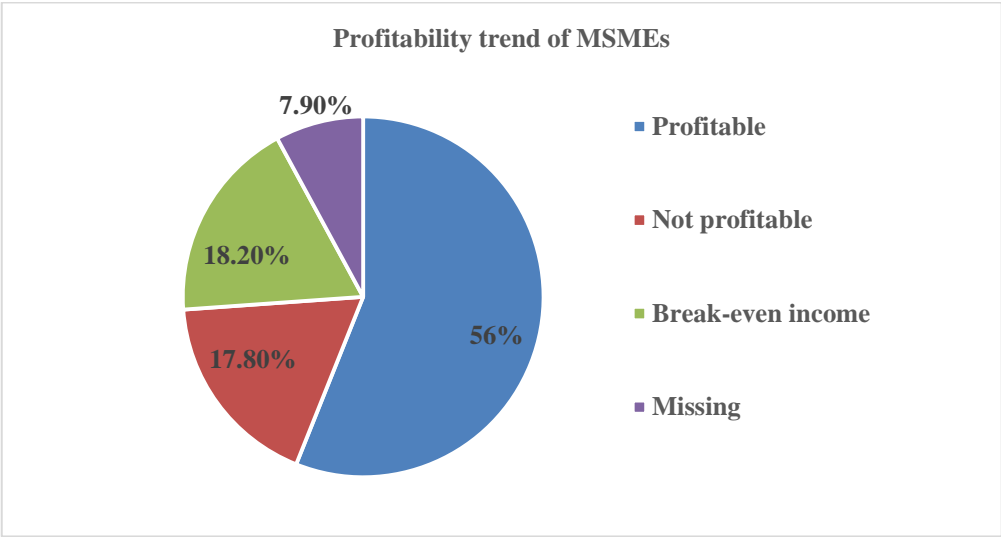


(Sample survey, 2021)

#### **4.2.4 Profitability trend of MSMEs**

Any business is established for profit. Maximizing profit of the company would be the main goal of the entrepreneur, owner or manager of any business. Besides, the profitability trend of MSMEs shows whether the enterprises have been developing, growing, performing good or losing. Considering factors such as good market strategies, adopting new technology and skilled work forces increases the businesses' profitability which paves the way to the growth and development of MSMEs. The Figure 4.9 below shows the profitability trend of MSMEs. The majority of enterprises which account to 163 MSMEs (56 percent) answered that their business is profitable, while 52 MSMEs (17.8 percent) answered that their business is not profitable. Besides, 53 MSMEs (18.2 percent) revealed that their profitability trend was at break-even point. This means that their business is neither making profit nor losing. The remaining 23 MSMEs (7.9 percent) represent non-respondents.

**Figure 4.9** Profitability trend of MSMEs



(Sample survey, 2021)

### 4.3 Factors Affecting the Development of Micro, Small and Medium Enterprises

#### 4.3.1 Financial factors that affect the development of MSMEs

**Table 4.1** *Financial factors that affect the development of MSMEs*

1. Financial factors	Strongly Agree	Agree	Some what Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
Lack of cash management skills	12.3	9.9	30.24	34	5.4	3	2.89	1.116
High interest rate charged by banks and other lending institutions	15.8	48.1	19.24	6.5	2.4	4	3.74	0.914
High collateral requirement from banks and other lending institutions	17.2	46.4	19.24	7.56	1.7	4	3.76	0.917
Inadequacy of credit institutions	15.8	45.7	19.9	8.2	2.4	4	3.7	0.945
Shortage of working capital	9.27	36	26.8	17.6	2	3	3.35	0.978
Loan application procedures of banks and other lending institutions are too complicated	27.4	35.39	18.5	8.9	2	4	3.83	1.03

**Source:** *Sample Survey (2021)*

The Table 4.1 above emphasizes that the extent to which financial factors influences the development of MSMEs. In relation to this; various finance-related problems were surveyed in order to determine the extents to which financial factors are currently affecting the development of MSMEs in Ethiopia. According Table 4.1 shows that operators engaged

in wood and metal work, food processing and textile and garment have encountered the problem lack of cash management skills, the survey found that 34 percent of MSMEs disagree with the problem, 30.24 percent somewhat agree with the problem and 12.3 percent strongly agree with the problem respectively, mean while only 9.9 percent and 5.4 percent MSMEs agree and strongly dis agree with the problem. The median and standard deviation were used as measures of central tendency to clearly state the problem. The median result, “3”, indicates that the majority of respondents agree with the problem in somewhat. A standard deviation of 1.116 indicates that the majority of respondents fall somewhere between 1.774 and 4.006. As a result, we concluded that a lack of cash management skills is a barrier to the development of MSMEs, as the "3" median value represents the majority of beliefs.

Another financial factor forwarded to the respondents was the extent to which high interest rates charged by banks and other lending institutions affect the development of their enterprises. The majority of respondents, approximately 48.1 percent, agree that high interest rates charged by banks and other lending institutions affect the development of their enterprises, 19.2 percent somewhat agree, and 15.8 percent strongly agree with the problem, while only 6.5 percent disagree. The results of the measure of central tendency from table 4.1 above show that the median value 4 indicated that interest rates charged by banks and other lending institutions were high, with a mean score of 3.74 and a standard deviation ranging from 2.826 to 4.654. Meanwhile, non-respondents account for 7.9 percent (23) of the total sample population.

Concerning high lending collateral requirements from banks and other institutions, 46.4 percent of respondents agree that collateral requirements from banks and other institutions are high, while 19.2 percent agree in somewhat and 17.2 percent strongly agree. The remaining 7.5 percent and 1.7 percent, respectively, disagree and strongly disagree with the problem. The median value of "4" in Table 4.1 indicates that the majority of respondents agree on the issue of high collateral requirements from banks and other institutions. Furthermore, a standard deviation of 0.917 indicates that the majority of responses fall between the mean values of 2.843 and 4.677. As a result, we concluded that high collateral requirements imposed by banks and other lending institutions also pose a

challenge to the development of these businesses. Meanwhile, non-respondents account for 7.9 percent (23) of the total.

In relation to financial factors, the study considers whether credit institution inadequacy hinders the development of MSMEs. Accordingly, 45.7 percent of the response agrees that inadequacy of credit institutions challenge to their enterprises, while 19.9 percent and 5.8 percent somewhat agree and strongly agree with the problem respectively. The rest only, 8.2 percent and 2.4 percent are not agreeing with the problem. The results “4” median value shows that, the majority of respondents agree regarding problem related to inadequacy of credit institutions. The standard deviation of 0.945 indicates that, the mean value ranged between 2.755 and 4.645. This shows that majority of respondent agrees that credit institutions are not readily available. Meanwhile, (23) 7.9 percent represents non respondent.

Regarding shortage of working capital 36 percent MSMEs agree, that there is insufficient working capital, while 26.8 percent and 9.27 percent respondent somewhat agree and strongly agree with the problem respectively. Meanwhile 17.6 percent respondents disagree and 2 percent respondents strongly disagree that lack of working capital is impeding the growth of their businesses. The median value of “3” indicate that majority of respondent lie in somewhat agree whereas, standard deviation of 0.978 show that the mean value ranged between 2.372 and 4.328. Similarly, 35.3 percent of MSMEs agreed and 27.4 percent strongly agreed with the complexity of loan application procedures at banks and other lending institutions, respectively, while 18.5 percent agreed with the problem in somewhat. Only 8.9 percent and 3.2 percent disagree and strongly disagree that loan application procedures at banks and other lending institutions are complicated. The median value of "4" shows that the majority of respondents agreed with the complexity of loan application procedures used by banks and other lending institutions, and the standard deviation of 1.030 implies that the mean value lies between 2.8 and 4.86. Meanwhile, non-respondents account for 7.9 percent (23) of the total sample population.

### 4.3.2 Management factors that affect the development of MSMEs

**Table 4.2** Management factors that affect the development of MSMEs

2. Management factors	Strongly Agree	Agree	Some what Agree	Dis agree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
Lack of clear division of duties and responsibility among employees	8.59	11.34	24.7	40.54	6.8	2	2.72	1.078
Poor organization and ineffective communication	3.7	13.4	16.45	48.45	10.3	2	2.48	1.007
Poor selection of associates in business	7.5	8.9	12.7	54.9	7.9	2	2.49	1.055
Lack of well trained and experienced employees	4.12	16.83	24.74	43.6	2.74	2	2.74	0.944
Lack of low cost and accessible training facilities	6.52	21.9	41.9	19.24	2.4	3	3	0.908
Lack of strategic business planning	3.4	12.3	26.8	41.9	7.5	2	2.59	0.95

**Source:** Sample Survey (2021)

The first question addressed in Table 4.2 above was whether a lack of clear division of duties and responsibility among employees was affecting the development of MSMEs. According to the survey results, 40.7 percent and 6.8 percent of respondents disagreed and strongly disagreed respectively, with the lack of a clear division of duties and responsibility among employees. Whereas 24.7 percent of them somewhat agreed that a lack of clear division of duties and responsibility among employees was a hindrance to the growth of MSMEs. On the other hand, only 11.3 percent, and 8.5 percent of respondents, respectively, agreed and strongly agreed that a lack of clear division of duties and responsibility among employees is affecting the development of MSMEs. In general, the majority of respondents fall between the range of  $\pm 1.078$  standard deviation of the mean value and the median value of “2”, indicating that the majority of MSMEs disagreed that a lack of clear division of

duties and responsibility among employees hampered the development of MSMEs. Meanwhile, non-respondents account for (23) 7.9 percent of the total.

Effective workplace communication can foster a positive working environment for employees, organizations, and customers. However, a lack of effective communication and poor organization causes the business to fail when it is unable to handle problems properly. In light of this, a survey was conducted to determine whether poor organization and ineffective communication are impeding the development of MSMEs. 48.45 percent and 10.3 percent of respondent disagree and strongly disagree with the problem, while 16.4 percent of them somewhat agreed that poor organization and ineffective communication hindering their enterprises. Only 13.4 percent and 3.7 percent of the remaining respondents agree and strongly agree that poor organization and ineffective communication are impeding the development of MSMEs. The median scores of “2” show that majority of respondent are dis agreed with the problem. Meanwhile the standard deviations of 1.021 clearly show that the mean value ranged between 1.439 and 3.481 they are almost the respondent lies between strongly disagree to somewhat agree. Similarly to what is shown in table 4.2 above, when it comes to poor selection of business associates, the majority of respondents (54.9 percent and 7.9 percent) disagreed and strongly disagreed that poor selection of business associates was impeding the development of their enterprises respectively. However, only 7.5 percent, 8.9 percent, and 12.7 percent strongly agree, agree, and somewhat agree that poor selection of business associates is the main problem impeding the development of MSEM, respectively. The median value "2" indicates that the majority of respondents disagreed with the problem of poor selection of business associates hinders the development of MSMEs, whereas the standard deviation of 1.055 indicates that the mean value falls between 1.419 and 3.541.

In terms of a lack of well-trained and experienced employees, 43.6 percent and 2.7 percent of respondents disagreed and strongly disagreed, respectively, that a lack of well-trained and experienced employees hampered the development of MSMEs. Meanwhile, 4.1 percent, 16.8 percent, and 24.7 percent of them strongly agreed, agreed, and agreed in somewhat that a lack of well-trained and experienced employees was impeding the development of MSMEs. Taking this into account, the median score of " 2" indicates that

the majority of respondents disagreed that a lack of well-trained and experienced employees hampered the development of MSMEs, while the standard deviation value of 0.944 refers to the mean value ranging between 1.796 and 3.684.

On the contrary, the majority of respondents (41.9 percent, 21.9 percent, and 6.52 percent, respectively) somewhat agreed, agreed, and strongly agreed that a lack of low-cost and accessible training facilities is the main problem impeding the development of MSMEs. Meanwhile, only 19.2 percent and 2.4 percent disagreed and strongly disagreed, respectively, that a lack of low-cost and easily accessible training facilities is not the primary impediment to the development of MSMEs. The median value of "3" indicates that the majority of respondents somewhat agreed that a lack of low-cost and easily accessible training facilities hinders the development of MSMEs, and the standard deviation of 0.908 indicates that the mean value falls between 2.092 and 3.908.

On the other hand, a survey was conducted to determine and comprehend whether a lack of strategic business planning is the primary impediment to the development of MSMEs. 41 percent and 7.5 percent of respondents disagreed that, the main challenge for the development of MSMEs is a lack of strategic business planning, respectively, while 3.4 percent, 12.3 percent, and 26.8 percent strongly agreed, agreed, and somewhat agreed with the problem. The "2" median value in table 4.2 above indicates that the majority of respondents disagreed, and the standard deviation of 0.950 indicates where the lower and upper boundary of most of the responses lies in relation to the mean value. Meanwhile, non-respondents account for 7.9 percent (23) of the total.

#### **4.3.3 Marketing factors that affect the development of MSMEs**

Marketing plays an important role in the success, growth, and development of SMEs as well as the entrepreneur or owner of an enterprise by satisfying the target market. Entrepreneurs can increase sales and profit by developing a good marketing strategy. Aside from that, marketing strategies help businesses expand their markets by utilizing a variety of resources. Furthermore the primary functions of marketing are the production of goods and services, followed by the dissemination of these goods and services to potential or target customers in order to sell and profit from the sale of goods, services, or ideas.

Marketing in SMEs plays a critical role in introducing new products produced by SMEs, informing customers about the products, and generating profits for these businesses (Ebitu et al., 2015). Given this, Table 4.3 below dealt with marketing-related factors

**Table 4.3** Marketing factors that affect the development of MSMEs

3. Marketing factors	Strongly Agree (%)	Agree (%)	Somewhat Agree (%)	Disagree (%)	Strongly Disagree (%)	Median	Mean	Sd
Inadequate market for the product and inputs	10.9	29.2	35.39	18.6	0.68	3	3.37	0.929
Searching new market is so difficult	4.12	19.58	41.23	22.68	4.4	3	2.96	0.913
Lack of demand forecasting	2	16.49	36.08	32.64	4.4	3	2.78	0.887
Lack of market information	6.1	19.9	38.3	22.68	5.2	3	3.01	0.964
Absence of relationship with an organization that conduct marketing research	3.78	15.4	35.7	31.9	5.1	3	2.79	0.929
Lack of promotion to attract potential users	7.5	24.7	28.17	27.4	4.1	3	3.04	1.038
Poor customer relationship and handling	8.2	8.2	12.7	46.39	16.4	2	2.41	1.149

**Source:** Sample Survey (2021)

In the table 4.3 above, MSMEs were asked if inadequate market for the product and inputs constrained the development of MSMEs. According to the results of the survey, 35.3 percent of MSMEs somewhat agreed that an insufficient market for the product and inputs hampered MSMEs' development, while 29.2 percent and 10.9 percent of MSMEs agreed and strongly agreed that an insufficient market for the product and inputs hampered MSMEs' development, respectively. Only 18.6 percent and 0.68 percent of MSMEs disagreed and strongly disagreed, respectively, that an insufficient market for the product and inputs hampered MSMEs' development, and the remaining 7.9 percent (23) were absent. Similarly the median value of “3” in table 4.3 above with the standard deviation of

0.929 making most of the responses between 2.441 - 4.299 of the mean score (3.37), indicates that, the majority of respondents somewhat agreed that an insufficient market for the product and inputs constrained the development of MSMEs. Furthermore, MSMEs were asked if the difficulty of finding new markets has an impact on the growth of their business. The majority of respondents 120(41.2 percent) agreed that the difficulty of finding new markets is the most difficult problem for MSMEs. Whereas 23.7 percent completely agree that the difficulty of finding new markets is the most difficult problem for MSMEs. Meanwhile, 27 percent did not agree that the difficulty of finding new markets was limiting the growth of their business. On the other hand, the median value of "3" in Table 4.3 above, with the standard deviation of 0.913, indicating that the majority of respondents somewhat agreed that the difficulty of finding new markets is the main problem for MSMEs. In the meantime, 23 (7.9 percent) represents a non-respondent in this study.

Demand forecasting helps businesses to achieve their goals and objectives. Because the primary goal of any business is to maximize profits by improving customer satisfaction. Demand forecasting for appropriate products and services will fill the need gap. By using demand forecasting, company will achieve their goal. In the inverse, a lack of demand forecasting has the potential to harm the business. MSMEs were asked to what extent lack of demand forecasting hampered their business's growth. Accordingly, 36.08 percent of MSMEs somewhat agreed that lack of demand forecasting constrained the development of MSMEs, while 32.6 percent and 4.4 percent were not agreed that lack of demand forecasting constrained the development of MSMEs only 16.49 percent and 2 percent of them were found agreed and strongly agreed lack of demand forecasting constrained the development of MSMEs respectively. A median value of "3" indicates that the majority of respondents somewhat agreed that a lack of demand forecasting is a hindrance to the growth of their business. Furthermore, the standard deviation of 0.887 refers to the mean value of the upper and lower boundary between which the majority of the respondents ranged (1.893-3.667). Meanwhile, 7.9 percent represents non respondent for this study.

The most important factor in estimating customer and consumer demand is market information. Furthermore, it is critical to broaden the market in order to achieve mass

production and mass distribution of products and services. Taking this into consideration; MSMEs were asked if a lack of market information hampered the growth of their business. According to the study, 38.3 percent of MSMEs somewhat agreed that a lack of market information hampered their growth. Whereas 19.9 percent and 6.1 percent of them agreed and strongly agreed that a lack of market information was the most significant challenge to the development of MSMEs, respectively. Meanwhile only 22.6 and 5.2 percent disagreed and strongly disagreed that lack of market information was the most significant barrier to the development of MSMEs. This issue was reflected by a median value of 3, which the majority of respondents agreed on. Furthermore, the standard deviation value of 0.964 from the mean value (3.01) indicates that the majority of the responses fall between (2.046 – 3.974). Meanwhile, 7.9 percent represents non respondent for this study.

It is critical for MSMEs to remain competitive in the market. Promotion is essential for retaining and successfully attracting new customers, as well as increasing sales for the business. As a result, because promotion is one component of the marketing mix, it is difficult for businesses to remain competitive and successful in the market without promotion. Taking this into consideration, MSMEs were asked if a lack of promotion to attract potential users has an impact on the development of their businesses. 28.1 percent of respondents somewhat agreed that a lack of promotion to attract potential users has an impact on the development of businesses, 24.7 percent and 7.5 percent agreed and strongly agreed that a lack of promotion to attract potential users has an impact on the development of businesses respectively, while 31.5 percent did not agreed with the problem. The median value of “3” shows that majority of respondent somewhat agreed that lack of promotion to attract potential users hampered the growth of MSMEs. Furthermore, the standard deviation of  $\pm 1.038$  from the mean value (3.04) where most of the responses lied in. Meanwhile, 7.9 percent represents non respondent for this study.

Knowing and understanding how to handle customers, as well as having a good relationship with them, is essential for strengthening and improving existing customer relationships, attracting new customers, and winning back former customers. In light of this, MSME were asked if poor customer relationship and handling is the main problem for their businesses. According to the survey results, the majority of respondents (46.3 percent

and 16.4 percent, respectively) disagreed and strongly disagreed that poor customer relationship and handling was the main problem for their enterprises' development, while 12.7 percent, 8.2 percent, and 8.2 percent of them responded somewhat agreed, strongly agreed, and agreed that poor customer relationship and handling remained the main problem for MSMEs' development. However, the median value of "2" from the table above 4.3 with standard deviation of 1.149 from mean score of (2.41) indicates that the majority of respondents disagreed with this problem. This demonstrates that, when compared to the other marketing factors discussed above, poor customer relationship and handling was not the major impediment to the development of MSMEs. Meanwhile, 7.9 percent represents non respondent for this study.

#### **4.3.4 Infrastructural factors that affect the development of MSMEs**

Infrastructure is a critical factor in the establishment, growth, and survival of businesses (Aruwa, 2016). All process, economic, social, and political and other activities are relied on infrastructure. Infrastructure has directly or indirectly impact on the business activities. Without infrastructure, the production process in enterprises or organizations, whether service or good, cannot function properly (Mugo et al., 2019). Taking this into account, MSMEs were asked about infrastructure-related factors in Table 4.4.

**Table 4.4** *Infrastructural factors that affect the development of MSMEs*

4. Infrastructural factors	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	%	%	%	%	%			
Power interruptions (electricity power)	32.9	30.5	20.9	6.1	1.3	4	3.95	0.995
Insufficient and interrupted water supply	13	35.7	28.17	11.34	3.7	4	3.47	1.014
Lack of business development services	9.9	28.8	37.11	12.7	3.4	3	3.32	0.968
Lack of sufficient and quick transportation service	8.5	37.8	30.9	12	2.7	4	3.41	0.933
Lack of appropriate dry waste and sewerage system	11.68	24	33.3	19.5	3.4	3	3.23	1.041

**Source:** Sample Survey (2021)

In table 4.4 above, MSMEs were asked if power outages are their main problem. According to the results of the survey, the majority of MSMEs (32 percent and 30.5 percent, respectively) strongly agreed and agreed that power interruption was the main problem for the development of enterprises, while 20.9 percent of them somewhat agreed with the problem. Only 6.1 percent and 1.3 percent, respectively, disagreed and strongly disagreed with the problem. As a result, the above-mentioned median value of "4" indicates that power outages are the primary impediment to the development of MSMEs. This was justified with the value of  $\pm 0.995$  standard deviation from the mean (3.9) where most of the responses ranged in. Meanwhile, 7.9 percent of the data in this study is missing. Similarly related to the problem of insufficient and interrupted water supply, the survey conducted result in table 4.4 above show that majority of respondent 35.7% replay agree with the problem where followed by 28.1 percent and 13 percent of MSMEs replay somewhat

agreed and strongly agreed with the problem, respectively. Whereas only, 11.3 percent and percent replied disagree and strongly disagree with the problem respectively. This was reflected with median value of “4” representing majority of respondent agreed that insufficient and interrupted water supply was major issue for MSMEs. Furthermore, standard deviation of 1.014 reefer that, the mean value 3.47 of responses ranged between 2.456-4.484. Meanwhile, 7.9 percent represents non respondent for this study.

A survey was conducted in response to the lack of business development services. According to the survey results shown in the 4.4 table above, 37.11 percent of MSMEs were somewhat agree with the problem, while 28.8 percent and 9.9 percent agreed and strongly agreed that a lack of business development services was a major problem for MSMEs' development, respectively. Meanwhile, 12.7 percent of MSMEs disagreed and 3.4 percent MSMEs strongly disagreed with the problem. A median value of "3" represents the majority of MSMEs who somewhat agreed that a lack of business development services was the main problem for MSMEs' development, whereas the standard deviation of 0.968 from the mean score of 3.32 indicates that the mean value range lied in. Meanwhile, 7.9 percent represents non respondent for this study.

In order for a business to be profitable and competent, adequate and timely transportation service is essential. Taking this into consideration, MSMEs were asked to what extent lack of sufficient and quick transportation service hinders their development. Accordingly, 37 percent (110) and 8.5 percent (25) of MSMEs agreed that lack of sufficient and quick transportation service impedes the development of MSMEs respectively. Whereas 30.9 percent (90) of them somewhat agreed that lack of sufficient and quick transportation service was the main problem. The remaining 12 percent (35) and 2.7 percent (8) disagree and strongly disagree that a lack of sufficient and timely transportation service is the primary impediment to the development of MSMEs, respectively. The median value of "3" in table 4.4 above, on the other hand, represents where the majority of respondents fall in terms of somewhat agreeing with the problem. Standard deviation of 0.933 from the mean score of 3.41 depict that the mean value ranged between 2.477-4.343. Meanwhile, 7.9 percent represents non respondent for this study.

A survey was conducted in response to the lack of an appropriate dry waste and sewerage system. According to the survey results in table 4.4 above shows that 33.3 percent (97) respondent where somewhat agreed within the problem whereas 24.percent (70) and 11.68 percent (34) replied agree and strongly agree respectively. In contrast 19.5 percent (57) of respondent disagreed followed 3.4% (10) strongly disagreed with problem. The median value of "3" indicates where the majority of respondents fall, and this was confirmed by the value of 1.041 standard deviation from the mean (3.23), where the majority of responses lied. Meanwhile, 7.9 percent represents non respondent for this study.

#### **4.3.5 Technological factors that affect the development of MSMEs**

Technologies play an important role in the growth of MSMEs. In other words, it boosts productivity by lowering production costs, increasing speed, efficiency, and effectiveness, and shortening the time it takes to produce a product or service. Technology has the potential to improve the productivity problem and strengthen the relationship between MSMEs and industrial development. Using modern technology is critical for producing high-quality products and increasing product quantity. Furthermore, technology is important for businesses in order to produce a product quickly and at a low cost. While access to technology promotes enterprise growth, a lack of adequate technology stymies MSMEs' development. Lack of adequate technology is a common issue among Ethiopian MSMEs (Wami, 2020). Considering this, MSMEs were asked questions about technological factors.

**Table 4.5** *Technological factors that affect the development of MSMEs*

5. Technological factors	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
Lack of appropriate machinery and equipment	9.96	29.2	33.33	15.46	4.1	3	3.28	1.012
Lack of skills to handle new technology	6.5	20.91	39.51	20.96	4.8	3	3.02	0.96
Lack of money to acquire new technology	7.5	28.5	39.5	15.8	0.68	3	3.29	0.872
Unable to select proper technology	3.4	19.2	27.1	38.14	4.1	3	2.78	0.952

**Source:** Sample Survey (2021)

Appropriate machinery and equipment's are essential for production process. New and modern machinery and equipment, in particular, can reduce time and cost. This enables businesses to produce high-quality products in a short period of time at a low cost by lowering labor and other production costs. Taking this into consideration, MSMEs were asked in table 4.5 above whether a lack of appropriate machinery and equipment was the main problem for them. According to the results of the survey, 33.3 percent (97) of MSMEs somewhat agreed that the main problem for MSMEs was a lack of appropriate machinery and equipment. On the other hand, 29.2 percent (85) and 9.96 percent (29) of them agreed and strongly agreed that lack of appropriate machinery and equipment was the main problem for MSMEs, respectively, while 15.4 percent and 4.1 percent of MSMEs disagreed and strongly dis agreed that lack of appropriate machinery and equipment was a problem for MSMEs, respectively. Consequently, the median value of "3" shows majority of respondent somewhat agreed with the problem. This was reflected with the value of  $\pm 1.012$  standard deviation from the mean (3.28) where most of the responses lied in. Meanwhile, 7.9 percent represents non respondent for this study.

Technological change is a major driver of changes in skill requirements. One of the key enablers of technological change is the availability of skills to invent, develop, apply, deploy, and operate technologies, as well as tailor their application to solve business, operational, and government challenges. The application of changing technologies, combined with changes in working practices and improvements in businesses' capabilities and workers' skills, drives productivity improvement and stimulates market demand. At the same time, technological disruption is affecting the economy and society, hastening the pace of change and rendering skills obsolete. As technologies and business processes evolve, so do the skill sets required to produce a product or service. When workers have the necessary skills for change, the benefits of technological change for employers and workers are greatest (International Labour Organization(ILO), n.d.).

Having the ability to handle new technology is critical for businesses today, as we live in a globalization era in which things change on a daily basis, and technologies change as quickly as human needs and desires change. In order to improve productivity, businesses required new technology. As a result, skills in dealing with new technology are always required to operate this new technology. MSMEs were asked if their main problem was a lack of skills to handle new technology. Accordingly, 49.5 percent (115), 20.9 percent (61), and 6.5 percent (17) of MSMEs somewhat agreed, agreed, and strongly agreed that lack of skills to handle new technology was the main problem for MSMEs, while 20 percent and 4.8 percent disagreed and strongly disagreed, respectively, that lack of skills to handle new technology was the main problem for MSMEs. This was reaffirmed by a median value of "3," indicating that the majority of respondents agreed with the problem to some extent. The standard deviation of 0.960 indicates that the mean score of (3.02) ranged from 2.06-3.98. Meanwhile, 7.9 percent represents non respondent for this study.

Every business, large or small, requires funds to run its operations. This means that money is required for a business to begin and maintain operations. Purchasing new technology, in particular, necessitates a large sum of money. Hence, MSMEs were asked if lack of money to acquire new technology was a challenge for them. According to the study, 39 percent (115) of MSMEs agreed to some extent that a lack of funds to acquire new technology was a challenge for them. While 28.5 percent of them agreed and 7.5 percent of

them strongly agreed, the challenge for MSMEs was a lack of funds to acquire new technology. In contrast, 15.8 percent and 0.6 percent of MSMEs disagreed and strongly disagreed that a lack of money to acquire new technology was a challenge for MSMEs. The issue of money to acquire new technology was also portrayed in a median value of "3" with a standard deviation of  $\pm 0.872$  from the mean (3.29), where the majority of responses were located. Meanwhile, 7.9 percent represents non respondent for this study.

First and foremost, using new technology is important for businesses, but being selective in selecting appropriate technology will be the primary goal for businesses. Otherwise, improper technology selection can have a negative impact on the enterprise's ability to produce. Furthermore, if businesses do not pay attention to the proper selection of technology, they may incur significant costs. MSMEs were asked if the inability to select appropriate technology was a problem for them. As a result, 38.1 percent (111) of MSMEs disagreed that being unable to select appropriate technology was a problem for MSMEs, and 4.1 percent strongly disagreed that being unable to select appropriate technology was a problem for MSMEs. While 27.1 percent of them were found to be somewhat agreed with the problem, and 19.2 percent of them were found to be completely agreed with the problem. Only 3.4 percent of the remaining respondents strongly agreed that the inability to select appropriate technology was a problem for MSMEs. A median value of "3" indicates that the majority of MSMEs agreed with the problem to some extent. The standard deviation of 0.952 indicates that the mean value ranges from 1.828 to 3.732. Meanwhile, 7.9 percent represents non respondent for this study.

#### **4.3.6 Working place factors that affect the development of MSMEs**

Working place is an important factor in conducting business because the location or area where business activities will take place is a significant factor in the success of businesses. Having a convenient working environment will increase customer attraction because the likelihood of a customer or consumer seeing the product in a convenient location is greater than in a working environment that is hidden from the center. Furthermore, the working place increases the company's profitability by increasing the number of customers for production. However, not having a convenient working environment for products and not owning a premise may increase the company's costs. In

light of this, MSMEs were asked; if factors related to working place impede MSMEs' development.

**Table 4.6** Working place factors that affect the development of MSMEs

6.Working place factors	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
Current working place is not convenient	12.3	28.17	30.5	19.9	3	3	3.29	1.055
The rent of house is too high	15.8	34	24.7	14	3.4	4	3.49	1.062
Absence of own premise	16.8	33.6	27.83	9.96	3.7	4	3.54	1.04

**Source:** Sample Survey (2021)

The median, mean scores and standard deviations in Table 4.6 above indicate that the working place factors that impede the development of MSMEs are as follows. The current working environment is inconvenient, the house rent is too high, and there is no own premise. In response to the question of whether or not the current working place is convenient for their business, 30.5 percent (83) of MSMEs to some extent agreed that the current working environment is not convenient for their business, while 28.17 percent (82) agreed that the current working environment is not convenient for their business, and 12.3 percent (36) strongly agreed that the current working environment is not convenient for their business. Whereas Only 19.9 percent and 3 percent of MSMEs disagreed and strongly disagreed that their current working place is inconvenient for their business. The median "3" in table 4.5 above indicates that the majority of businesses somewhat agree that their current working place is inconvenient for their business. The standard deviation of 1.055 from the mean value of 3.29 indicates where the majority of the responses fell. Meanwhile, 7.9 percent represents non respondent for this study.

With regard to “the rent of house is too high” 34 percent (99) of MSMEs agreed that the rent of house is too high, followed by 24.7 percent and 15.8 percent of MSMEs somewhat agreed and strongly agreed that the rent of house is too high respectively, while only 14 percent and 3.4 percent of MSMEs disagree and strongly disagree the rent of house is too high. Consequently, the median value of "4" in the preceding tables refers that the majority of MSMEs agreed that the rent of a house is too high and hinders MSMEs' development. This was reaffirmed with the value of  $\pm 1.062$  standard deviation from the mean (3.49) where most of the responses lied in the range between 2.428-4.552. Meanwhile, 7.9 percent represents non respondent for this study.

Similarly, when it comes to the absence of one's own premises, the majority (33.6 percent) of MSMEs agreed that not having one's own premises impedes MSMEs' development. 27.8 percent of them agreed and 16.8 percent of them strongly agreed that lack of own premise hinders MSMEs' development, while 9.96 percent of MSMEs and 3.7 percent of MSMEs disagreed and strongly disagreed that lack of own premise hinders MSMEs' development. Whereas the median value "4" shows that the majority of MSMEs agreed that the lack of own premises hinders MSMEs' development. This was indicted with the value of  $\pm 1.040$  standard deviation from the mean (3.54) where most of the responses lied in. Meanwhile, 7.9 percent represents non respondent for this study.

#### **4.3.7 Politico-legal factors that hinder the development of MSMEs**

Effective government policy and regulation promotes the growth of SMEs by eliminating corruption and creating a favorable and stable political environment that can significantly support enterprise development (Muhammad et al., 2015). In light of this, MSMEs were asked if problems related to political and legal factors impede their development. The outcome is shown in Table 4.7 below.

**Table 4.7** *Politico-legal factors that hinder the development of MSMEs*

7. Political legal factors	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
Lack of accessible information on government regulations that are relevant to my business	4.1	27.8	32.3	25.7	2	3	3	0.922
Political intervention	3.7	13.7	32.9	38.4	3	3	2.75	0.897
The tax levied on my business is not reasonable	6.8	30.92	36.7	15.8	1.7	3	3.28	0.897
Lack of government support	11.34	25.4	29.5	20.6	5.1	3	3.19	1.089
Bureaucracy in company registration and licensing	3	21.3	38.14	26.8	2.74	3	2.92	0.881

**Source:** Sample Survey (2021)

As shown in table 4.7 above, 32.3 percent (94) of MSMEs somewhat agreed that a lack of accessible information on government regulations impedes MSMEs' growth. Whereas 27.8 percent agreed and 4.1 percent strongly agreed, a lack of accessible information on government regulations is a barrier to the development of MSMEs. In contrast, 25% of MSMEs and 2% of MSMEs disagreed and strongly disagreed that a lack of accessible information on government regulations impedes MSMEs' development. The median value of “3” portrayed, where majority of respondent falls under somewhat agreed with problem. Aside from 0.922 standard deviation from the mean value (3), the majority of responses ranged from 2.078 to 3.922. Meanwhile, 7.9 percent represents non respondent for this study.

Regarding political intervention, 38.4 percent of MSMEs disagreed and 3 percent strongly disagreed that political intervention impedes MSMEs' development. While 32.9 percent of MSMEs somewhat agreed, 13.7 percent agreed, and 3.7 percent strongly agreed that political intervention impedes MSMEs' development, this issue was also depicted by a

median value of "3," which the majority of MSMEs to some extent agreed with the problem. Furthermore, 0.897 standard deviation of mean value 2.75 refers that where the mean value lies between 1.853 - 3.647. Meanwhile, 7.9 percent represents non respondent for this study.

The table 4.6 above indicates that tax levied on their business is not reasonable. 36.7%(107) of MSMEs somewhat agreed, 30.9 percent(90) of MSMEs agreed, and 6.8 percent(20) of MSMEs strongly agreed tax levied on their business is not reasonable, while only 15.8% & 1.7% of MSMEs disagreed and strongly disagreed that tax levied on their business is not reasonable, respectively . Overall looking most of the respondents belong in between the range  $\pm 0.897$  of the mean value (3.28) and with the median value of "3" which indicates that majority of MSMEs somewhat agreed that tax levied on their business is not reasonable. Meanwhile, 7.9 percent represents non respondent for this study.

The support from government is essential factors toward growth and development of MSMEs. MSMEs were asked if lack of government support hinders the development of MSMEs. The survey result indicates that 29.5 percent( 86) of MSMEs somewhat agreed, 25.4 percent(74) of MSMEs agreed and 11.34% of MSMEs strongly agreed that lack of government support hinders the development of MSMEs. While 20.6%of them fall under those who disagreed and 5.1% falls under those who strongly disagreed that lack of government support hinders the development of MSMEs. The lack of government support portrayed by median value of "3" where majority of respondent falls under somewhat agreed. The standard deviation of 1.089 from mean value of 3.19 where majority of respondent located in. Meanwhile, 7.9 percent represents non respondent for this study.

Similarly, MSMEs were asked if bureaucracy in company registration and licensing was stifles MSMEs development. Bureaucracy in company registration and licensing impedes MSMEs development, according to 38.1 percent (111) of MSMEs who somewhat agreed, 21.3 percent of MSMEs who agreed, and 3 percent of MSMEs who strongly agreed. In contrast 26.8 percent disagreed and 3 percent of them strongly dis agreed bureaucracy in company registration and licensing hinders the development of MSMEs. The median value "3" indicates that majority of respondent some extent agreed bureaucracy

in company registration and licensing hinders the development of MSMEs, whereas the standard deviation of 0.881 shows that the mean value lies between 2.039 and 3.801. Meanwhile, 7.9 percent represents non respondent for this study.

#### **4.3.8 Development of MSMEs**

MSMEs were evaluated based on their level of development. As a result, enterprise development can be measured in terms of growth, performance, and profitability, among other things. Growth in Profit was chosen to measure dependent variable for this study. This means, in this study, profitability is chosen as a development measurement for MSMEs, because Small enterprises are more focused on profitability than other modes of measurement (Abera, 2012), even though there are other ways to measure MSMEs development in terms of performance, such as employment growth and market share. Because MSEs are primarily established as a source of self-employment, the researcher does not use other alternatives such as employment growth measurement (Abera, 2012, p.34). In light of this, MSMEs were asked if financial factors, management factors, marketing factors, infrastructure factors, technological factors, working place factors, and political-legal factors all have an impact on profitability.

**Table 4.8** *Development of MSMEs*

Development	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree	Median	Mean	Sd
	(%)	(%)	(%)	(%)	(%)			
I think that financial related factors has affected the profitability of our enterprise	9.96	34	21.60	22.33	4.10	3	3.25	1.079
I think that Management related factors has affected the profitability of our enterprise	10.60	15.46	25.77	35	5.10	3	2.91	1.109
I think that marketing related factors has affected the profitability of our enterprise	5.15	26.40	39.50	17.52	3.40	3	3.13	0.914
I think that infrastructure related factors has affected the profitability of our enterprise	5.80	27.14	41.50	15.10	2.30	3	3.21	0.882
I think that technological related factors has affected the profitability of our enterprise	9.27	28.50	34	14.70	5.40	3	3.23	1.031
I think that the working place related factors has affected the profitability of our enterprise	16.15	29.20	19.93	23.70	3.09	3	3.34	1.139
I think that political legal related factor has affected the profitability of our enterprise	1.70	17.40	34	38.40	1.37	3	2.77	0.825

**Source:** Sample Survey (2021)

In table 4.8 above, MSMEs were asked if financial factors had an impact on their business's profitability. According to the results of the survey, 65.5 percent of MSMEs agree that financial factors have impacted the profitability of their business. On the other hand, 22.3 percent of MSMEs stated that a financial related factor has no effect on their company's profitability, while 4.1 percent of MSMEs see no relationship between financial related factors and profitability. The median value of "3" indicates that the majority of

respondents to some extent agree that financial factors have influenced firm profitability. The standard deviation of 1.079 refers that the mean value lies between 2.171 and 4.329. MSMEs, on the other hand, were asked if managerial factors had an impact on their company's profitability. As a result, 51.8 percent of MSMEs agree that managerial factors have influenced their company's profitability. Meanwhile 35 percent of MSMEs do not agree that managerial related factors have affected their enterprise's profitability, and 5.1 percent do not see any relationship between managerial related factors and profitability. Another area in which MSMEs were questioned was marketing-related factors. 74.6 percent of MSMEs replied marketing-related factors had an impact on their company's profitability, while 17.5 percent replied they didn't. Furthermore, 3.4 percent of them saw no link between marketing-related factors and profitability.

Managers of MSMEs were asked if infrastructure-related factors had an impact on their company's profitability. Accordingly, 74.4 percent of respondents agree that infrastructure-related factors have impacted the profitability of their businesses. Whereas 15.1 percent of respondent disagree infrastructure related factors has affected the profitability. Meanwhile, 2.3 percent of respondents believe there is no link between infrastructure-related factors and profitability. The median “3” shows that where the majority of respondent falls under somewhat agree with the effect. Similarly, MSMEs' managers were asked if technological factors had an impact on their enterprises profitability. 71 percent of respondents agree that technological factors have influenced their company's profitability, while 14.7 percent disagree. Meanwhile 5.4 percent of respondent does not see any relationship between technological related factors and profitability. Another question posed to MSMEs managers was whether or not workplace-related factors have affected their company's profitability. 65.2 percent respondent agreed that working place related factors has affected the profitability of their enterprise, while 23 percent disagreed. Meanwhile, 3.09 percent of them do not believe there is a link between workplace factors and profitability. The median “3” indicates that the majority of respondents agree with the effect in to some extent. The final question posed to MSMEs managers was whether political and legal factors had an impact on their company's profitability. 53 percent of respondent agree that political legal related factor has affected

the profitability of their enterprise. Meanwhile, 38.4 percent of the respondents did not believe that political legal related factor has affected the profitability of their enterprise and that 1.37 percent of them did not see any relationship between political legal related factors and profitability. Accordingly, a median value of 3 shows the acceptance relationship between political legal and profitability

#### 4.3.9 Comparison of Factors

Although all financial, management, marketing, infrastructure, technology, working place, and politico-legal factors influence MSME development, this does not imply that all factors have equal weight. The table below compares the overall impact of all of the key factors discussed above in detail

**Table 4.9** *Comparison of Factors*

#### Descriptive Statistics

Factors	Grand Mean	Grand Std. Deviation	Rank of Severity
Financial factors	3.5460	.67962	1st
Management factors	2.6897	.81317	7 <sup>th</sup>
Marketing factors	2.9083	.72188	6 <sup>th</sup>
Infrastructural factors	3.4739	.79798	2 <sup>nd</sup>
Technological factors	3.0914	.75948	4 <sup>th</sup>
Working place factors	3.4391	.83913	3 <sup>rd</sup>
Political & legal factors	3.0448	.72953	5 <sup>th</sup>

Source: Survey, (2021)

According to the above Table 4.9, financial, infrastructural, and working place factors have the greatest potential to influence MSMEs' development, followed by technological, politico-legal, marketing, and management factors. Furthermore, the study's findings indicate that the most important factors influencing the development of MSMEs in this study were financial and infrastructural factors. This finding is supported by Abera (2012), who discovered that the two most significant issues affecting MSMEs are a lack of finance and workplace factors. Furthermore, Serawitu (2016) discovered the same result as previously mentioned.

#### **4.4 Results of Inferential Statistics**

In the section here below the results of inferential statistics are discussed. For the aim of assessing the objectives of the study, Pearson's Product Moment Correlation Coefficient and multiple regression analysis were used. With the aid of these tools, decisions were made and conclusions were drawn with respect to the research hypothesis.

##### **4.4.1 Pearson's Product Moment Correlation Coefficient**

Correlation is the most known statistics to measure association between variables (Marczyk et al., 2005, p.231). Pearson product moment correlation coefficient ( $r$ ) is measure the degree of relationship between variables (Adams et al., 2007). In other words, it is used to determine whether there is a significant relationship between management, financial, marketing, infrastructural, technological, working place, politico-legal variables, on one hand, and (development of MSMEs) on the other hand. The following section presents the results of Pearson's Product Moment Correlation on the relationship between independent variables and dependent variable. The table 4.10 below shows that the correlation coefficients for the relationships between independent variables and its dependent variable are linear and positive ranging from moderate to strong correlation coefficients.

**Table 4.10** The correlation (development) with financial, management, marketing, infrastructure, technology, working place, and political legal factor

		Finance factors	Management factors	Marketing factors	Infrastructural factors	Technological factors	Working place factors	Political & legal factors	Development
Financial factors	Pearson Correlation	1							
	Sig. (2-tailed) N	.268							
Management factors	Pearson Correlation	.495**	1						
	Sig. (2-tailed) N	.000 268	.268						
Marketing factors	Pearson Correlation	.637**	.838**	1					
	Sig. (2-tailed) N	.000 268	.000 268	.268					
Infrastructural factors	Pearson Correlation	.729**	.505**	.660**	1				
	Sig. (2-tailed) N	.000 268	.000 268	.000 268	.268				
Technological factors	Pearson Correlation	.610**	.725**	.815**	.649**	1			
	Sig. (2-tailed) N	.000 268	.000 268	.000 268	.000 268	.268			
Working place factors	Pearson Correlation	.602**	.508**	.636**	.691**	.653**	1		
	Sig. (2-tailed) N	.000 268	.000 268	.000 268	.000 268	.000 268	.268		
Political & legal factors	Pearson Correlation	.475**	.674**	.697**	.679**	.666**	.633**	1	
	Sig. (2-tailed) N	.000 268	.000 268	.000 268	.000 268	.000 268	.000 268	.268	
Development	Pearson Correlation	.611**	.735**	.826**	.714**	.826**	.734**	.755**	1
	Sig. (2-tailed) N	.000 268	.000 268	.000 268	.000 268	.000 268	.000 268	.000 268	.268

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

The result presented in Table 4.10 above indicates the existence of moderate positive relationship between development and financial factors ( $r = 0.611, P < 0.01$ ) which means it is statistically significant at 99% confidence level. This implies that at 1% level of significance level, financial factors strongly associated with the development of MSMEs. Similarly a strong positive correlation was found between management factors and development. ( $r = 0.735, P < 0.01$ ) at 99% confidence level. Hence, there is significant positive association between management and development. Besides, it was discovered that, marketing and development of MSMEs strong positive relationship ( $r = 0.826, P < 0.01$ ) which means it is statistically significant at 99% confidence level. Moreover, a remarkably strong positive relationship were found between, infrastructure factors and development ( $r = 0.714, P < 0.01$ ), technological factors and development ( $r = 0.826, P < 0.01$ ), working place factors and development ( $r = 0.734, P < 0.01$ ), political factors and development of MSMEs ( $r = 0.755, P < 0.01$ ) which are statistically significant at 99% confidence level.

#### 4.4.2 Regressions analysis

In order to describe the association between dependent variable and independent variables, besides to know how changes in the independent variables relate to changes in the dependent variable and to predict the dependent variable multiple regression analysis was employed for this study. Hence, the result of multiple regression analysis was presented and discussed.

**Table 4.11** Results of regression analysis

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.903 <sup>a</sup>	.816	.811	.33539	.816	164.747	7	260	.000	1.994

a. Predictors: (Constant), political legal, Finance, Management, working place, Technology, Infrastructure, Marketing

b. Dependent Variable: Development

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.111	.117		-.952	.342		
Finance	-.027	.048	-.024	-.565	.573	.394	2.538
Management	.078	.050	.082	1.567	.118	.259	3.857
Marketing	.246	.067	.230	3.649	.000	.178	5.625
Infrastructural	.100	.048	.103	2.095	.037	.291	3.439
Technology	.294	.050	.290	5.843	.000	.288	3.475
Working place	.181	.038	.197	4.798	.000	.421	2.377
Political legal	.172	.048	.163	3.620	.000	.350	2.855

a. Dependent Variable: Development

The Table 4.11 above demonstrates the estimates of the multiple regression of development against its variables for the sample of 268 MSMEs. Before doing multivariate analysis Multicollinearity test was applied. Multicollinearity occurs when the independent variables are highly correlated. There is "overlap" or sharing of predictive power when independent variables are multicollinear. This could result in the paradoxical effect (Ho, 2006). In this study the multi collinearity test value, which stated in the variance inflation factor (VIF) indicates that the relationship between the independent variables is acceptable since it has a value < 10. Besides tolerance values are grater 0.1. Furthermore, we used the Durbin-Watson statistic to determine whether or not there is autocorrelation between variables. Normally, the Durbin-Watson statistic ranges between 0 and 4. A value close to 2 indicates that there is no autocorrelation; a value close to 0 indicates that there is positive autocorrelation; and a value close to 4 indicates that there is negative autocorrelation. The Durbin-Watson statistic in our study has a value of 1.994, which is close to 2, indicating that autocorrelation does not exist.

Moreover the study finding shows that all variable are significant with value  $< 0.05$  except finance and management. Given this, multiple correlation coefficients between all of the independent variables finance, management marketing infrastructure, technology working place and political legal and the dependent variable (development) is  $.903^a$ , as showed by multiple R. In addition R Square value or squared value of R  $.816$  which used to describe the goodness-of-fit and adjusted R square value of  $.811$  it may depicted that 81.1% of the variation in development of MSMEs can be explained by the predictor variables, while the remaining 18.9 % of the variance is explained by other variables not included in this study. The unstandardized coefficients B column provides us the coefficients of the independent variables in the regression equation including all the predictor variables as listed below.

$$\text{Predicted development score} = 0.111 + .246 (\text{Marketing}) + .100 (\text{Infrastructure}) + .294 (\text{Technology}) + .181 (\text{Working place}) + .172 (\text{Political legal})$$

Table 4.12, also demonstrates that, the five explanatory variables mentioned above included in this study can significantly explain at 95% confidence level to the variation on the development. The standardized beta coefficient column displays the contribution of each variable to the model. The beta weight is the average increase in the dependent variable when the independent variable increases by one standard deviation (all other independent variables remain constant). We can compare them because they are standardized. Thus, the largest influence on the development of MSMEs is came from the technology factor (.290) and followed by marketing factor (.230). On the other hand Finance with the beta value of  $(-.024)$  and management with the beta value of  $(.082)$  are the poorest predictor of development when it is compared with the other explanatory variables under study.

Taking the above findings into account, the following statements could be made about the study's hypothesis, as well as the summary of results and discussions based on inferential and descriptive data presented below.

❖ **Financial factors:** This factor is statistically insignificant, according to the statistical results. Despite the fact that it was ranked as the top problem that MSMEs face based on the results of central tendency and dispersions (descriptive analysis ).On the other hand, the factor had a negligible impact on impeding the development of MSMEs. In contrast with this finding, Serwitu (2018) discovered that financial factors were the fourth most significant influential factor affecting MSMEs and ranked as the third most severe problem in the descriptive analysis, whereas Admasu Abera (2012) discovered that financial factors were the second most significant influential factor affecting MSMEs and ranked as the second most severe problem in the descriptive analysis. However this, due to result from regression analysis for financial factor is statistically insignificant we reject the hypothesis which is stated as: “lack of access to finances negatively influences the development of MSMEs in Ethiopia”. In contrast, Abet et al. (2015) conducted research on "Financing Small and Medium Enterprises in Asia and the Pacific." The study found that a lack of finance, a lack of accounting skills related to managing their capital, particularly by the owner of the enterprise, a lack of information between banks and MSMEs had hampered the development of these enterprises. The driving force behind the growth and development of SMEs is finance. It expands business credit, assisting capable firms in increasing productive capacity, and laying the groundwork for long-term development in the area (Geiger & Moller, 2015). On the other hand, one of the most significant barriers to the growth and development of SMEs in developing and emerging country is a lack of access to finance. SMEs' ability to obtain bank loans is limited in comparison to large enterprises. As a result of this issue, most SMEs rely on an internal resource, such as cash from their own savings, families, and friends, particularly during the startup period (World Bank, 2018). For instance according to the descriptive finding of this study, 56.6 percent of the funds for these businesses come from informal sources such as family, friends, NGOs, and Iqub(Traditional Financial Saving). Banks and other formal financial institutions have been unable to meet the credit needs of MSMEs. As a result of the high interest rates and collateral requirements imposed by banks, the majority of MSMEs have been forced to seek credit from informal

institutions. Furthermore, banks and other financial institutions preferred asset as the primary criterion for providing financial assistance to these businesses. However, many small enterprises suffer from a lack of assets or collateral. As is well known, majority of these enterprises get their start-up capital from their own savings, family, or friends. As a result, it is difficult for these enterprises to obtain additional assets, particularly fixed assets, to serve as collateral for banks or other formal institutions (Tambunan, 2019). Furthermore, raising capital for SMEs is more difficult than for large enterprises. According to Yoshino (2016), banks prefer to lend to large enterprises rather than SMEs. Accounting information and risks in large enterprises are lower than in SMEs due to the lack of clear financial statements in SMEs. As a result, MSMEs face more financial constraints than large corporations due to the lack of credit and collateral bias (Weddeslassie et al., 2019).

- ❖ **Management factor:** Table 4.10 from the regression analysis shows that the management factor has a negligible impact on the development of MSMEs. This suggests that the management factor is not a critical determinant of MSMEs' development. In descriptive analysis, this factor was ranked as the seventh least problematic issue that MSMEs faced. As a result, we reject alternative hypothesis that "a lack of management skills has a negative impact on the development of MSMEs in Ethiopia" and accept the null hypothesis. According to this, Serwitu (2018) discovered that the management factor is statistically insignificant for MSMEs development and ranked it as the eighth least problem impeding MSMEs development in Ethiopia. Similarly Abera (2012) discovered that management factor as the poorest predictor of development and the fifth ranked problems of the enterprises facing. In contrary to the study, Osotimehin et al.( 2012), studied "An evaluation of the challenges and prospects of micro and small scale enterprises development in Nigeria". Found that lack of management skill constrained the development of SMEs.

Furthermore, Ebitu et al. (2015) investigated problems in the performance of SMEs in Nigeria. According to the study's findings, a problem related to SMEs marketing constraints is the inability to apply modern marketing techniques, technology,

strategies, and the difficulty in managing SMEs. The primary cause of this problem, according to the study, is the managers of SMEs. Because the majority of SMEs' managers are limited by a lack of understanding of marketing practices and principles. These problems were impeding the performance of these businesses as a whole. As a result, SMEs, as critical development tools, require a variety of improvements in terms of business competitiveness. In this regard, managerial abilities are the most important factors in enhancing SMEs' internal problems and competitiveness. Management skills are required for the development of adequate and appropriate strategic planning, which aids in the development of MSMEs. These management skills also help managers determine and implement enterprise goals. Management skills will help businesses to achieve market competitiveness (Leyva Carreras et al., 2018).

- ❖ **Marketing factor:** According to the regression analysis, marketing was the second most significant factor for the development of MSMEs at the 1% level of significance. Furthermore, the Correlation results from table 4.10 demonstrated a strong relationship between marketing factors and development ( $r = .826^{**}$ ,  $p < 0.01$ ). The descriptive results of this factor revealed that the marketing factor was the sixth major issue impeding the development of MSMEs. The hypothesis that "lack of marketing skills negatively influences the development of MSMEs in Ethiopia" was found to be significant in this case and may thus be accepted. In line with this, Serwitu (2018) discovered that marketing factors were the first significant influential factors affecting MSMEs, whereas Abera (2012) discovered that marketing factors were the third significant influential factors affecting the enterprises and ranked as the third most severe problems in descriptive analysis. Marketing deficiencies, according to Jovanov and Stojanovski (2012), contributed to the failure of SMEs. According to these authors, small businesses are more affected by problems than large businesses. Due to their small size, these enterprises have a limited customer base, marketing activities, expertise, and impact. Furthermore, these enterprises are distinguished by an excessive reliance on the owner or manager of the company. Because these enterprises are small in size, the owner or manager controls or manages all activities, and every marketing decision

is based on the manager's marketing ability. These have their own negative or positive effects on the enterprise's performance. According to Ebitu et al. (2015), marketing skills problems such as the inability to analyze market opportunities, a lack of promotion and advertising for their product, inefficiency in operation and production, a lack of product standardization, low level quality products, and a lack of an effective pricing strategy are some factors that affect the performance and profitability of small enterprises.

A lack of marketing, in particular, jeopardizes the company's ability to export its products (Tambunan, 2019, p.12). As a result of small firms' inefficiency in allocating resources and a lack of relevant information, market failures can occur. High fixed costs, a lack of information on foreign buyers, distribution channels, quality standards, and new technology all limit MSMEs' ability to enter export markets effectively and efficiently (Hallberg, 2000). It is difficult to obtain potential customers for products and services when one lacks marketing skills. According to Van Scheers (2011), no one will do business with you if the market's potential consumers lack adequate information or awareness about the product and service you offer. According to a study conducted by Bateman and Snell, which Van Scheers (2011) cites, if marketing and managerial abilities are insufficient to sustain the firm, SMEs face significant challenges in becoming profitable and successful. Strong management and marketing skills are essential for the formation and growth of SMEs. On the contrary, a lack of these skills is a major impediment to SMEs' growth and a leading cause of business failure. According to these authors, the marketing concept should be shared by the entire company. Otherwise, the inadequacy of this concept could lead to the company's failure (Van Scheers, 2012).

- ❖ **Infrastructure factors:** Multiple linear regression results revealed that infrastructure factors have a significant impact on the development of MSMEs, and this was tested at a 5% level of significance. In descriptive statistics, it was ranked as the second most significant impediment to the development of MSMEs. Power outages (electricity power), insufficient and interrupted water supply, a lack of business development services, a lack of adequate and timely transportation, and a

lack of an appropriate dry waste and sewerage system were identified as major constraints affecting enterprises under this factor. Besides the hypothesis that “lack of infrastructures negatively affects the development of MSMEs in Ethiopia” was also found to be significant and may thus be accepted. Similarly, Abera (2012) and Serwitu (2018) discovered that infrastructure factors were the most influential factors influencing enterprises.

According to Obokoh and Goldman (2016), a lack of infrastructure has a negative impact on the production and profitability of MSMEs. Similarly, Getahun (2016) asserts that a lack of infrastructure has a negative impact on production in terms of quality, quantity, and timeliness. A lack of infrastructure also contributed to low capacity and power utilization. Furthermore, according Mehta (2013) insufficient infrastructure facilities such as roads, electricity, water, and transportation have all hindered the development of MSMEs.

Overall, infrastructure is an important factor in the establishment, growth, and survival of businesses (Aruwa, 2006). The provision of appropriate infrastructure is critical in enhancing MSMEs' growth and development, as well as their performance and competitiveness in a variety of markets. Aside from that, the availability of infrastructure may have an impact on the manufacturing process and enterprise performance in terms of output quality and quantity, revenue, and profit. Furthermore, the availability of infrastructure improves the long-term profitability of MSMEs. It also allows businesses to operate in a favorable and ideal environment ( Mugo et al.,2019). Furthermore, Mugo et al. (2019) discovered that the availability of adequate infrastructure has a strong positive effect on the growth of SMEs.

- ❖ **Technological factors:** In the regression analysis, technological factors were discovered to be the first most significant and determinant factor affecting the development of MSMEs at the 1% level of significance. Furthermore, it was ranked as the fourth most serious problem of the enterprises in descriptive analysis. The major problems that MSMEs face are a lack of appropriate machinery and equipment, a lack of skills to handle new technology, a lack of money to acquire

new technology, and an inability to select appropriate technology. Furthermore, when the hypothesis "Lack of technology negatively influences the development of MSMEs in Ethiopia" was tested at a 1% level of significance, it was found to have a significant impact on MSME development and thus may be accepted. Serwitu (2018) discovered that technological factors were the third most important factor affecting MSMEs. While Abera (2012) discovered that technological factors were the seventh least influential factor affecting enterprises. On the contrary to Abera (2012) and in the line to the finding of this study Wami (2020) stated that lack of adequate technology is a common problem among these enterprises in Ethiopia.

Tambunan (2019) investigated the development of SMEs in Indonesia using secondary data. According to the author, various factors hampered SMEs in Indonesia. According to the findings, some of the constraints to the development of SMEs in Indonesia are a lack of access to technology, business information, and a lack of human power due to a lack of skill. Furthermore, a lack of access to network information, a lack of know-how, knowledge, and experience in local and global markets, a lack of resources such as a lack of access to finances, skilled human capital, access technology, and market information, as well as a lack of R&D and innovation, all have a negative impact on the production process of SMEs, according to Yoshino (2016).

Overall, the development of MSMEs is heavily reliant on innovation and new technologies. Modern technologies, in particular, increase the productivity of small businesses by lowering production costs, increasing speed, efficiency, and effectiveness, and shortening the time it takes to produce goods and services. As a result, technological advancements have an impact on the business environment by increasing competitiveness. Aside from that, rapid technological change can lead to firms and corporations becoming more innovative and employing a variety of methods to keep their product and service innovations alive (Jovanov and Stojanovski, 2012). Furthermore, information technology is essential in today's business. Smart phones, computers, and tablets are helping to boost sales in many industrialized countries. As a result, e-commerce is preferred over traditional sales in these countries. However, due to a lack of ICT infrastructure and other

constraints, many MSMEs in LDCs find it difficult to use e-commerce (Yoshino, 2016). Small businesses in developed countries, for instance, have greater access to modern technology than small businesses in developing countries, such as Ethiopia. MSMEs must invest in technology and operational improvements, as well as maintain a strong commitment to change, to overcome the problem of market competitiveness (MOUDH, 2016).

- ❖ **Working place factors:** At the 1% level of significance, the working place factor was identified as the third most significant influential factor affecting MSMEs in the regression analysis. Correlation analysis results also revealed a strong relationship between working place factors and development ( $r = .734$ ,  $p < .01$ ). Similarly, the descriptive analysis findings ranked this factor as the third core problem affecting the development of MSMEs, which included the current working place is inconvenient, the house rent is too high, and Absence of own premise. Furthermore, the hypothesis that "Lack of working place negatively influences the development of MSMEs in Ethiopia" was found significant and may thus be accepted. According to the findings, Abera (2012) discovered that working place factors were the first most significant factor affecting the enterprises and were ranked as the second core problem affecting the enterprises in descriptive analysis. Similarly, Serwitu (2016) discovered that working premise factors were the second most significant issue affecting businesses.

External factors affecting small businesses include a lack of marketplace, production, a lack of markets in which to sell their products and services, and market entry barriers (Seyoum et al., 2016). Obtaining market access benefits MSMEs by allowing them to grow and strengthens their relationships with one another (firms). These factors may increase businesses' ability to invest, develop, and create a favorable market environment (Reji, 2013). However, the growth of these businesses is hampered by a lack of market access and a weak link between them. Internal enterprise weakness and resource scarcity are two issues related to market access and weak enterprise linkage. Because of these issues, small

businesses make a low profit, limiting their ability to grow and invest (Weldeslassie et al., 2019).

In Ethiopia, the main impediment to the growth and development of MSMEs is a lack of market access and land availability. The most significant impediment to the growth of MSMEs in Ethiopia is a lack of available land. This problem has a substantial supply and demand gap, particularly in capital cities. The main cause of a shortage of land or working places is that demand exceeds supply (Geiger & Moller, 2015). In fact, market access is critical for obtaining raw materials, semi-finished materials, and selling what they produce; however, a lack of market access has hampered the development and expansion of these enterprises (Wami, 2020). Furthermore, Assefa et al. (2014) state that a lack of working spaces, sales spaces, and sales premises has been a major impediment to the development of small businesses.

- ❖ **Political legal factors:** the econometric result exhibited that political legal factor is the fourth most statistically significance for MSMEs development at 1% level of significance. In descriptive analysis, it was found the fifth challenging problems that hindering MSMEs development. Under this factor, lack of accessible information on government regulations that are relevant to my business, political intervention, the tax levied on my business is not reasonable, lack of government support and bureaucracy in company registration and licensing respectively were included as core problem for the development of MSMEs. Considering this, the hypothesis which states that “Issues related to Political-legal factors negatively influences the development of MSMEs in Ethiopia” tested at a 1% level of significance was discovered to have a significant impact on MSMEs and thus may therefore be accepted. In contrary to this Abera (2012) found political legal factor were the six least significant influential factors affecting the enterprises and prioritized descriptively as also the six most affecting problems. Besides, Serwitu (2018) found that political legal factor is statistically insignificant factor affecting enterprises development and descriptively, it was found that, the fourth challenging problems affecting MSMEs.

According to the study's findings Zamberi Ahmad (2012), a lack of supportive government and bureaucracy, an unfriendly business environment, and unexpected policy and regulatory changes constraints to the development of MSMEs. Similarly, the finding of Al-Hyari (2013), indicates that problems related to regulation and rigid business rules hindered the development of SMEs. Besides according finding of Govori (2013), external factors such as corruption, and government policies, have a significant negative impact on the development of SMEs. Moreover, government policy changes and bureaucracy, inconsistent monetary policy, inflation, unfair computation, multiple taxes for medium enterprises, lack of raw material in local market, country instability, unfair computation in global market, global sourcing, global market crises, recession, and lack of state government support during crises are some of the challenges that MSMEs face, according to Kazimoto (2014). Moreover, market failure barriers, policy sphere, and insufficient unfavorable business environment are some constraints that SMEs face. As a result, market failure and other constraints can limit MSMEs' access to strategic resources such as skills, finance, management capacity and knowledge, networks, and information. In addition, a lack of access to these things can jeopardize the enterprise's competitiveness in both the local and global economies (OECD, 2017).

## **Chapter 5: CONCLUSIONS AND RECOMMENDATIONS**

Financial, management, marketing, infrastructure, technological, working place, political, and legal factors were measured in relation to their effect on MSMEs development in Ethiopia, specifically in the Nifes silk lafto subcity of Addis Ababa, based on the study's findings. The median value, Pearson correlation result, and regression analysis result were used in this study to draw conclusions that were related to the hypothesis and the study's research objectives. Recommendations and suggestions were made to government bodies, MSMEs owners, concerned bodies, and other researchers based on the study's findings.

### **5.1 Conclusions**

This study was carried out in Ethiopia, specifically in the Nifes silk lafto subcity of Addis Ababa, with the objective of critically assessing and analyzing the challenges that MSMEs engaged in metal and furniture work, food processing, and textile and garment manufacturing face. The study attempted to assess the influence of financial, management, marketing, infrastructure, technology, working place, political, and legal factors on the development of MSMEs. The following conclusions should be drawn based on the study's objectives and findings.

Financial, infrastructural, working place, technological, political, and legal factors were found to be the five top most problems that have a significant impact on the development of MSMEs, according to the descriptive analysis findings. Financial factors, in particular, are shown to be a major constraint for the development of these businesses in the descriptive results. The reason for this problem is that the main sources of capital for businesses to start up and operate come from informal financial sources. According to the findings of the study, 56.6 percent of the funds for these businesses come from informal sources such as family, friends, NGOs, and Iqub (“Traditional Financial Saving”). The formal financial institutions (Banks) have been unable to meet MSMEs' credit needs. Most MSMEs have been forced to use informal institutions for credit due to the high interest rate

and collateral requirements. However, as a study shows, the supply of credit from informal institutions is frequently insufficient to meet the credit needs of MSMEs.

Correlation analysis results show that all independent variables (financial, management, marketing, infrastructure, technological, working place, and political legal factors) have a significant positive association with the dependent variable (development). The results of multiple regression analysis show that technological, marketing, working place, political legal, and infrastructure factors all have a significant effect on the development of MSMEs at the 1% level of significance, with the exception of infrastructure, which has a 5% level of significance. Similarly, standardized coefficient results show that technological factors, followed by marketing factors, working place factors, and political legal factors, are the top four significant influential factors in the development of MSMEs. Finance and management, on the other hand, were found to have insignificant influence on the development of MSMEs.

## **5.2 Recommendations and contributions**

### **5.2.1 Recommendations for the government**

The government's assistance to small businesses has the potential to increase citizens' social benefits (Agyapong, 2010, p. 28). Furthermore, according to Muhammad et al. (2015), effective government policy and regulation promotes the development of SMEs. In light of this, the following recommendations were made to the government:

- ❖ In order to promote gender equality in business and economic growth, the Ethiopian government should promote more women entrepreneurs in Addis Ababa's Nifes silk lafto sub city. Men outnumber women in the ownership of MSMEs, according to this study.
- ❖ Introducing entrepreneurial skills in training courses will go a long way in boosting the development of these enterprises, according to this study, which found more graduate entrepreneurs and diploma and degree holders.
- ❖ Because young entrepreneurs make up the majority in Addis Ababa's nifes silk lafto sub city, the focus of government and non-governmental organizations (NGOs) and authorities responsible for promoting entrepreneurs in Ethiopia should be on them.

- ❖ Government of the country should assist the enterprises by analyzing external market opportunity. More over by facilitating exhibition place for their product.
- ❖ Government of the country should assist the enterprises by enhancing infrastructure development such s road, electricity, market place for product etc.
- ❖ The government's determined regulations should be directed toward policies that benefit Micro, Small, and Medium Enterprises (MSMEs). The government's facilities and mediation in assisting entrepreneurs should focus on facilitating access to finance/capital resources, technical and managerial training, the ease of obtaining a business license, the availability of business centers/locations, and market information.
- ❖ More over government should have to diversify channels of financing to support this enterprises.
- ❖ Government and non-governmental organizations should hold regular seminars for potential and actual small and medium business owners on how to plan, organize, direct, and control their businesses, and micro, small, and medium business owners should always devise effective marketing strategies and maintain good customer relations.
- ❖ The government should encourage the growth of MSMEs by providing appropriate service and financial support. Improving the problem of value chains, taking advantage of regional market opportunities, growing digitalization, Supporting business owners, entrepreneurs, and employees by providing skill training
- ❖ To support the development of MSMEs, the country government must improve legal regulators as well as policies regarding financing, taxation, and licensing as well as enterprise formalization.
- ❖ Government should providing assistance and enhancements to business development services.
- ❖ Government should provide financial support for MSMEs in order to the enterprises to obtain advanced technology and to support innovation.
- ❖ Government should facilitate institution that provides training skills for Entrepreneurs.

### **5.2.2 Recommendations for owners or managers of (MSMEs)**

A number of factors can influence the growth of MSMEs. Managerial ability and owner objectives are two of these factors (Weldeslassie et al., 2019). According to Muhammad et al. (2015), regardless of firm size, firm competitiveness is the foundation of wealth creation, social and economic development. They claimed that the competitiveness of these firms was determined not only by the ability or capacity of the entrepreneurs, but also by the effectiveness, competency, and efficiency of the managers. Given this, the following recommendations were made for the owners or managers of (MSMEs):

- ❖ Owners or managers of (MSMEs) must improve their entrepreneurship skills in order to compete in market. MSMEs are expected to achieve better growth and development by using effective marketing strategy. Effective marketing can assist the performance of MSMEs. Taking this MSMEs manager should have to train them self and implement good marketing strategy in order to succeed in today competitive environment.
- ❖ Operators of micro, small, and medium - sized enterprises should devise effective marketing strategies. This includes promotional strategies such as advertising and maintaining good customer relations at all times.
- ❖ Owners or managers of MSMEs in Nifes silk lafto Sub Cities should use various networking channels to freely exchange services such as advertising. Because this will increase the competitiveness of the enterprises by lowering the cost of production. In the long run, this will improve MSMEs' sustainability, performance, profitability, and development.

### **5.2.3 Theoretical contributions**

The research on Assessing the Challenges of Micro, Small, and Medium Enterprise Development builds on previous studies on small business growth, survival, and development, particularly studies on LDCs such as Ethiopia. If a lack of marketing, infrastructure, technology, working environment and political legal factors is affecting the development of MSMEs and resulting in low survival of these enterprises, then further research into MSMEs development is warranted. Small businesses in LDCs frequently face a variety of constraints to the growth of their businesses, posing a threat to their ability to

survive and develop. On the other hand, adequate availability of these factors may improve the enterprise's success and growth (Muhammad et al. 2015). MSMEs research could help to refine theories about the short and long term survival of these businesses. This study expands on knowledge-related factors affecting MSMEs by employing, proposing, and testing seven potential factors that may influence MSMEs' development. By implying that technological, marketing, work place, political-legal, and infrastructure factors can have a significant impact on MSMEs' development, it contradicts previous research that found financial factors to be the most influential factor affecting SMEs (Admasu Abera, 2012) and political legal factors to be statistically insignificant (Serwitu, 2018). It also suggests that the development of MSMEs can be successful through the development of marketing links between small and large enterprises, infrastructure development, and technological development. Furthermore, these findings can be used to expand theory related to government support and promotion of small businesses, which appears to be the solution for the growth and development of MSMEs (Muhammad, et al., 2015; Tambunan, 2008). This means, government assistance and support programs in gaining access to finance, working place and adopting new technology would also promote the development of this enterprises Chowdhury (2007) cited in (Muhammad, et al., 2015). In general this study assessed major factors hindering the development of MSMEs. The results of the study useful information for MSMEs to better understand and are prepared for these constraints. In conclusion, the finding of this study contribute to the literature on MSMEs studies and suggest directions for further research on issues relating to development of MSMEs in developing countries particularly Ethiopia.

### **5.3 Limitations and future directions of the study**

Overall, assessing various factors based on relevant information is critical for the growth and development of any enterprise, large or small. This can be accomplished by conducting additional research in related areas. This study's primary focus was on MSMEs, specifically those in the manufacturing sectors of wood and metal work, food processing, and textile and garment. Furthermore, this study focuses solely on the financial, management, marketing, infrastructure, technological, working place, political, and legal factors that influence the development of MSMEs. This demonstrates the presence of a

large area for further investigation by taking into account various internal and external factors that influence the development of MSMEs. Aside from that, the field of MSMEs is very broad and diverse. Given this, future research could focus on larger businesses. Furthermore, it is strongly advised that researchers interested in the growth and development of MSMEs engage themselves and conduct additional research, because it is an interesting area with many unresolved problems. As a result, it would be commendable to obtain more remedies to many arising issues that contribute to better identifying, analyzing, and determining more effective ways to address constraints and widen the success factors of MSMEs.

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## **APPENDIX A**

**REPUBLIC OF TURKEY  
ANADOLU UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCE  
DEPARTMENT OF INTERNATIONAL BUSINESS**

### **INFORMED CONSENT FORM**

This survey is part of a study of titled “Assessing Challenges and Prospects of Micro Small and Medium Enterprises Development In Case of Ethiopia”. The purpose of the study is to assess and analyses the challenges and prospect of Micro Small and Medium Enterprises development in Ethiopia. The research is conducted for the partial fulfillment of the Master’s degree at Anadolu University of Turkey, under the supervision of Dr.Nur ÖZER CANARSLAN. The information provided was confidential and used only for purpose of academic research. Your participation is completely voluntary and no need of writing your name and enterprise’s name.

**Ethical principles which will applied throughout the study is given below:**

- ❖ Your participation in this study is voluntary.
- ❖ You may skip any questions you don’t want to answer
- ❖ The data obtained within the scope of the research shall be used for scientific purposes only and shall not be used for purposes other than the purpose of the research.
- ❖ If you have any questions about this study, please contact me:

Researcher: Hanan Tahir Ahmed

Address:

Telephone:

e-mail:

**By completing this survey, you are consenting to participate in this study.**

**Thank you for taking the time to read and evaluate the information and consent form**

## **Introduction to survey**

### **Dear respondent**

I am graduate student in the department of International Business, Studying at Anadolu University in Eskisehir Turkey. Currently, I am undertaking a research entitled “Assessing Challenges and Prospects of Micro Small and Medium Enterprises Development In Case of Ethiopia”. The objective of this questionnaire assists me to get first-hand information from owners or managers of enterprises. So as you are one of the respondents selected to participate in this study, Please assist me by providing correct and complete information.

Your free will and cooperation in giving reliable and timely information is very important. Overall, the confidentiality of the information you provide to me is kept completely anonymous and it is only used for academic purposes. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. Thank you in advance for your kind cooperation and dedicating your time

**Sincerely**

**Hanan Tahir**

### **INSTRUCTIONS**

- ✓ No need of writing your name and enterprise's name.
- ✓ For Likert scale type statements and multiple-choice questions indicate your answers with a check mark (✓) in the appropriate block.

**PARTICIPANTS PROFILE**

- 1. Gender: Male  Female
- 2. Age group: 18-24  25-35  36 - 44  Above 45
- 3. Marital status: Married  Single  Divorce
- 4. Level of education: No formal education  Primary  Secondary   
Diploma  Degree  Second degree & above
- 5. Length of experience in the firm (business):  
Below one year  1-4   
5-10 years  11 and above years

**SECTION 2: General Information on Business Enterprises**

- 1. What is the main activity of the enterprise?  
Textile and garment  Food processing  Wood and metal work
- 2. What is the number of employees in your enterprise?  
1-5 Employees  6-10 Employees   
10-15 Employees  above 15 Employees
- 3. How did you raise funds to start-up and run your business?  
Personal saving  Micro finance institutions  NGOs   
Family/ Friends  Banks  Iqub/Idir   
Others (specify)-----
- 4. How do you see your enterprise in term profitability?  
Profitable  Not Profitable  break-even income

**Section 3: Challenges of Micro Small Medium Enterprises**

The major factors that affect development of MSEs in Ethiopia are listed below. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√)

under the choices below. Where, **5** = strongly agree, **4** = agree, **3** = somewhat agree, **2** = disagree and **1**= strongly disagree

1. Please indicate the degree to which you agree with the following statements concerning financial factors.

No	Financial factors	Strongly agree	Agree	Somewh at agree	Disagree	Strongly disagree
1.1	Lack of cash management skills					
1.2	High interest rate charged by banks and other lending institutions					
1.3	High collateral requirement from banks and other lending institutions					
1.4	Inadequacy of credit institutions					
1.5	Shortage of working capital					
1.6	Loan application procedures of banks and other lending institutions are too complicated					

2. Please indicate the degree to which you agree with the following statements concerning management factors.

No	Management Factors	Strongly agree	Agree	Somewh at agree	Disagree	Strongly disagree
2.1	Lack of clear division of duties and responsibility among employees					
2.2	Poor organization and ineffective communication					
2.3	Poor selection of associates in business					
2.4	Lack of well trained and experienced employees					
2.5	Lack of low cost and accessible training facilities					
2.6	Lack of strategic business planning					

3. Please indicate the degree to which you agree with the following statements concerning marketing factors.

No	marketing factors	Strongly agree	Agree	Somewhat agree	Disagree	Strongly disagree
3.1	Inadequate market for the product and inputs					
3.2	Searching new market is so difficult					
3.3	Lack of demand forecasting					
3.4	Lack of market information					
3.5	Absence of relationship with an organization that conduct marketing research					
3.6	Lack of promotion to attract potential users					
3.7	Poor customer relationship and handling					

4. Please indicate the degree to which you agree with the following statements concerning infrastructural factors.

No.	Infrastructural factors	Strongly agree	Agree	Somewhat agree	Disagree	Strongly disagree
4.1	Power interruptions (electricity power)					
4.2	Insufficient and interrupted water supply					
4.3	Lack of business development services					
4.4	Lack of sufficient and quick transportation service					
4.5	Lack of appropriate dry waste and sewerage system					

5. Please indicate the degree to which you agree with the following statements concerning technology factors.

No	Technology Factors	Strongly agree	Agree	Somewhat agree	Disagree	Strongly disagree
5.1	Lack of appropriate machinery and equipment					
5.2	Lack of skills to handle new technology					
5.3	Lack of money to acquire new technology					
5.4	Unable to select proper technology					

6. Please indicate the degree to which you agree with the following statements concerning working place factors.

No	Working Place Factors	Strongly agree	Agree	Somewhat agree	Disagree	Strongly disagree
6.1	Current working place is not convenient					
6.2	The rent of house is too high					
6.3	Absence of own premise					

7. Please indicate the degree to which you agree with the following statements concerning politico-legal factors.

	Political - legal factors	Strongly agree	Agree	Somewhat agree	Disagree	Strongly disagree
7.1	Lack of accessible information on government regulations that are relevant to my business					
7.2	Political intervention					
7.3	The tax levied on my business is not reasonable					
7.4	Lack of government support					
7.5	Bureaucracy in company registration and licensing					

8. Please indicate the degree to which you agree with the following general factors that has directly affects the development of your enterprise.

No	Development	Strongly agree	Agree	Somewhat	Disagree	Strongly disagree
8.1	I think that financial related factors has affected the profitability of our enterprise					
8.2	I think that management related factors has affected the profitability of our enterprise					
8.3	I think that marketing related factors has affected the profitability of our enterprise					
8.4	I think that infrastructure related factors has affected the profitability of our enterprise					
8.5	I think that technological related factors has affected the profitability of our enterprise					
8.6	I think that the working place related factors has affected the profitability of our enterprise					
8.7	I think that political legal related factor has affected the profitability of our enterprise					

➤ Any remark that you would like to add.

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**I thank you again for your kind cooperation**

APPENDIX B

ቱርክ ሪፐብሊክ

አናዶሎ ዩኒቨርሲቲ

የማህበረሰብ ሳይንስ ጥናት ኢንስቲትዩት

አለም አቀፍ ንግድ ስራ ትምህርት ክፍል

ማስተርስ ፕሮግራም

ክፍል አንድ: መግቢያ

ውድ የጥናቱ ተሳታፊ:

እኔ በአናዶሎ ዩኒቨርሲቲ ንግድ ስራ ትምህርት ክፍል የአለም አቀፍ ንግድ ስራ አስተዳደር የድህረ ምረቃ ተመራቂ ተማሪ ስሆን፤ በአሁን ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ። የጥናቴ ርዕስም በኢትዮጵያ የሚገኙ የጥቃቅን ፣ አነስተኛና መካከለኛ የንግድ ተቋማትም የእድገት ተግዳሮቶችና ዕድሎች ግምገማ” ይመለከታል። የዚህ መጠይቅ አላማም ከላይ በተጠቀሰው ርዕስ መሰረት እርሶና እርሶን ከመሰሉ የጥቃቅን አነስተኛና መካከለኛ የንግድ ተቋማት ባለቤት ወይም ኅላፊ መረጃ ማግኘት ነው። ስለዚህ እርስዎ በዚህ ጥናት ውስጥ ለመሳተፍ ከተመረጡ ምላሽ ሰጪዎች አንዱ ነዎት ፣ ትክክለኛውን እና የተሟላ መረጃ በመስጠት እባክዎን እርዳኝ ። እርስዎ የሚሰጡትን ትክክለኛውን መረጃ ለጥናቴ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ እጠይቃለሁ። ተሳትፎዎ በእርስዎ በጎ በፈቃደኝነት ላይ የተመሰረተ ነው። በመጨረሻም የሚሰጡት መረጃ ሚስጥራዊነቱ የተጠበቀና ለዚህ ጥናት ዓላማ ብቻ እንደሚውል አረጋግጣለሁ። የማንኛውም መልስ ሰጪ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል። ሁሉም መረጃዎች ለትምህርታዊ ዓላማ ብቻ ይውላሉ። ጊዜዎን ሰውተው ስለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ።

ከትህትና ጋር

ሆናን ጣሂር

ማሳሰቢያ

- ✓ በመጠይቁ ላይ ስም መፃፍ አያስፈልግም።
- ✓ መልስዎን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ።

I. የተሳታፊ መረጃ

1. ያታ: ወንድ      ሴት
2. የእድሜ ክልል : 15-24  25-34  35-44  ከ45 በላይ
3. የጋብቻ ሁኔታ: ያገባ/ች  ላገባ/ች  ፊታ/ች
4. የትምህርት ደረጃ: ያልተማረ/ች  ንደኛ ደረጃ  ሁለተኛ ደረጃ   
 ዲፕሎማ  ዲግሪ  ድህረ ምረቃ

5. አጠቃላይ በንግድ አለም ያለዎት የስራ ልምድ፡

ከአንድ አመት በታች

5-10  ከ11 በላይ

**II. ስለቢዝነስ ተቋማት አጠቃላይ መረጃ**

1. የተሰማሩበት የስራ መስክ ምንድነው?

ጨርቃ ጨርቅና አልባሳት  የምግብ አዘገጃጀት  እንጨትና ብረታ ብረት

2. በአሁን ጊዜ የድርጅቱን ባለቤት ጨምሮ ስንት ሰራተኛ ይገኛል ?

1-5  6-10  11-15  ከ15 በላይ

3. የንግድ ስራዎን ለመጀመር ወይም ለማካሄድ የሚያግዝ ገንዘብ እንዴት ያገኛሉ ?

የግል ቁጠባ  ማይክሮ ፋይናንስ ተቋማት  ቤተሰብ/ጓደኛ

ባንክ  መንግስታዊ ያልሆኑ ተቋማት  ባህላዊ የገንዘብ ተቋማት እቁብ

ሌላ

4. የድርጅቱን የትርፋማነት ሁኔታ እንዴት ይገልጹታል ?

ትርፋማ ነዉ  ትርፋማ አይደለም  ትርፍም ኪሳራም የለም

**III.**

ክፍል ሶስት፡ በጥቃቅን አነስተኛና መካከለኛ ተቋማት እድገት ላይ ተፅእኖ የሚያሳድሩ ጉዳዮች ከዚህ በታች ተዘርዝረዋል፡፡ ከተዘረዘሩት ችግሮች የእርስዎን ድርጅት እድገት ላይ ይበልጥ ተፅእኖ የሚያሳድሩትን በደረጃ ያመለክቱ፡፡ ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ ብቻ የ(✓) ምልክት በማድረግ ምላሽ ይሰጡ፡፡

5 = በጣም እስማማለሁ 3 = ለመወሰን እቸገራለሁ 1 = በጣም አልስማማም

4 = እስማማለሁ 2 = አልስማማም

ተ.ቁ	1.ከገንዘብ ጋር የተያያዙ ችግሮች	በጣም እስከማሳሰሁ	እስከማሳሰሁ	ለመወሰን እየተገራሰሁ	አልሰማማም	በጣም አልሰማማም
1.1	የብር አያያዝ ክህሎት ችግር።					
1.2	ባንኮችና ሌሎች አባዳሪ ተቋማት የሚጠሉት ክፍተኛ የብድር ወለድ መጠን።					
1.3	ባንኮችና ሌሎች አባዳሪ ተቋማት ለማበደር የሚጠይቁት ክፍተኛ የማስያዣ መጠን።					
1.4	በቂ የሆኑ የብድር ተቋማት አለመኖር።					
1.5	የስራ ማንቀሳቀሻ ብር እጥረት።					
1.6	ባንኮችና ሌሎች አባዳሪ ተቋማት ለማበደር የሚከተሉት ውስብስብና አሰልጣኝ ሂደት።					

ተ.ቁ	2.የስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች	በጣም እስከማሳሰሁ	እስከማሳሰሁ	ለመወሰን እየተገራሰሁ	አልሰማማም	በጣም አልሰማማም
2.1	በስራተኞች መካከል ግልፅ የሆነ የስራና ሀላፊነት ክፍፍል አለመኖር					
2.2	ደካማ አደረጃጀትና ውጤታማ ያልሆነ የግንኙነት አሰራር					
2.3	ደካማ የሆነ የስራ ባልደረቦችን መምረጥ					
2.4	የሰለጠኑ እና ልምድ ያላቸው ሰራተኞች አለመኖር					
2.5	በዋጋቸው ተመጣጣኝና ተደራሽ የሆኑ የሰለጠኑ እጥረት					
2.6	የረዥም ጊዜ የቢዝነስ እቅድ አለመኖር					

ተ.ቁ	ግብይትና ተዛማጅ ችግሮች	በጣም እስከ ስማማህሁ	ህይወት	ለመወሰን እቅጣቅጣ	አልሰማም	በጣም አልሰማም
3.1	በቂ የሆነ የገበያ እድል አለመኖር					
3.2	አዲስ የገበያ አማራጭን የመፈለግ አዳጋችነት					
3.3	የወደፊት የገበያ ፍላጎትን መተንበይ አለመቻል					
3.4	በቂ የሆነ የግብይት መረጃ አለመኖር					
3.5	ግብይትን በተመለከተ ጥናትና ምርምር ከሚያካሂዱ ተቋማት ጋር ግንኙነት አለመፍጠር					
3.6	ምርቶችን በአግባቡ አለማስተዋወቅ					
3.7	ደካማ የሆነ የደንበኛ አያያዝ					
ተ.ቁ	መሰረተ ልማት ጋር የተያያዙ ችግሮች	በጣም እስከ ስማማህሁ	ህይወት	ለመወሰን እቅጣቅጣ	አልሰማም	በጣም አልሰማም
4.1	የኤሌክትሪክ ሀይል መቆራረጥ።					
4.2	የተቆራረጠና በቂ ያልሆነ የውሃ አቅርቦት።					
4.3	የቢዝነስ ልማት አገልግሎት እጥረት።					
4.4	በቂ እና ፈጣን የሆነ የትራንስፖርት አገልግሎት አለመኖር።					
4.5	በቂ የደረቅና ፈሳሽ ቆሻሻ ማስወገጃ ስርዓት አለመኖር።					
ተ.ቁ	ቴክኖሎጂና ተዛማጅ ችግሮች	በጣም እስከ ስማማህሁ	ህይወት	ለመወሰን እቅጣቅጣ	አልሰማም	በጣም አልሰማም
5.1	ለስራዬ ተገቢ የሆነ ቴክኖሎጂ ግብዓት አለመኖር።					
5.2	በቂ የሆነ የቴክኒክ ክህሎት አለመኖር።					
5.3	በገንዘብ እጥረት ምክንያት አዳዲስ የቴክኖሎጂ ውጤቶችን አለማግኘት።					
5.4	ለስራዬ ተገቢ የሆነ የቴክኖሎጂ ውጤት መምረጥ አለመቻል።					

ተ.ቁ	ስራ ቦታና ተዛማጅ ችግሮች	ቦታዎች ሰማራ/ላህ	ህዳር/ሰማራ	ሰማራ/ላህ ሰማራ/ላህ	ሰማራ/ላህ ሰማራ/ላህ	ቦታዎች ሰማራ/ላህ
6.1	አሁን ያለሁበት ቦታ ለስራ አመቺ አለመሆን።					
6.2	ከፍተኛ የሆነ የቤት ኪራይ መጠን።					
6.3	ስራዬን የሚያካሄድበት የግል ቦታ አለመኖር።					
ተ.ቁ	ጋዌና ፖለቲካዊ ጉዳዮች	ቦታዎች ሰማራ/ላህ	ህዳር/ሰማራ	ሰማራ/ላህ ሰማራ/ላህ	ሰማራ/ላህ ሰማራ/ላህ	ቦታዎች ሰማራ/ላህ
1.1	ከስራዬ ጋር ተዛማጅ የሆኑ ህጎች፣ ደንቦችና አዋጆች ተደራሽ አለመሆን።					
1.2	ተገቢ ያልሆነ የፖለቲካ ጣልቃ ገብነት።					
1.3	ተመጣጣኝና ምክንያታዊ ያልሆነ የስራ ግብር።					
1.4	በቂ ያልሆነ የመንግስት ማበረታቻ።					
1.5	በቢሮክራሲያዊ ማነቆ የተተበተበ የምዝገባና የንግድ ፈቃድ አሰጣጥ ሂደት።					

8. እባክዎትን ከዚህ በታች ከተዘረዘሩት አጠቃላይ ጉዳዮች በቀጥታ የድርጅትዎ እድገት ላይ ተዕዛዝ ያሳድራል ብለው የያዩትንን በመጠን ያመለክቱ።

ተ.ቁ	እድገት	በጣም እየሰማሰሰ ሁ	እስከሰማሰሰሁ	ለመወሰን እየተገራሰሁ	አልሰማሰም	በጣም አልሰማሰም
8.1	ከገንዘብ ጋር የተያያዙ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.2	ከስራ አመራር ክህሎት ጋር የተያያዙ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.3	ግብይትና ተዛማጅ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.4	ከመሰረተ ልማት ጋር የተያያዙ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.5	ከቴክኖሎጂ ጋር የተያያዙ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.6	ከስራ ቦታ ጋር የተያያዙ ችግሮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					
8.7	ከመንግስት ህጎች፣ ፖሊሲዎችና ደንቦች ጋር የተያያዙ ጉዳዮች በድርጅታችሁ ትርፋማነት ላይ ተዕዛዝ ያሳድራል ብለው ያስባሉ					

➤ መጨመር የሚፈልጉት ሀሳብ ወይም አስተያየት ካለ.

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በድጋሚ ለትብብራቹ አመሰግናለዉ.

## APPENDIX C

Sos. Bil. Enl

Evrak Kayıt Tarihi: 08.09.2021 Protokol No: 135438

Tarih: 08.10.2021



ANADOLU ÜNİVERSİTESİ  
SOSYAL VE BEŞERİ BİLİMLER BİLİMSEL ARAŞTIRMA VE YAYIN ETİĞİ KURULU  
KARAR BELGESİ

<b>ÇALIŞMANIN TÜRÜ:</b>	Yüksek Lisans Tez Çalışması
<b>KONU:</b>	Sosyal Bilimler
<b>BAŞLIK:</b>	Mikro, Küçük ve Orta Büyüklükteki İşletmelerin Geliştirilmesinin Zorlukları ve Başarı Şansının Değerlendirilmesi: Etiyopya Örneği Assessing Challenges and Prospects of Micro Small and Medium Enterprises Development in Case of Ethiopia
<b>PROJE/TEZ YÜRÜTÜCÜSÜ:</b>	Dr. Öğr. Üyesi Nur ÖZER CANARSLAN
<b>TEZ YAZARI:</b>	Hanan Tahir AHMED
<b>ALT KOMİSYON GÖRÜŞÜ:</b>	-
<b>KARAR:</b>	Olumlu
<b>Prof. Dr. Saim ÖNCE</b> (Başkan-İkt. ve İdari Bil. Fak.)	
<b>Prof. Dr. M. Erkan ÜYÜMEZ</b> (Başkan Yardımcısı -İkt. ve İdari Bil. Fak.)	<b>Prof. Dr. Fatime GÜNEŞ</b> (Edebiyat Fak.)
<b>Prof. Dr. Yıldız UZUNER</b> (Eğitim Fak.)	<b>Prof. Dr. İbrahim Cemil ULUKAN</b> (Açıköğretim Fak.)
<b>Prof. Dr. Handan DEVECİ</b> (Eğitim Fak.)	<b>Prof. Dr. Erkan YÜKSEL</b> (İletişim Bil. Fak.)