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DETERMINANTS,CHARACTERISTICS AND PREFORMANCE OF THE GROWTH OF MICRO AND SMALL ENTERPRISES (MSE): A SYSTEMATIC REVIEW OF EVIDENCE FROM ETHIOPIA.

[1*]Shibeshi Fekadu Tolesa

[1*]Department of Agricultural Economics, College of Natural Resource and Agricultural Economics,Mattu University,Metu,Etiopia.
shibeshi2015@gmail.com

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ABSTRACT

Micro and Small Enterprises (MSE) are now the center of attention for global economic development, employment creation, and growth. Micro and small enterprises account for the majority of businesses globally.The informal sector, which mostly creates MSE, continues to be the main source of employment and income for the populace in developing nations, particularly in Ethiopia.

Ethiopia's unemployment and poverty are a result of both natural population expansion and migration. These difficulties have prompted the government to take action to lessen the issues. The 1997 adoption of the MSE development plan is one of these efforts. The policy aims to decrease poverty while simultaneously promoting entrepreneurship and creating the groundwork for industrial growth. In 2011, the plan was updated with fresh focus and more aggressive goals for employment and the percentage of businesses moving up to a medium level. Nevertheless, despite their efforts, MSEs in Ethiopia face numerous challenges, which leads to poor performance and a failure to make the necessary contributions from many MSEs.The purpose of this article is to examine the main obstacles and variables influencing the development and effectiveness of micro and small businesses in Ethiopia. Therefore, in order to boost MSE growth and performance and improve their contribution to the growth of the national economy, the government should place a strong emphasis on procedures for addressing these issues.

Keywords: Determinants, Growth, Smallenterprises, Micro, performance.

INTRODUCTION

The economic history of African countries has been characterized by widespread unemployment due to their swift population growth. (Batisa, S.2019; Amare, 2020). This reality has led to a number of administrations attempting to address the issues of poverty and unemployment at all levels as their main concerns(Atiase *et al*.,2017; Daba & Atnafu 2016; Bruin,2006; Fikadu,2015).

Given their importance in fostering capital formation, employment creation, and economic development, many emerging nations have paid sufficient attention to the expansion of micro and small businesses(Kamunge et al., 2014; Page & Soderbom,2015; Mano et al,2012). Micro and small businesses enable enterprising households to raise their standard of living by enabling them to improve output, investment, and income in addition to meeting fundamental requirements like food, education, and healthcare(Kassa,2021). In order to use microenterprises to eliminate poverty, they should employ locally produced goods to increase profitability. Additionally, they should receive more support to maintain their current operations, such as awareness-raising campaigns and training programs. Micro and small enterprises (MSEs) encounter several obstacles, which lead to their subpar performance and inability to make necessary contributions(Abera *et al*, 2019).

According to Desta & Tulu,2015; Habtamu *et al*.(2013), the productivity of labor has been low and stagnant, even though micro and small enterprises make up a sizable portion of the industrial GDP and provide jobs for the growing labor force. Many impoverished people are employed in the low-wage,low-productivity urban informal economy.A significant portion of the impoverished urban population is employed in the unofficial economy,encompassing manufacturing and trade, hotels, restaurants, and urban agriculture and other companies.

Micro, small, and medium-sized companies (MSEs) are recognized for their long-standing significance as catalysts for developing nations to achieve their growth goals. MSEs have demonstrated a great propulsive influence on quick economic growth in emerging countries due to their scale, capital investment, and capacity to create more jobs (ILO,2008; Osotimehin *et al*,2012; Kumie *ea al*.,2016).

Furthermore, with rapid population expansion, African countries have experienced the challenge of large-scale unemployment throughout their economic history (Anderson & Starnawska,2008; Effiom & Edet,2020; Gebremariam,2017). Because of this, the main problems have been unemployment and poverty, which numerous administrations have made a concerted effort to solve at all levels(Gebrehiwot & Wolday,2006; Gemechu & Teklemariam,2016; Meressa,2020).It is well known that in least developed nations like Ethiopia, a considerable portion of the population may make a living through micro and small businesses(Beza,2022; Tafa,2019; Rambe & Mosweunyane,2017).

According to (Bula 2012; Daba & Amanu,2019; CSA,2016; Desta & Tulu,2015), Approximately 65 percent of the more than 21,000 MSEs in Ethiopia that responded to the survey acknowledged that their primary obstacles were things like a lack of space for marketing and production, a lack of funding and credit, issues with organizing and licensing regulations, poor production methods, restrictions on input access, a lack of information, insufficient management and business acumen, and a lack of approval. These limitations align with the experiences of other developing nations, especially those in Sub-Saharan Africa, where the main obstacles faced by MSEs are poor funding, incompetent management, corruption, a lack of experience and training, inadequate infrastructure availability, low profits, and a lack of demand for goods and services (Ebrahim and Andualem,2022;GFDR,2014;Hamed & Yime,2020; Matthew et al.,2020;Simpeh,2011;ILO,2008;Wiklund and Shepherd 2003; Zaki et al.,2006).

While the Ethiopian government has previously prioritized large firms, the most recent round of private sector development measures has shifted the focus of policy toward MSEs. The inability of the majority of state-owned businesses to function well, the conflicts resulting from globalization, and the growing demand for competitiveness have all made this new viewpoint conceivable(Kamunge *et al*.,2014; Meressa,2020; Muhaba *et al*.,2022; Seifu,2017; Tessema,2012; Zemenu and Mohammed,2014).

In response to these challenges, the federal government of Ethiopia has introduced its initial MSE development strategy, stating that "Micro and small enterprises are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors" (Gebrehiwot & Wolday,2006;Meressa,2020). Recognizing the vital role MSEs play in creating income and job opportunities as well as reducing poverty, the government launched its first Micro and Small Enterprise Development Strategy in 2005 (Gebrehiwot & Wolday,2006, Fikadu,2015).

REVIEW METHODOLOGY

In order to minimize bias and produce more reliable results for assessing and interpreting prior research pertinent to a given topic, the review employed a systematic literature review technique(Mohammed,& Dessalegn,2014). The review was based on a thorough evaluation of relevant literature (research articles,policy documents,books and reports) using a systematic review approach and criteria(Zaki et al.,2009).

CONCEPTUAL FRAMEWORK OF THE REVIEW

The connected theories and studies of empirical research listed below form the intellectual basis for this review. The elements impacting MSE performance and growth served as the foundation for this review's conceptual framework.There are two types of variables that impact MSE growth: external and internal factors. The following factors are categorized as internal: firm-level attributes (size, age of enterprise, sector, access to financial services, location, type of premises, and so on) and variables that affect the performance of MSEs: management experience, business information services, government regulation and policy, financial control and planning access, marketing skill and strategy, and technological, infrastructural, political-legal, and financial factors.

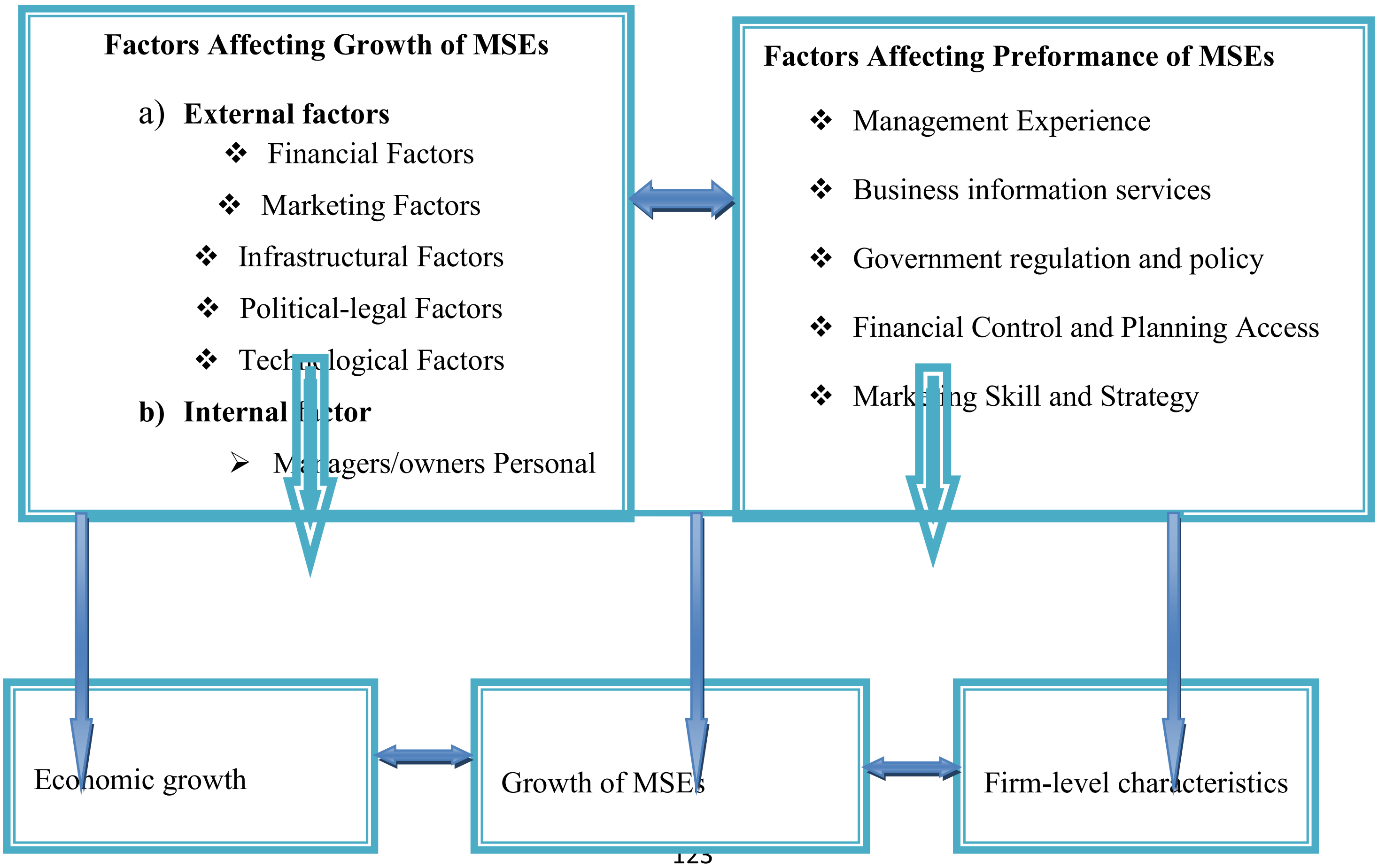


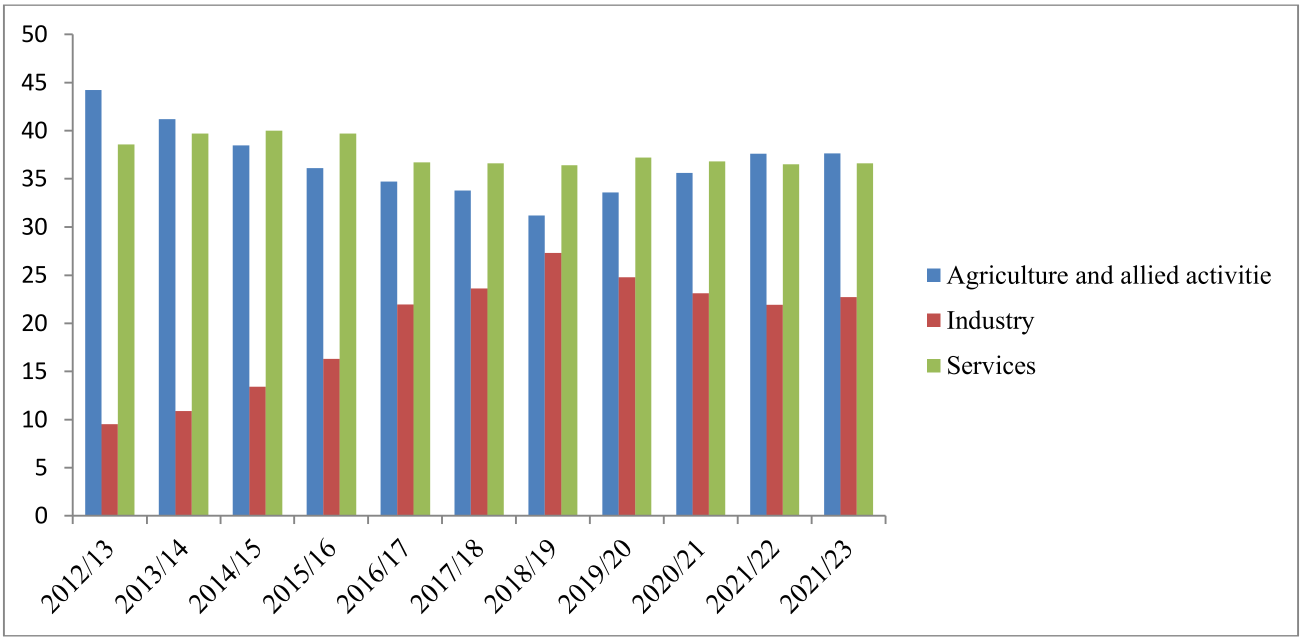
Fig. 1. Conceptual framework.
Source: Own development (2024)

RESULTS AND DISCUSSIONS

Characteristics of Micro and Small Enterprise (MSEs) in Ethiopia

The structure of the Ethiopian economy and MSE development policies and strategies
In terms of GDP contribution, the service sector has overtaken agriculture since 2012–2013, as fig 1 illustrates. The GDP shares of the industrial, agriculture, and service sectors were estimated to reach 37.6%, 22.7%, and 36.6%, respectively, in 2022–2023. As a result, the service sector is becoming increasingly dominant despite the nation's recent efforts to industrialize. The GDP share of the industry sector has progressively increased. From 22.72% in 2009–10, it increased to 9.5% in 2022–2023.

Fig-2: Gross domestic product (GDP) share by sectors.



Source: compiled from NBE (2023) and EEA (2023)

In summary, throughout the past ten or so years, Ethiopia's economy has grown by double digits, but structural transformation has advanced slowly. The industry sector is still relatively young, making up very little of the GDP and employment in the economy. MSEs are believed to play a significant influence, particularly in the creation of jobs in urban areas. The precise numbers, however, remain unknown due to a dearth of information that conforms to the official definition of MSE.

EVOLUTION OF MSE POLICIES AND STRATEGIES IN ETHIOPIA

MSE Policies 1991-1997
During the imperial era, which ended around 1974, Ethiopia had a market-based economic structure. The government offered tax advantages, access to land and buildings, and public utility provision as

means of promoting micro and small businesses(PDR,1989; Wiklund and Shepherd,2003; Wright,1996). On the other hand, the main goal of the imperial regime's industrial policy was to support large-scale, foreign-dominated industry. Consequently, MSE expansion was hindered. Most private sector businesses, particularly medium- and large-scale ones, were nationalized when the Dergue junta took over in 1974–75(Worku,2009).

Proclamation No. 76/1975 reduced the role of the private sector by establishing a single licensing regulation and a capital ceiling for investment. As a result, the private sector was limited to tiny and micro businesses. In order to stimulate the economy through the development of cooperatives in small business operations, Proclamation No. 124/1977, which was issued in 1977, formed the Handicrafts and Small-Scale Industries establishment Agency (HASIDA). HASIDA succeeded in establishing a number of producer and service cooperatives, but many of them closed and went bankrupt, therefore the program did not accomplish the desired result.

When the Council of States adopted two decrees in the last two or three years of the Dergue period, the dictatorship was compelled to change its economic strategy from command to mixed economics. First came the Small Scale Industry Development Special Decree No.9/1989, which let cooperatives, corporate groups, and individual entrepreneurs to establish small businesses(PDRE, 1989). Proclamation No. 76/1975 was superseded by this order, which allowed Ethiopians to engage in the diaspora and raised the capital limit for small firms from Birr 500,000 to 2-4 million. The second was the Special Decree on Investment, No. 17/1990, which announced the complete removal of previous limitations on the quantity of private sector licenses.

However, since the Dergue administration was overthrown in May 1991 and the Ethiopian People Revolutionary Democratic Front (EPRDF) took over, these reform initiatives were implemented too late to prevent the economy from collapsing during that time. In conclusion, this era's policy climate did not support the growth of MSEs(PDRE,1990).

According to(Talegeta,2014; Singh & Belwal,2008; PDRE,1990) the legislative climate has improved, but these encouraging measures haven't made it any easier to promote MSEs. One possible explanation for this could be that before the mid-1990s, there was no all-encompassing plan or administrative bodies specifically focused on MSE development(Abor *et a*l.,2014). MSE development became one of the most important components of Ethiopia's overall development plan when it selected Agricultural Development Led-Industrialization (ADLI) in 1995(Amentie et al.,; Cherkos et al.,2018).

Proclamation No. 40/96, which regulated microfinance institutions (MFIs) and sought to improve MSEs' access to financing and counseling services, was issued just a year after ADLI was founded. As a result, 35 (MFIs) have been established and are currently operating throughout the nation, mostly serving adolescents, microbusiness owners, and other economically disadvantaged groups (NBE, 2023). Empirical studies further support the notion that MFIs were crucial to the establishment and growth of MSEs (Worku,2009;World Bank, 2023).

The Federal Micro and Small-Scale Enterprises Strategy (FMSES), which is the name of the MSE development plan for Ethiopia, was created in 1997 and has since been the cornerstone of regional planning. This method, which applied to all industries, divided businesses into micro and small categories according to the amount of paid-up capital. High-tech companies were excluded from the micro and small business categories. Micro businesses had paid-up capital of less than Birr 20,000, while small firms had paid-up capital of between 20,000 and 500,000(FDRE, 1989;. Mehari, A. T., & Belay,2017; ILO,2008).

The main objective of the plan was to create an atmosphere that would support small and micro businesses. The method created clear standards for MSE prioritization and identified target people for support. The plan highlighted a number of possible channels for government support, such as markets, infrastructure, training, and financial support(GFDR,2014; FeMSEDA,2011).
Medium-term plans like the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and subsequent Growth and Transformation Plans (GTP) started to clearly acknowledge the importance of the MSE sector. Clear and ambitious targets were set for the MSE sector by GTP I, and positive results were recorded(FeMSEDA,2011, Ethiopia’s MSED Policy and Strategy,2016).

Revised MSE Development Strategy And Current Developments

The government revised the MSE policy in 2011 to address the framework for supporting MSEs as well as methods of execution, with a focus on achieving GTP I's five-year targets and bolstering MSE development(FeMSEDA,2011;FDRE,2021;Ebrahim and Andualem,2022; Desta & Tulu,2015). The 2011 revised strategy incorporates the following noteworthy improvements in addition to upgrading the main components listed in the 1997 strategy. A new definition of MSEs that is divided into industry and service sectors has been produced as a result of the revised methodology(FeMSEDA,2011). The updated definition takes enterprise employment and paid-up capital into consideration. This information is shown in Table 1, where total assets are used as the primary criterion when there is ambiguity between personnel and total assets.

Table 1: The current definition of MSE in Ethiopia introduced in 2021

Level of the enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	≤5	≤Birr 100,000
	Service	≤5	≤Birr 50,000
Small enterprise	Industry	6-30	≤Birr 1,500,000 million
	Service	6-30	≤Birr 500,000

Source: FDRE (2021)

The plan emphasizes how crucial TVET institutions are to the growth of MSEs since they act as an industry extension service, facilitating the advancement of technology and people resources(EEA,2023). Along with the traditional focus on the impoverished, women, and those with lower skill levels, it expanded the target demographics to include creating jobs for recent graduates of TVET and universities. Moreover, company development was split into three tiers in the 2011 updated plan: launch, expansion, and maturity(Céline Kauffmann,2005; FDRE,2021).

The current MSE development plan and policy, together with the focus that the government and other development partners are placing on it, seem to be facilitating(Daba & Amanu,2019). The strategy and support structures are not fully implemented, which leads to most MSE problems. The MSE development strategy for 2022–2023 may need to be modified in light of the most recent institutional framework modifications as well as the wider scope that FeSMMIDA and FUJCFoSA have adopted(Effiom & Edet,2020;Feyisa & Tamene,2019;Page & Soderbom,2015).

For a great majority of people in Ethiopia, the informal sectors are typically their main source of employment and income(Abor *et al*.,2014; Cherkos *et al*.,2017). According to numerous academics, the MSE and medium-sized enterprises (MSEs) comprise the largest portion of the private sector since they have produced the biggest number of jobs in the nation(Tariku,2018; Selamawit,2015; Fikadu,2015). The design of Ethiopia's strategy and policies also places a strong emphasis on MSE development. Approximately 40% of microenterprise operators in Addis Ababa are employed in the informal sector, which employs over half of Ethiopia's urban workers(Gemechu & Teklemariam,2016; Abera et al,2019).

According to the (FDRE,2021;EEA,2023;CSA,2016), A large segment of the population can find employment in the MSE sector due to its diverse variety of operations. This demonstrates that the sector is a band-aid solution to the problem of unemployment. The government's active intervention and support are essential to lowering unemployment and fostering an environment that is favorable to job seekers and self-employment. Thus, a definition is necessary to accurately define the sector in order to redirect support facilities to this diversified sector.
In an attempt to address unemployment and poverty, the MSE sector in Ethiopia seems to be hindered by several problems that prevent it from growing and developing quickly(Daba Amanu,2019). Lack of appropriate technology and related facilities, weak organizations supporting women entrepreneurs, a lack of coordination among Business Development Service (BDS) providers, restricted access to land and premises, limited market access and information, and inadequate empirical research on women in MSEs are the main obstacles that MSEs face (Daba & Amanu,2019; Ababiya,2018)

The Ethiopian government also cites important sectoral constraints (Batisa,2019;Ofori et al,2020). These include inadequate facilities and marketing and production space, antiquated industrial machinery, poor innovation, poor marketing, a lack of information, low-quality input, a lack of networks inside and between enterprises, and a lack of funding. In a similar vein, it was noted that the main challenges small businesses confront include those related to demand, capital constraint, personnel and material input shortages, institutional bottlenecks, rules and regulations, and equipment and technology shortages (Hamed & Yimer,2020; Seifu,2017).

According to Batisa(2019), a network method along with flexible specialization is a current theoretical stance in the field. Manufacturing customized goods with multipurpose technology and adaptable production techniques run by trained personnel is the foundation of flexible specialization or production systems.

Right now, the Industrial Organization Model and the Resource-Based View are the two main theories regarding the causes of MSES growth. The industrial organization model takes an external view of corporate growth, meaning that external and environmental variables dominate a company's growth and strategic actions instead of internal resources and competencies(Abay et al,2014; Tadesse & Israel 2016). This method requires a company to first assess its external environment, or the industry in which it works, choose the one that best suits its needs, and then develop a plan that takes into account the characteristics of the sector. Then, in order to become more competitive and generate returns that are above average, it must be able to carry out that strategy with success.

Characteristics And Growth Of Micro And Small Enterprise (Mses) In Ethiopia
(I) Employment And Type Of Enterprise Size Within A Sector.
Geographical location, gender, and company size all affect typical employment size. Compared to female-owned microenterprises, male-owned microenterprises employ an average of more people. Nonetheless, compared to male-owned small enterprises, more people work for female-owned small businesses. Small businesses grow more swiftly than larger companies when growth rates are computed(Tariku,2018; Seifu,2017).

According to Muhaba(2022); Tadesse,& Israel,(2016), shown that the annual average growth rate for Ethiopian businesses with one employee surpassed that of the following size group (2-4) by 19%

and the category with five to ten employees by more than 12 times. The predicted growth rates of microenterprises, which are smaller than small enterprises, are higher. It should be emphasized that a high growth rate for MSEs usually results from a sharp shift in the direction of innovative, adaptable businesses that can learn and adapt quickly rather than from constant expansion(Simpeh,2011;Wiklund and Shepherd,2003; Yamada,1996).

(ii) Type of ownership

MSE growth rates are expected to be influenced by ownership structure. Adolescents in Ethiopia who are organized into cooperatives or groups are given priority access to government aid services. However, the development of youth-owned MSEs in Ethiopia has been impeded by the group's or cooperative's members' strong camaraderie(Worku,2009; Tessema,2012). Conversely, India offers attractive incentives to small enterprises; yet, according to some reports, these policies backfire because expanding beyond a certain point means giving up important benefits(Matthew *et al*.,2020; Page & Soderbom,2015; Jahangir ea al.,2014).

Fourteen percent of the MSEs surveyed (42.1%) were established as sole proprietorships. 28.4% and 24.5% of the sample, respectively, were MSEs arranged as partnerships and cooperatives. Just 3.2% and 1.5% of MSEs, respectively, were established under the laws governing share companies and private limited companies. Comparing small enterprises (20.5%) to the microenterprise sub-sector (56.7%), sole proprietorship is by far the most common form of ownership(Worku,2009, Yamada,1996).

(Iii)Age Of The Mses

According to a theoretical analysis, a company will grow quickly at first but will slow down as it gets closer to its ideal size(Rambe & Mosweunyane 2017; Wright 1996;Zaki;Fadzely and Ahmad,2006). The firm's efficiency is expected to increase with age as its owners become more knowledgeable about the optimal operational scale, even if expansion slows down.In line with the notion, the younger MSEs, those that were 5 years old or younger, expanded at an average yearly rate of about 14%. When compared to the age group of 6 to 12 and the age group of 13 to 29 years, this was more than twice as large(Mehari & Belay 2017; Mano et al.,2012).

Their outdated machinery and lower output levels compared to newer businesses are partly caused by their lack of technical investment. The survey results of this study, however, did not show a relationship between the growth rate and the age of MSEs. Put differently, the results were inconsistent with the hypotheses or empirical research of other academics(Singh & Belwal,2008;ILO,2008; Jahangir et al.,2014).

(Iv)Location Of Mses Within A City Or Town

MSEs The advantages of working from home, such as family labor and power, may outweigh the disadvantages, such as low earnings due to money being diverted to daily domestic expenses. Usually, it is difficult to distinguish between MSEs and families at lower income levels and with smaller firm sizes(Jahangir et al.,2014). There are significantly more home-based microenterprises than small businesses. A higher percentage of women run their own businesses from home and have stores in business districts than do male microenterprise owners(Ogisi & Begho 2021;Gebretsadik & Gagoitseope 2020).

(V) Access To Finance

Key obstacles to the development and growth of youth-owned MSEs include a lack of capital, a lack of consumer demand for their goods, a lack of land for manufacturing, and a lack of marketing spaces(Addis,2019;Feyisa & Tamene,2019;Gebrehiwot & Wolday,2006). Credit constraints were frequently cited as significant obstacles impeding MSE expansion(Gebretsadik & Gagoitseope,2020).

Determinants Of The Growth Of Mses
Financial Factors
The primary financial problems influencing the sustainability and expansion of MSEs in Ethiopia are limited financial resources, inadequate bookkeeping and accounting practices, inadequate initial investment, insufficient working capital, a bad repayment culture, and improper loan utilization(Ababiya,2018 ;Alemayehu & Gecho,2016 ;FDRE,2021;Kassa,2021;Meressa,2020; Wright,1996;Addis, 2019;Batisa, 2019;Gebrehiwot & Wolday, 2006).

Access to credit appears to be a major growth restriction for small businesses because they are "too big" for microfinance companies yet "too tiny" for banks in terms of loan size. The "missing middle financial intermediaries" who support small businesses are exemplified by this. Micro firms, who frequently have access to microfinance institutions (MFIs) because their lending requests are within MFIs' capacities, are more likely to be successful in obtaining funding than small businesses(Ogisi & Begho 2021; Hamed & Yimer 2020).

A significant number of micro and small businesses have refrained from requesting loans or credit from traditional financial institutions due to the onerous bureaucracy and stringent collateral requirements. Lack of collateral is one of the main obstacles preventing growth-oriented MSEs from realizing their great growth potential and becoming as market competitors. The majority of firms are unable to obtain the necessary capital in the required amount and at the right time. The issue is made worse by a lack of continuity and financial services that are customized to meet the demands of a particular company(PDRE,1989; Mohammed et al.,2014;Seifu,2017; Muhaba et al.,2022). The inability to obtain medium- or long-term financing poses a serious obstacle to enterprises looking to grow(Hamed & Yimer 2020; Kassa,2021).

It is well known why this is the case, especially considering that MSEs' undercapitalization and lack of appropriate assets make them a high risk investment for lenders. In addition, inadequate accounting records and a dearth of other financial data make it difficult for banks to evaluate the creditworthiness of possible MSE borrowers. Banks are also usually reluctant to lend to MSEs due to the relatively high cost of processing small loans(Mano et al.,2012; Assef et al.,,2014; Bula,2012).

Due to management inefficiencies, a bad repayment culture, inappropriate credit usage, a lack of experience using credit to boost competitiveness, and a lack of precise information necessary to assess the risk of lending money to MSEs, commercial banks and formal money lending organizations are reluctant to lend money to MSEs or demand strict requirements like collateral security. Consequently, the majority of MSEs favor using family donations and personal savings as their primary sources of funding(FeMSEDA,2011;NBE,2023;PDRE,1990;World Bank,2022), it is in line with the nation's Micro and Small Enterprise Development Policy and Strategy (FeMSEDA,2011).

MSEs were 5.49 times more likely to fail than their rivals if they managed their finances and resources inefficiently(Alemayehu & Gecho 2016; Desta & Tulu,2015;Fikadu,2015). All of this suggests that greater financial accessibility promotes MSE expansion(Bula,2012Regarding the impact of initial investment, it is evident from his empirical research that companies that began with a larger initial investment grow more quickly than those that did not; put another way, businesses that commenced operations with a larger initial investment outperform their competitors in terms of growth and sustainability(Alene,2020;Tessema,2012;Wright,1996; World Bank,2023; PDRE,1990).

MARKETING FACTORS

Market inadequacy, difficulty locating new markets, lack of demand forecasting, inadequate customer handling system, lack of available market information, lack of promotion, lack of connections with other successful businesses or market linkage, and lack of adaptability are the main marketing factors that determine the sustainability of MSEs in Ethiopia. Empirical findings showed that market access and MSE growth are positively correlated(Kumie *et al*.,2016;Mensah *et al*.,2016;SinghBelwal,2008;Ababiya,2018;FDRE,2021;Kassa,2021;Meressa,2020;Wright,1996;Addis,2019;Batisa,2019;Gebrehiwot & Wolday, 2006).

When it comes to market linkage, firms with greater connections to a range of organizations grow quicker than their competitors, which is consistent with the market access theory of chang (Habtamu,2013; GFDR,2014; Gebretsadik & Gagoitseope,2020). It has also been demonstrated that businesses who have stronger ties to a variety of organizations through bazaars and trade shows perform better than their competitors(Abera *et al*.,2019; Gebreeyesus,2009).).

MSEs having a market connection generally performed better than those without having one (Abera *et al*.,2019;Fikadu,2015). Conversely, a lack of market connectedness inhibits MSEs—especially small businesses—from gaining from product promotion, technology transfers, and other advantageous commercial relationships(Hamed & Yimer 2020; Jahangir *et al*.,2014; Osotimehin *et al*.,2012; Kassa,2021). Their motivation to continue operating their business is so declining(Meressa,2020;Tafa,2019;Talegeta,2014).

POLITICAL-LEGAL FACTORS

The main political and legal elements affecting the viability and expansion of MSEs in Ethiopia include taxation, a lack of government support, and the availability of information about government laws(Zaki *et al*.,2006;Tariku,2018; Worku,2009;Kumie *et al*.,2016;Mensah *et al*.,2016;Singh & Belwal,2008;Ababiya,2018 ;Alemayehu & Gecho,2016).

MSEs' ability to reach their maximum potential is jeopardized by the fit and quality of the workplace given by the government. In addition, the long-term survival and growth of MSMEs are impacted when the support institution fails to create an environment conducive to business tasking. Though there has been an attempt by the Ethiopian government to liberalize and enhance the institutional, regulatory, and policy support environment for MSEs; this has led to improvements in licensing procedures that have revealed a discrepancy between directives and stated policies, as well as increased investment and competition. MSE sustainability and expansion are still severely hampered by the revenue office's unfair tax demands and inadequate business support services(Muhaba *et al*.,2022;Wiklund and Shepherd,2003; Talegeta,2014).

On the other hand, working together with other companies and business support institutions can assist acquire the services and expertise that the industry now lacks.On the other hand, working together with other companies and business support institutions can assist acquire the services and expertise that the industry now lacks(Hamed & Yimer,2020; Gebrehiwot & Wolday,2006). In addition, MSEs in Ethiopia frequently encounter challenges like a hostile business environment and legal and regulatory barriers(Amentie *et al*.,2016;Bula,2012).

INFRASTRUCTURE FACTORS

The primary obstacles impeding the sustainability and growth of micro, small, and medium enterprises (MSEs) in Ethiopia are inadequate infrastructure, including electricity, a shortage of land and shaded areas for work, and inappropriate company placement. The majority of earlier studies' empirical results demonstrated that MSE success is significantly influenced by access to infrastructure, as those with sufficient infrastructure grow more quickly than those without(Beza,2022;Assefa *et al*.,2014; CSA,2016; EEA,2023; FDRE). (2021; Feyisa & Tamene,2019; Ogisi & Begho,2021; NBE,2023).

Businesses that have the right kind of land for their operations have a greater chance of making money and expanding more quickly than their rivals(Ababiya,2018; Alemayehu & Gecho 2016; Cherkos *et al*.,2018; Fikadu,2015). When MSEs run out of their own workspace, they grow more quickly than when they operate out of rented or family facilities. Not only that, but MSEs operating in rented workspaces experienced slower growth rates than MSEs operating in family workspaces because of comparatively high rent expenses that hindered their ability to expand and diversify.Better access to appropriate infrastructure allows MSEs to grow quicker than their competitors(Cherkos *et al*.,2018; Fikadu,2015; Gebremariam,2017).

As a result, the sustainability and growth of MSEs in Ethiopia are greatly aided by access to infrastructure (such as workspaces, easy access to raw materials, and conducive working environments(EEA,2023; Gebremariam,2017; Habtamu *et al*.,2013; ILO,2008). However, unfavorable business environments and inadequate infrastructure—such as sporadic power outages and scarce water supplies—have a significant detrimental impact on the viability and expansion of MSEs(Muhaba *et a*l.,2022; Talegeta,2014; Tafa,2019). For example, Muhaba *et a*l.(2022) discovered that 25% of MSEs' work time is lost due to everyday power outage.Muhaba *et al*.(2022) moreover, they show that 65% of MSEs have not yet started operations despite the establishment of working areas since there is insufficient infrastructure or facilities in the sheds. Inadequate working conditions are another major obstacle; the majority of MSEs operate in tiny spaces that are completely unfit for manufacturing and service provision (Mehari & Belay 2017; Hamed M.& Yimer 2020; Feyisa & Tamene,2019).

The growth of MSMEs is significantly influenced by the location of their businesses. Small and micro companies grow more quickly in urban areas or close to various infrastructures than they do in rural areas or far from these services and infrastructures(Beza,2022;Assefa *et al*.,2014; Gemechu & Teklemariam,2016; Bruin,2006).

MANAGER OR OWNER PERSONAL CHARACTERISTICS

The sustainability and expansion of MSEs in Ethiopia were impacted by a number of factors, including age, education level, lack of prior accounting and business management experience, family size, MSE age, lack of business knowledge, lack of strongly held confidence, underdeveloped entrepreneurial mindsets/entrepreneurship competency among MSE operators, lack of good communication skills, and a lack of technical and managerial experience/skill gap(EEA,2023; Batisa,2019; FeMSEDA,2011)

The size of the family and the owner's age have a negative correlation with MSE growth. This suggests that compared to an older owner with a larger family, the younger owner with a smaller family grows faster. This resulted in the enterprises of the youngest owners being more successful than those of the rest(Gebretsadik & Gagoitseope,2020;GFDR,2014). The education and prior expertise of the owner/manager also have a favorable and significant effect on MSE growth. This indicates that MSEs run by individuals with more education and experience grow more quickly than those run by others, suggesting that businesses run by entrepreneurs with more formal education do better financially than their rivals(Batisa,2019; Assefa *et al*.,2014). For instance, the odds ratio outcome of an empirical study by Ababiya (2018) showed that the probability of MSE growth is 11.7 times higher for MSEs with owners who have completed grade 12 or above than it is for MSEs with lower education levels.

Generally speaking, businesses with more educated, skilled, and experienced entrepreneurs perform better than those with less human capital(Gebretsadik & Gagoitseope,2020; Ababiya,2018). Due to their inexperience with basic accounting and business administration, the majority of enterprise operators are ill-equipped to manage their businesses effectively. Large-scale start-up failures as a result of this eventually left operators feeling hopeless, if not desperate.The reason human capital development is so important for employees of a company is that, according to research (Tafa, 2019; Zaki et al., 2006), businesses with a higher percentage of production workers who are trained and skilled grow statistically faster than those with a lower percentage of trained workers. This is consistent with the business and technical training theory of change (Tariku,2018).

In Ethiopia, management efficiency and entrepreneurship skills are the most significant factors in assuring the long-term survival of micro and small firms (Muhaba *et al*.,2022; Tafa,2019). The long-term survival and profitability of micro and small firms are positively correlated with a high degree of managerial and entrepreneurial proficiency.For example, Matthew *et al*.(2020) the results of the binary logistics regression odds ratio study on entrepreneurial competency indicate that MSEs possessing this skill have a 60.79 times greater likelihood of expanding than those lacking it. Business performance is strongly positively impacted by prior training and experience in entrepreneurship. This implies that a company's profitability and growth increase with its experience (Ababiya,2018).

But a lack of training opportunities has a detrimental effect on MSE growth (Kumie *et al*.,2016; Page & Soderbom,2015). Muhaba et al. (2022) found a substantial gender difference in the growth of MSEs, with male-owned enterprises growing faster than female-owned businesses due to the woman's dual responsibilities. This gender difference is related to the effect of gender on the growth of micro and small businesses.

Gebretsadik & Gagoitseope(2020) discovered that the growth of micro and small firms is not significantly impacted by gender. Similarly, Muhaba *et al*.(2022) found that age and gender are not significant factors influencing the growth of MSMEs when it comes to owner/manager characteristics. Business owners who receive training in order to acquire the knowledge and abilities needed to boost their company's success also exhibit superior performance.

TECHNOLOGICAL FACTORS

MSE competitiveness is also largely threatened by the frequent use of outdated technology and working techniques. Lack of openness, willingness for continual improvement, and ability to work with new technologies and methods is one of the main technical factors that significantly affects MSE sustainability and growth(GFDR,2014; FeMSEDA,2011). In order to address difficulties related to technology, operations, and market competitiveness, MSEs must first make a commitment to change and ongoing development (Ebrahim and Andualem,2022; FDRE,2021; Feyisa & Tamene,2019; Daba & Amanu,2019).

OTHER FACTORS

The following issues also have a detrimental impact on the sustainability and expansion of micro and small businesses in Ethiopia: dependency, preference for paid work, ignorance of the potential of MSEs (the attitude that views participation in MSEs as a sign of poverty and backwardness and then discounts their potential economic role), and lack of knowledge of MSEs.

Additionally, imitation and innovation have a major positive impact on MSE growth. It is suggested that owner-managers of small businesses can attain greater growth by incorporating imitation and innovation into a variety of areas, including marketing, supply relations, work practices, processes, and products. This can be achieved by training and experience-based human capital development(Gebretsadik & Gagoitseope,2020; Ofori *et al*.,2020).

MEASURES OF BUSINESS PERFORMANCE

Business success is commonly judged in terms of economic performance. Small business performance can be judged by both financial and non-financial parameters (Selamawit,2015). Measures of success in smaller, entrepreneurial, and independent enterprises may include dimensions other than financial performance (Rose et al, 2006); Abay et al.,2014). Non-financial indicators of success employed by business owners, such as autonomy, job satisfaction, or the ability to manage work and family duties are subjective and individually defined, making them more difficult to quantify(Tafa,2019; Tariku,2018).

The lack of globally accepted standard performance metrics allowed businesses to choose their own performance indicators, which may not accurately reflect their performance.Sales volume, organizational reputation, profitability, and established company identity are examples of such performance measures. While some may argue that the majority of these performance measurements are acceptable for large firms, they are not necessarily entirely applicable to small businesses(Zemenu and Mohammed,2014; Hamed & Yimer,2020); Wanambisi & Bwisa,2013).

FACTORS AFFECTING PERFORMANCE OF MSES

MANAGEMENT EXPERIENCE

Entrepreneurs with management expertise may have past knowledge of markets, market serving strategies, and customer concerns (Gemechu & Teklemariam,2016). Micro, small, and medium enterprises in Ethiopia found that effective management leads to long-term survival and profitability. Businesses that can create consistent profits are more likely to succeed. Profitability enables successful businesses to develop and remain competitive (Gebretsadik G,& Gagoitseope M.(2020; Wanambisi & Bwisa,2013; Fikadu,2015).

The primary reason for failure is inexperienced management.Managers of failing companies lack the necessary expertise, knowledge, and vision to run their enterprises. When assessing the core causes of small firm failure, it is not surprising that owner-managers' managerial inefficiency is identified (Matthew *et al*.(2020; Gebreeyesus,2009; Gebrehiwot &Veen,2013).

Managerial effectiveness has an impact on every area of a firm and is widely regarded as the most crucial factor contributing to small business failure. Business founders' managerial abilities and concepts are valued far more than their technical skills and production concerns, resulting in overall positive organizational performance (Gebreeyesus,2009; Gebrehiwot & Veen,2013).

A success factors of small and medium-sized enterprises, proposed that business founders' management skills and management concepts are far more important than their technical skills and concern for production, resulting in overall positive organizational performance(Habtamu, T., Aregawi & Nigus,2013; Hamed & Yimer,2020).

BUSINESS INFORMATION SERVICES

.The availability of business information services has been identified as one area that governments and business service providers must focus on in order for the MSEs sector in developing countries, like Ethiopia, to achieve sustainable levels of growth and development. SMEs in Africa, particularly in Ethiopia, face limited access to information due to inadequate business support services and inadequate technology infrastructure (Feyisa,& Tamene,2019; Effiom & Edet,2020). However, access to information has not received the same level of attention as other restrictions to improving of MSEs' performance, such as access to capital, markets, technology, or training (Gebretsadik & Gagoitseope,2020; Ofori *et al*.,2020).

The availability of business information services for of MSEs has increased over time as new information and communication technologies have emerged. In developed countries, of MSEs have easy access to business information services due to well-developed ICT infrastructure and access to computer hardware and software. However, developing economies face challenges with ICT infrastructure and the cost of IT hardware and software. This has presented numerous issues in the domain of business information services for of MSEs (Anderson, A. R., & Starnawska, M. (2008; Amare, W. A. (2020; Assefa et al.,2014).

GOVERNMENT REGULATION AND POLICY

The government can develop policies to encourage and support the growth of new technology, goods, and solutions. On the other side, the government can appear to impede of MSE of some kind. In Ethiopia, all of MSEs are legitimate, fully licensed, and taxed in accordance with the country's tax proclamation (Batisa,2019; Assefa *et al*.,2014; Assefa *et al;* World Bank,2023*)*.

Ethiopian of MSEs operate in a tough business environment due to the government's failure to solve the aforementioned broad issues. Their contribution to economic development is hampered by a lack of funding and access to finance, an overregulated business environment, and limited support services for innovation, technological development, and marketing. A government policy bias in favor of larger firms has been identified as a barrier to the development of of MSEs. They take the shape of various incentives aimed at large firms, ostensibly to accelerate industrialization(Alemayehu & Gecho,2016;Desta & Tulu,2015).

As a result, of MSEs operating in this challenging legislative and regulatory climate have two options: comply with laws and regulations or operate their businesses in an informal manner. However, research suggests that complying with regulations hinders of MSEs' operations in terms of expansion, access to a competitive market, and profit. Working in the informal sector prohibits MSMEs from using the existing restricted services (Page & Soderbom,2015; Kassa,2021).

FINANCIAL CONTROL AND PLANNING

SMEs is a lack of access to credit/finance. Credit limitations occur in a variety of ways in Ethiopia, where an underdeveloped capital market requires entrepreneurs to rely on self-financing or borrowing from friends or family, which is insufficient to allow of MSEs to carry out their commercial activities adequately. Insufficient access to long-term funding has led most SMEs in Kenya to rely on high-cost short-term finances(Wright,1996;Addis, 2019;Batisa, 2019;Gebrehiwot & Wolday, 2006).

SMEs confront a variety of financial issues, including high borrowing costs, excessive bank charges and taxes, and a lack of adequate infrastructure ;Alemayehu & Gecho,2016).Entrepreneurs' need for credit among common and low-income businesses, as numerous money lenders in the name of pyramid schemes emerged, promising hope among the "little investors" that they could achieve financial freedom through soft borrowing. The motive for selecting for these programs among a large number of enterprises was primarily to seek financing and soft credit with low interest rates while making profits(Ogisi & Begho 2021; Hamed & Yimer 2020; World Bank.,2023).

Financial constraints remain a major concern for Ethiopian of MSEs.Finding starting capital for most businesses is one of the most difficult challenges that many entrepreneurs face, and even after receiving the starting capital, securing adequate funding to support business growth is another difficulty Mohammed et al.,2014;Seifu,2017; Muhaba et al.,2022). A problem related to finance included: lack of information on where to source for finance; restrictive lending offered by commercial banks; lack of access to finance; insufficient financing;lack of track record required by the banks; limited access to collateral and inappropriate structure of financial institutions when dealing with SMEs(Ababiya,2018; Atias *et a*l.,2017; Céline,2005; Ebrahim ,2022; Gemechu & Teklemariam,2016).

Access to capital is critical for the growth of of MSEs' competitiveness since they must invest in new technology, skills, and innovation (; Céline,2005; Ebrahim ,2022). A broad spectrum like this can only be addressed by mainstreaming of MSE development into national frameworks. It is also worth noting that governments do not have sole responsibility for resolving access to finance challenges(Habtamu *et al*.,2013).
According to Ebrahim(2022), of MSEs consider financing, particularly long-term financing, to be the most significant impediment to growth and investment. The challenges are classified into two levels. In least developed economies, as well as some transition and developing economies, deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates, as well as a legal, regulatory, and administrative environment, make it difficult for of MSEs to access financing (Hamed & Yimer 2020; Mano et al.,2012;Matthew et al.,2020).

In some economies, there is inadequate capital, property rights may be a hindrance to ownership of land, underdeveloped markets don’t favor the transfer of immovable assets, credit and collateral policies may not allow SMEs to access certain assets to be used as collateral (e.g. future acquired property), absence of registries increases risks to lenders for mortgages and pledges, weaknesses in legislation and in the judiciary may hamper contract enforcement and asset liquidation (Muhaba et al.,2022).

MARKETING SKILL AND STRATEGY
Marketing skills, such as identifying new prospects, demonstrating effective corporate positioning, customer service, determining ways to efficiently advertise, and the ability to generate new ideas, are critical factors that micro and small businesses should possess in order to be successful in the long run. Small Business Critical Success/Failure Factors in Developing Economies, in Botswana, that; marketing activities such as product marketing, market research, and demand forecast, and so on, have a greater impact on the success of small business performance (Zemenu and Mohammed,2014; Wanambisi & Bwisa,2013; Mensah et al.,2016).

Better marketing planning correlates with a higher level of market orientation. Perhaps one can argue that better quality planning supports managers attempting to implement a market orientation to achieve their goal, or conversely, market orientation facilitates planning by offering a clear and unambiguous aim that serves to focus the planning effort (Selamawit,2015; Tafa,2019; Worku,2009).

CONCLUSIONS

Ethiopia's MSEs are small and labor-intensive, allowing them to absorb a significant mass of readily available less educated or less trained personnel. The government recognizes the critical role that micro and small-scale firms play in national development, notably in creating job opportunities and reducing poverty. To that end, the government launched an MSE development strategy in 1997 to assist and promote the sector. This assistance includes access to working space (shades), markets (linkages), financing (including guarantee providing), industrial extension (a variety of company development services such as market linkages and technical support), and training and technology.
In 2011, the strategy was revised with renewed interest and more ambitious targets on employment and the number of entrepreneurs transitioning to a medium level. However, despite their contribution, MSEs in Ethiopia encounter many problems, and as a result, many MSEs perform poorly and fail to contribute as required. This paper is intended to review the major constraints/factors affecting the growth and performance of micro and small enterprises in Ethiopia.

ABBREVIATIONS

ADLI	Agricultural Development Led-Industrialization
ASDEP	Accelerated and Sustained Development to End Poverty
BDS	Business Develop ment Service
CSA	Central Statistical Agency
EPRDF	Ethiopian People Revolutionary Democratic Front
FDRE	Federal Democratic Republic Ethiopia
FeSMMIDA	Federal Small and Medium Manufacturing Industry Development Agency
FMSES	'Federal Micro and Small-Scale Enterprises Strategy'
FUJCFoSA	Federal Urban Job Creation and Food Security Agency
GFDR	Global Financial Development Report
HASIDA	Handicrafts and Small-Scale Industries establishment Agency
ICT	Information and Communication Technology
ILO	International Labor Organization
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
GDP	Gross Domestic Product
GTP	Growth and Transformation Plans
MIT	Ministry of Industry and Trade
MSE	Micro and Small Enterprise
MSME	Medium Micro and Small Enterprise

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