

**MEKELLE UNIVERSITY**



**COLLEGE OF SOCIAL SCIENCES AND LANGUAGES  
DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL STUDIES**

**A thesis on:**

**Opportunities and Challenges of Micro and Small Enterprises in Hiwane  
Town, Tigray**

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Studies, Mekelle University, in partial fulfillment of the requirement for the  
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## DECLARATION

**1. Daniel Abay here by present for consideration by the department of geography and Environmental Studies with in the college of social sciences and Languages at Mekelle University, my thesis in partial fulfillment of the requirement for the degree of Masters in Geography and Environmental Studies, I sincerely declare that this thesis is the product of my own efforts, No other person has published a similar study which I might have copied. and at no stage will this be published without my consent and that of the Department of Geography and Environmental studies.**

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## **Abstract**

*The purpose of this study was to assess the opportunities and challenges of micro and small enterprises (MSEs) in Hiwane town. To accomplish this, the researcher employed a cross-sectional study method. The study was carried out using both simple random sampling and stratified proportional random sampling techniques. The total number of micro and small enterprises in the study area was 230. From this total, the researcher selected 120 participants from each sector, along with 5 MSE experts. The target population in this study consisted of individuals engaged in micro and small enterprises in Hiwane town. Data collection methods included questionnaires, interviews, and observation. To analyze the data, both quantitative and qualitative analysis techniques were used. The quantitative data were analyzed using tables, percentages, and correlation analysis, while the qualitative data were analyzed through descriptive narration. The findings of this research indicate that MSEs provide several benefits to society. Some of the opportunities and benefits include serving as sources of employment, supplying various products to the community at relatively low costs, receiving governmental and non-governmental support through loans and funding, providing training, and promoting women and youth empowerment. The major constraints faced by MSEs in the study area include financial problems, limited market access, security issues, inflation, shortages of raw materials, inadequate infrastructure, and political and economic instability. Therefore, it is recommended that both government and non-governmental organizations provide support to MSEs.*

**Key words:** Challenges, Micro enterprises, Small enterprise, Hiwane

## **Acronyms**

CSA-----	Central Statistics Authority of Ethiopia
FMSEDA -----	Federal Micro and Small Enterprises Development Agency
MFI-----	Micro Finance institutions
MoFED-----	Ministry of Finance and Economic Development
MoTI -----	Ministry of Trade and Industry
MSEs-----	Micro and Small Enterprises
MSEDS-----	Micro and Small Enterprises Development Sector
MUDC-----	Ministry of Urban Development and Construction
USD-----	United States Dollar

## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1. Background of the Study**

The micro and small business sector is regarded as an indispensable part of economic development and a vital tool in lifting countries out of the poverty trap (Wolfenson, 2007). Because of their size, capital investment, and ability to create more employment, SMEs have shown a strong propellant effect on rapid economic development in developing countries. This sector has been instrumental in bringing about economic transition by providing goods and services of adequate quality and reasonable prices to a large number of people, while effectively using the skills and talents of a large workforce without requiring high-level training, large capital investments, or sophisticated technology. Similarly, Simeon (2009) notes that the SMEs sector generates substantial employment and economic output in many countries, with its share of total employment tending to be higher in developing countries that typically lean more towards small-scale production.

The sector has the potential to provide an ideal environment for entrepreneurs to optimally exercise their talents and achieve their personal and professional goals (Simeon, 2009). In successful economies, SMEs are considered essential for economic growth, job creation, and social progress. The small business sector is also seen as a force that generates employment, ensures more equitable income distribution, activates competition, exploits niche markets, improves productivity, and drives technical change, thus stimulating economic development. This is not to undermine the importance of large industries and other enterprises in Ethiopia's economic growth, but there is evidence suggesting the high labor absorptive capacity of the MSE sector. MSEs have the advantage of a lower average capital cost per job created compared to big businesses, and their role in technical and innovative efforts is critical in solving key development challenges facing Ethiopia.

In Ethiopia, MSEs have increasingly been recognized as playing a significant role in socio-economic development as a source of sustainable employment and income. The SMEs sector is

the second-largest job provider for poor households after agriculture. According to the Central Statistics Authority (CSA, 2003), almost 50% of jobs created in Ethiopia are attributable to small business enterprises. Aregash (2005) shows that 98% of business firms in Ethiopia are micro and small enterprises, with micro enterprises representing 65% of all businesses. In 2019, there were 974,676 micro and 31,863 small enterprises, accounting for 99.40% and 0.46% of all enterprises, respectively. Additionally, micro and small enterprises provide employment opportunities to 89.75% and 0.91% of the workforce, respectively, while large and medium enterprises account for about 9.34% and 0.91% of individual employment.

Despite their recognition as a major source of employment and income in many developing countries, remarkably little is known about the characteristics and growth of micro and small enterprises. A study conducted by Muchie and Bekele (2009) reported that 98% of business firms are micro and small enterprises, with small enterprises representing 65% of all businesses. The fact that the majority of enterprises are micro and small indicates that many find it difficult to grow to the middle and large-scale levels. Most SMEs in Hiwane struggle to realize their full potential due to various factors inhibiting their growth and performance. Achieving the contributions of enterprise growth to the town's economy requires overcoming a series of constraints they face. Hence, the association between the growth and constraints of enterprises necessitates a critical assessment. This study aims to identify the opportunities and challenges of small and micro enterprises in Hiwane town.

## **1.2. Statement of the Problem**

MSEs are privately owned and managed by individuals, groups, or associations that often require substantial support from the government or other external sources. Aregawi and Teka(2014), MUDC (2019), and Habtamu and Alemu(2013) revealed that startup and working capital facilitation, working premises, raw material supply, managerial and technical skill training, market-enterprise linkage creation, and management support for MSEs are primarily the responsibility of government officials. This responsibility requires various efforts and coordination between enterprise owners and government officials at all hierarchical levels.

However, problems such as lack of financial resources, managerial experience, poor location, inadequate infrastructure, low demand for products or services, corruption, and raw material

shortages negatively affect the long-term survival and business performance of MSEs (Mulu and Hailu, 2023). A study by the Ethiopian Central Statistical Agency (CSA) indicates that "the contribution of small enterprises in creating job opportunities and developing our economy is vital" (FMSEDA, 2021). However, this contribution is low compared to other countries due to financial constraints, lack of qualified employees, poor financial record-keeping, marketing issues, and inadequate working premises and raw materials. One of the key factors affecting their performance is the lack of information about market opportunities, standards, and regulations.

These problems are prevalent in the study area, prompting the researcher to investigate these issues. Previous national studies have highlighted the serious challenges faced by MSEs. These problems are evident in Hiwane town, resulting in some MSEs shutting down and others declining. Therefore, this research aims to assess the challenges faced by MSEs and the impact level, providing data that addresses these constraints at a local level. Additionally, the researcher is interested in this subject, thus forming the basis of this study, which aims to assess the opportunities and challenges of MSEs in Hiwane town.

### **1.3. Objective of the Study**

#### **1.3.1 General Objective of the Study**

The general objective of this study was to assess the opportunities and challenges of micro and small enterprises in Hiwane town.

#### **1.3.2 Specific Objectives of the Study**

1. To assess the current opportunities available for the growth and development of micro and small enterprises (MSEs) in Hiwane Town.
2. To identify the major challenges faced by MSEs in Hiwane Town.
3. To examine the impact of identified challenges on the performance, sustainability, and growth potential of MSEs in Hiwane Town.

### **1.4. Research Questions**

1. What are the current opportunities available for the growth and development of micro and small enterprises (MSEs) in Hiwane Town,

2. What are the major challenges faced by MSEs in Hiwane Town,
3. How do the identified challenges affect the performance, sustainability, and growth potential of MSEs in Hiwane Town?

## **1.5. Significance of the Study**

The importance of the study lies in contributing to the needs of several groups like the community, decision-makers, stakeholders, and researchers. This will help to identify the problems and opportunities available or confronting MSEs in Hiwane Town, which will go a long way toward fostering local economic development and the creation of employment opportunities. For decision-makers, it will assist them in formulating policies that address significant needs concerning finance, marketing, and infrastructure. These policies are instrumental in encouraging an enhanced business environment. Stakeholders like financial institutions may use the study to devise and implement appropriate support programs. For researchers, it will serve as a foundation for further studies on MSE growth and development and enrich academic knowledge in this area.

## **1.6. Scope of the Study**

The study was limited to MSE opportunities and challenges available in Hiwane Town, covering service, urban agriculture, manufacturing, and construction sectors. These sectors were targeted because they signify the most active and officially registered MSE activities in town. Other types of MSEs in Hiwane were not included in this study due to time and financial constraints. The research provides a detailed analysis to comprehend the factors that affect the growth and sustainability of MSEs within the prescribed content, location, and time frame of 2025.

## **1.7. Paper Organization**

The thesis is organized into five chapters. Chapter one deals with the introduction consisting of the background of the study, statement of the problem, research questions, and objectives of the study, significance of the study, and scope and limitations of the study. Chapter two presents theoretical and empirical literature related to the study, while chapter three provides the research

methodology. Chapter four deals with data analysis and chapter five states the conclusion and recommendations.

## **1.8. Definitions of Terms**

**Enterprise:** A unit of economic organization or activity, whether public or private, engaged in the manufacturing of goods or provision of services.

**Micro-enterprise:** A business enterprise whose capital does not exceed 100,000 Birr.

**Small enterprise:** An enterprise engaged in commercial activity whose capital exceeds one hundred thousand Birr and does not exceed 1.5 million Birr, other than an institution of high technology and consultancy service.

## **CHAPTER TWO:**

### **LITERATURE REVIEW**

#### **2.1. Concept of Micro and Small Enterprises**

MSEs play a very important role in the economies of developing countries apart from creating jobs and generating income. However, most of the definitions and classifications used for MSEs vary considerably between countries, which leads to an almost non-universally accepted definition. This variability arises, according to Lepi (2005) and Storey (1995) as cited in Mulugeta (2011), from the differences in the criteria used to classify enterprises as small, micro or medium. Zewde and Teshome (2002) asserts that without a universally applicable definition, it is problematic to evaluate MSEs' contribution to economic development. These definitions are generally created by governments for both functional and promotional purposes to enable the growth and development of the MSE sector.

Countries use different criteria to identify micro and small enterprises from other economic units. Carpenter (2003) outlines a number of common key criteria used in these definitions. The most typical of these is the number of employees, with an enterprise with fewer than 10 employees normally falling into the micro category, while enterprises with between 11 and 50 employees fall into the small category. The respective financial strengths of enterprises, such as their invested capital and access to credit, also play a vital role in the classification and growth opportunities of an enterprise. Annual revenue or turnover is another criterion, which has considerable variations from country to country and even from industry to industry. Besides, the relative size of an enterprise is very often judged in relation to other enterprises in the same trade or industry or region in which it operates. The capital investment which a business requires in the initial stage and the type of industries an enterprise is involved in also influences the classification as different industries may use different bases.

As an example, the European Commission classifies micro and small enterprises along three criteria: headcount of staff, annual turnover, and annual balance sheet total. Thus, it defines micro-enterprises as those that employ less than 10 persons with an annual turnover or balance

sheet total not exceeding €2 million. Small enterprises are defined as employing between 10 and 49 persons, with corresponding limits for turnover and balance sheet totals.

According to the 2019 MSEs National Baseline Survey, the two mandatory criteria in defining MSEs in Kenya include informality and size of employment. Ronge and Hdiangu (2002) defines a small and medium enterprise as a non-primary enterprise—that is, not being involved in crops, animal husbandry, fishing, hunting and gathering, or forestry production—whether in the formal or informal sector. A micro-enterprise is defined as an enterprise with ten workers or less, while a small enterprise is one that employs between 11 and 50 workers. The definition of SME normally encompasses the inclusion of firms in both formal and informal sectors and, therefore, embodies the high level of diversity of economic activities within a country.

The MTI has defined micro enterprises in Ethiopia as those whose paid-up capital does not exceed 20,000 Birr and which employ less than ten people. Small enterprises are considered to be those with paid-up capital between 20,001 and 500,000 Birr, approximately \$30,000, and which employ between 11 and 50 persons (FEMSEDA, 2021). This classification is paramount for the development of policies and strategies that address enterprises according to the peculiarities of each category.

The definition and classification of MSEs, therefore, are differently characterized with regard to employment size, financial metrics, and industry types. The variability of definitions has, therefore, caused complications for various researchers and policymakers in estimating the MSE share in the economic contribution of many countries. Understanding the difference is thus important in formulating the right policies that would help MSEs grow and be sustained significantly (Zewdu & Teshome, 2023).

### **2.1.1. Definitions of SMEs in Ethiopia**

There are two major definitions for SMEs in Ethiopia: one developed by the MTI in 2019 and another by the CSA, as cited in FeMSEDA (2021). MTI defines micro enterprises as those having paid-up capital not exceeding Birr 20,000 (\$1,200 approximately), excluding high-tech firms. It defines small enterprises as those whose paid-up capital is between Birr 20,001 and Birr 500,000 (approximately \$30,000).

However, CSA classifies enterprises based on the scale of employment and types of equipment. Micro enterprises fall under informal sector operations and cottage industries. These typically make use of non-powered machinery and utilize less than ten workers. Small-scale manufacturing enterprise makes use of less than ten workers with motor-operated equipment.

The Federal Micro and Small Enterprise Development Strategy, 2021 brought further changes in the ways of classification. Industry micro enterprises shall have up to five employees and total assets level not exceeding Birr 100,000 (approximately \$2,000) while the service sector must have up to five employees with assets amounting to not more than Birr 50,000 (approximately \$1,000). The small industrial enterprises are those which employ between 6 and 30 people with assets between Birr 100,001 and Birr 1.5 million; while small service enterprises are those with 6 to 30 employees and assets between Birr 50,001 and Birr 500,000 (approximately \$10,000).

## **2.2. The Role of MSEs in Economic Development**

MSEs hold a central position in economic development, especially for developing countries. As leading job creators, they contribute up to 70% of total employment depending on the country, aside from constituting a big share of their GDP. MSEs contribute to reducing poverty and increasing the living standards of people through the provision of jobs both in urban and rural areas where formal job opportunities are often scarce. As they are labor-intensive, they create employment quickly and hence are very important in those economies which have a high growth rate of population with very few job opportunities.

MSEs also promote innovation and entrepreneurship by allowing people to exploit business opportunities with minimal capital investment. They often act as training for budding entrepreneurs and provide those necessary skills and experience that could lead to bigger enterprises. MSEs encourage diversification in an economy and, hence, industrial development and competition, which is positively reflected in the economic resilience of the economy (Oni & Daniya, 2012). Promotion and support of MSEs are, therefore, an integral part of a strategy to be adopted for the achievement of sustainable economic development.

## **2.3. Overview of MSEs in Ethiopia**

While the government has recognized the role MSEs play in the overall economic development strategy, supportive policies and initiatives have been implemented to create an enabling environment that would see the growth in the MSE sector in tandem with the realization that MSEs are major contributors to the overall process of generating employment, reducing poverty, and fostering overall economic growth. According to the Federal Micro and Small Enterprises Development Strategy, MSEs in Ethiopia are envisaged to generate most employment opportunities, particularly amongst the youth and females, who otherwise have limited chances for employment. The strategy points to a conducive business environment, access to finance, and technical training as some of the pre-requisites for raising MSE performance.

Despite the acknowledgment of its importance, MSEs in Ethiopia are still confronted with many challenges to their development and sustainability, such as lack of access to finance, inadequate infrastructure, and regulatory barriers. A majority of MSEs are located in the informal sector, which is another factor contributing to exacerbating their problems in terms of access to vital resources and support services. Through targeted programs and initiatives specifically aimed at encouraging the growth and integration of MSEs into the formal economy, the government and other stakeholders are addressing this challenge. Therefore, MSEs have opportunities that will be discussed next.

## **2.4. Opportunities for MSEs**

### **2.4.1. Access to Finance and Funding Sources**

Access to finance is one of the critical opportunities in the growth of MSEs. In recent times, MSEs have gained increased recognition by financial institutions in Ethiopia for their potential and thus started offering tailored financial products targeting specific needs. For example, microfinance institutions offer small loans to entrepreneurship that may not require collateral, which may be required by conventional banks. Access to credit by MSEs facilitates investments in equipment, expansion of operations, and better cash flow management that lead to increased competitiveness in markets. Hence, Hassan and Kassawork (2018) says that with access to credit,

MSEs can invest in equipment, expand their operations, or manage cash flow more effectively for higher competitiveness in the market.

Various government initiatives are targeted at MSEs through the provision of finance and grants by the established Micro and Small Enterprises Development Fund. These are designed to liberate entrepreneurs by addressing their financial burden and ensuring that environmentally friendly business processes are adopted. Moreover, the MSEs, upon building credit records, may access higher loan portfolios, and a wider range of financial services could be made available for them to expand operations. Improved access to finance is thus an important opportunity the MSEs have to enhance performance and make a high economic impact.

#### **2.4.2. Market Linkages and Business Networks**

Development of strong market linkages and business networks is yet another grand opportunity for MSEs. Collaboration among enterprises can contribute to competitiveness through opening wider market access, resourcing, and bargaining opportunities. In Ethiopia, such initiatives that encourage MSE networking may facilitate knowledge sharing and best practice exchange that could culminate in efficiency and innovation.

Another factor which could facilitate MSEs' access to markets is the opportunity to form alliances with large enterprises. The latter, in their turn, often require local suppliers of various components and services to which MSEs can be linked. This would provide MSEs with stability in demand for their products and services while concurrently allowing large firms to meet their local sourcing needs. Hence, it is crucial to strengthen the market linkage and business network to make MSEs in Ethiopia more competitive and sustainable.

#### **2.4.3. Government Policies and Support Programs**

Government policies and support programs are leading strategies in the growth of MSEs in Ethiopia. Realizing the fact that MSE can bring development to the economy, the Ethiopian government so far has implemented various initiatives that aimed at supporting its inception and development. FMSEDS has articulated a clear roadmap for financial, technical, and infrastructural support that would make MSEs capable of providing more jobs and contributing to poverty reduction. FMSEDS supports MSEs comprehensively through access to credit,

training, and infrastructure, among other services. The establishment of microfinance institutions by the government to make access to affordable financing available or vocational training centers to enhance entrepreneurial and employee skills, for instance, is a step in this direction. Besides, efforts at the improvement of the business climate through reduction of bureaucratic barriers to promoting regulatory reforms are essential to create an enabling environment for MSE growth. Accordingly, prudent government policies and support programs remain critical to allowing MSEs to play to their full potential in the economic landscape of Ethiopia (MUDEC, 2013).

#### **2.4.4. Technological Advancement and Innovation Opportunities**

Technological innovations bring a lot of opportunities for MSEs to upgrade their business operations and competitiveness. In this regard, an increase in access to ICT in Ethiopia opens up new avenues for MSEs in accessing markets, organizing their operations, and engaging with customer relationships. For instance, many entrepreneurs are using mobile technologies as opportunities to improve communications, consummate online transactions, and market products and services more effectively.

Another critical area in which MSEs can be very competitive is innovation. The use of new technologies and new processes allows MSEs to become more productive, cut costs, and offer better services than their competitors. In addition, the development of an innovative culture in MSEs will provide the necessary options for entrepreneurs to devise creative solutions for problems at the local level, thus ensuring that growth is sustainable. In this regard, embracing technological changes and promoting innovation become critical strategies in MSE performance development, along with contributing to the whole economic development of Ethiopia.

### **2.5. Challenges Facing MSEs**

#### **2.5.1. Financial Constraints and Access to Credit**

Among the major issues facing MSEs in Ethiopia is financial constraint. The majority of MSEs can neither expand their business activities nor invest in productive resources due to a lack of access to credit and other poor credit arrangements. This is because most traditional banks require collateral and formal credit history, which most MSE owners cannot provide, making the acquisition of loans impossible (World Bank, 2020). This is therefore the very reason why many

entrepreneurs depend on their personal savings or informal loans, which cannot be enough to scale the businesses.

In addition, informal loans from friends and relatives at high interest rates also put MSE owners in financial stress; this stress, in turn, exacerbates their MSE operations. This scarcity of MSE-specific financial products has contributed to the limited capacity for MSEs to mobilize capital for growth. Innovation in financing solutions through mechanisms such as microfinance and government-backed loan initiatives is critical for achieving improvements in MSE sustainability and competitiveness in Ethiopia.

### **2.5.2. Supply Chain Constraints and Availability of Raw Material**

The supply chain and raw material accessibility have been cited as major setbacks to MSE operations in the country. Most MSEs have poor supply networks that would delay production or cause increased costs of operation. Transporting raw materials and logistic challenges have, in most instances, made it very difficult to acquire inputs and affect the efficiency and effectiveness of MSE operations.

There is also a probability that MSEs face problems in procuring raw materials of good quality at competitive prices. Most suppliers prefer to deal with large firms that are able to place bulk orders, thus leaving MSEs at a disadvantage. This may limit the potential of MSEs in terms of responding to market demand and, consequently, their growth. Therefore, the development of mechanisms that enhance supply chain management and further improve access to raw materials is relevant in enhancing the general performance and sustainability of MSEs in Ethiopia.

### **2.5.3. Regulatory and Legal Barriers**

Some of the major challenges facing the development of micro and small enterprises in Ethiopia concern the regulatory and legal barriers. Entry to and development of such an enterprise may be constrained by complex regulation and bureaucratic processes of the state. Most MSE owners show problems in dealing with the regulatory environment, which often causes delays in obtaining permits and licenses. This may be discouraging for new potential entrepreneurs or the expansion possibilities of existing MSEs.

Apart from this, inconsistency in the application of regulations emboldens uncertainty for MSEs and renders them incapable of planning or operating effectively. These other regulatory challenges require an integrated approach by the government in the simplification of procedures, ensuring heightened transparency and consistent application of laws and regulations. This will go a long way in creating an enabling regulatory environment that allows Ethiopia to promote the growth and, more importantly, the sustainability of MSEs as contributors to economic development.

#### **2.5.4. Competition and Market Demand Issues**

Some of the critical challenges that MSEs in Ethiopia have to put up with include competition and market demand. Most MSEs have to bear stiff competition both from formal and informal sectors and hence have few opportunities to gain a market foothold. Besides, an MSE may be affected by the sustainability of its business, particularly if the products are intended for a niche market, whenever there is a shift in consumer demand (Hassan and Kassawork, 2018). Unable to foresee and respond to market trends serve as limiting factors to the growth and profitability of MSEs.

However, MSEs are often unable to develop distinctiveness that sets them apart from the competition. Consequently, MSEs can easily enter price wars, which generally end in squeezed profit margins. To be successful within competitive markets, MSEs need proper marketing strategies and a full comprehension of customer needs. Innovation and the development of value propositions enable MSEs to position themselves better in the markets to be resisted during turbulence (Nega and Mulugeta, 2021).

#### **2.5.5. Challenges Related to Infrastructure and Business Environment**

For instance, MSEs in Ethiopia face challenges related to issues of infrastructure and the business environment. In particular, inefficiencies within MSEs arise from infrastructural gaps concerning poor transportation networks, inadequate utility supply, and unsteady communication services. As an example, poor supply of electricity and water may lead to disruption in the production process, thus raising costs, with attendant low productivity.

Besides this, there are a lot of other obstacles that MSEs might face, such as bureaucratic obstacles, regulatory complications, and political insecurity. These can cause unpredictability's which would keep investors away and drastically reduce MSE's potentials for growth. Infrastructure bottlenecks and improvements in the general business environment have to be addressed if MSEs in Ethiopia are to be helped to develop and sustain themselves.

### **2.5.6. Location and Working Space Problems**

On other aspects, lack of premise is no doubt a serious problem to the SMEs. Most informal operators do not get access to appropriate locations, where they can easily access markets. The issue of acquisition and transaction cost has become so prohibitive for the emergence of new enterprises and for the growth and survival of the existing ones. Land provision and the land lease system have greatly constrained the chances of micro, small, and medium enterprises that aspire to start businesses.

This argument is supported by Rolfe et al. (2010), who find that location is a primary determinate of the sales and revenue of small-scale firms, and as such, there are advantages to entrepreneurs provided by businesses operating in formal residential areas, as there is higher per capita income and demand density amongst developed urban areas. Demand density similarly improves the profitability of taxi ranks and train stations. The scarcity of such spots means they are a non-replicable competitive advantage.

### **2.5.7. Inadequate Managerial and Technical Skills**

MSEs' management problems emanate from either the limited knowledge or ability of the owner or inadequacy of competent personnel to advise the owner on management policies (Stephen, 2013). In developing countries, decision-making skills, effective management and accounting practices are very low for MSE operators (ALemu, 2011). Further, the absence of management skills results in problems of production because of improper coordination of the processes of production and inability to detect failure on machinery and/or equipment, and they are unable to afford experts in planning, finance, and administration (CLEP, 2006).

### **2.5.8. Lack of Adequate Market**

Marketing knowledge is essential for the promotion and growth development of the micro and small enterprise. To this end, the Ethiopian government has drawn up MSE strategies with a view to mitigating problems related to marketing by establishing mechanisms of inter-linkage with other institutions, training on marketing, developing export support programs, and setting up marketing information centers (MOTI, 2017). However, an inability to sell its products and services, a lack of adequate marketing channels, and a lack of marketing skills are big issues to startup and further growth in the sector (MUDC, 2013; MOFED, 2019).

### **2.5.9. Lack of Formal or Informal Linkages**

For instance, Gebrehiwet (2004) notes that linkages can facilitate access to markets, finance, and technology that would otherwise not be availed to enterprises. It can also create an enabling environment for cooperation or collaboration between micro and small enterprises, hence improving their respective competitiveness. However, a large number of MSEs operate in isolation without having any formal or informal linkages with large firms or institutions. This has been one major limiting factor, as it denies them access to crucial resources such as market information, sources of finance, and mentorship.

## **2.6. Opportunities of MSEs**

Micro and small enterprises (MSEs) play a crucial role in addressing Ethiopia's economic challenges, particularly regarding employment generation, resource mobilization, income distribution, and the support of larger industries.

### **2.6.1. Employment Generation**

The major problems facing Ethiopia, such as rapid population growth, are translated into high land pressure and an acute need for jobs. MSEs are also especially suited to the Ethiopian context where so many people have practical skills, even if they may have little formal education. A particular advantage of MSEs is that using rather smaller workforces, they can provide a tremendous number of jobs with less capital investment. This focus on MSE ensures that more people can participate in economic activities and benefit from them.

The MSE sector is also one of the largest contributors to employment in Ethiopia, accounting for as many as 70 percent of all jobs in the country. Their capacity to adapt to the needs of the local markets, through entrepreneurial drive, stimulates entrepreneurship and innovation too, making MSEs a very important driver for economic development. Moreover, MSEs tend to empower the less privileged groups in society, like women and the youth, by providing various possibilities of developing their entrepreneurial capabilities and promoting equitable income distribution. Hence, a focus on the growth and development of MSEs would help the country of Ethiopia not only combat the serious problems of unemployment and land pressure but also promote sustainable economic growth and improvement in living standards throughout the country (Mohamed, 2016).

### **2.6.2. Mobilization of Resources and Entrepreneurial Skills**

MSEs mobilize resources and entrepreneurial skills in the Ethiopian economy. They do not necessarily have to be capital-intensive for their labor-intensive nature can ensure substantial employment. This potential is crucial in Ethiopia, where most people are practically skillful but perhaps with limited formal education. MSEs tend to provide an avenue towards a more inclusive process of economic participation whereby the contribution and beneficiary radius would become larger within the population (Mohamed, 2016).

The MSE sector in Ethiopia, therefore, contributes to 70% of employment opportunities within the nation. According to the International Labour Organization (ILO, 2008), their adaptability to local market demand has made MSEs not just nurture entrepreneurship but also innovative and hence full contributors to economic development. Moreover, MSEs contribute to empowering women, youth, and other marginalized members through offers of opportunity that enhance their entrepreneurial capacity and are thus promoters of equitable income distribution. By making MSE development the centerpiece of their development agenda, Ethiopia will be in a better position to address comprehensively the twin problems of unemployment and land pressure, and establish the preconditions for sustainable economic growth and poverty reduction at the national level (Mohamed, 2016).

### **2.6.3. Income Distribution**

MSEs play an important role in the process of economic development and employment creation in general, and in developing countries like Ethiopia in particular. They are usually labor-intensive and able to absorb quite a good number of employees, hence making good contributions to job creation. In countries where population pressure is mounting on land, such as Ethiopia, the growth of small-scale enterprises has become a mighty means of tackling unemployment. Therefore, MSEs stand for an important share of the employment contribution in the country, making them provide jobs to millions of people and offer an inclusive economy which empowers local communities. According to the ILO (2008), MSEs account for a large share of employment in the country, therefore making them provide jobs to millions of people and offering inclusive growth through the empowerment of local economies.

Again, MSEs contribute beyond providing jobs; they have an effect on the eradication of poverty and also diversify the economy. Many MSEs are involved in different sectors such as agriculture, manufacturing, and services; hence, their development triggers local economies and propels innovation. As Berihu (2016) asserts, the integration of MSEs into the economic fabric of Ethiopia makes the country more resilient to economic shock and helps with sustainable development. Overall, the proliferation of MSEs not only addresses immediate needs for employment but lays bedrock for long-term stability and growth of the economy.

### **2.6.4. Better Utilization of Local Resources**

One of the strong advantages of MSEs is their better utilization of resources. Such enterprises often exploit indigenous resources, which require little capital investment to initiate small-scale industries. The MSEs, through transforming the abundant locally available materials into productive undertakings, help in economic sustainability as well as community development. Secondly, small-scale industry is ingenious in exploiting local raw materials. Most of them use traditional methods of processing without requiring a high level of technology. This enables them to innovate at low costs, increasing the competitiveness of MSEs and economic growth from the grassroots (Mulugeta and Gebremedhin, 2011).

Lastly, reliance on native resources builds community participation and also local economies. When MSEs make use of native materials, they provide a demand for local suppliers, hence

activating an economy in surroundings. This may further contribute to the enhancement of value chains and thus the general economy of the region. At the same time, MSEs encourage the locals to exploit whatever resources are available, thus building on efforts of sustainable development and job opportunities in their communities (Zewde and Teshome, 2002).

### **2.6.5. Supports Large Industry Growth**

Small-scale enterprises support the big industries as well as projects by providing support for timely attending of the planned activities of development work. They have also supported the growth of large industries through their supplying components, accessories as well as semi-finished goods required by them. As Mohamed (2016) mentioned, small industries may breathe vitality into the life of large industries.

## **2.7. Impact of Opportunities and Challenges on MSE Performance**

### **2.7.1. Business Growth and Sustainability**

The opportunities and challenges have a relatively significant effect on MSEs' performance in Ethiopian MSEs. Opportunities such as access to finance, government support programs, and technological advances can create the best avenues for growth and sustainability for MSEs. Increased access to credit finds MSEs, for instance, investing in much-needed resources and diversifying into VDB operations and undertaking innovations that will make them more profitable and competitive, as mentioned by MUDC (2013). Where MSEs are able to capitalize successfully on these opportunities, they build resilience to such challenges, often creating foundations necessary for long-term success.

Contrary to that, challenges related to finance, the skills gap, and regulatory barriers may make MSEs susceptible to growth and sustainability. For example, lack of access to finance can limit their investment in necessary technologies and human resources that help in growth and innovation. Therefore, addressing such challenges is crucial to maximize MSE's contribution toward economic development and poverty reduction in Ethiopia.

### **2.7.2. Employment Opportunity and Contribution to Economy**

MSEs play a significant role in the creation of employment opportunities and the economy of Ethiopia at large. A very valuable source of employment, MSEs provides livelihood means among millions of people in both urban and rural settings where formal employment opportunities might be very limited. The potential of MSEs to create jobs depends much on their access to opportunities; for instance, financing, market linkages, and government support programs. If MSEs can make use of these resources positively, they are capable of expanding operations and hiring more employees, thus contributing to total economic growth.

The MSEs are also crucial in the diversification of the economy, enhancing resilience against economic shocks. The MSEs contribute to agriculture, manufacturing, and services and further help achieve a well-structured, balanced economy with less dependence on a few sectors. Thus, support for MSEs serves a dual purpose: it encourages not only job creation but also acts as one of the means of overall stability and sustainability in the economy of Ethiopia as a whole.

### **2.7.3. Survival Rate of MSEs**

The opportunities realized and challenges faced by MSEs significantly influence their rate of survival. While MSEs are capable of growth and survival, many hardly live beyond their initial few years of operation. Research has shown that a considerable number of MSEs in Ethiopia do not survive beyond a few years due to factors such as financial constraints, lack of managerial skills, and fluctuating market demand. Since such factors stand in the way of the full potential of MSEs to contribute to economic development.

In this regard, addressing MSEs Challenges while at the same time improving their access to opportunity will definitely improve survival chances. Capacity-building programs, finance, and an enabling regulatory environment are ways MSEs can surmount such obstacles and improve their chances of survival in the long term. Since this, in turn, improves overall health in the economy and lessens business closure rates within the country through improvement in the MSE ecosystem.

## **2.8. Government and Institutional Support to MSEs**

### **2.8.1. Overview of Policies that Support MSEs in Ethiopia**

The Ethiopian government has adopted and implemented a number of policies on initiatives for supporting MSE growth and development. Grasping the prospects of MSEs to drive economic development, the government has provided a holistic framework embracing policy and legal reforms, financial support schemes, and training programs. FMSEDS is a guiding document for promoting the MSE sector through stipulating stated goals and objectives to develop their capacity and competitiveness.

The policies also focus on creating conditions through which the government and financial institutions can collaborate in providing stimulus to MSEs through access to finance, technology transfer, and market linkages. In this regard, the government is promoting policies that enhance a supportive environment to enable MSEs to realize their full potential and contribute to economic growth.

### **2.8.2. Programs and Initiatives for MSE Development**

Various program and project levels have made attempts toward the development of MSEs in Ethiopia, which include setting up the Micro and Small Enterprises Development Fund for the injection of finances into the entrepreneur's intentions of either starting or expanding their businesses. This would cushion the MSE from the much financial burden they are under, thereby allowing them to invest in resources and technologies required for growth.

Secondly, vocational training programs and capacity-building initiatives have been launched on the owners and employees of MSEs to upgrade the skill and competency level of the owners and employees. This sort of training covers certain key trainings in business management and marketing strategies, among others, in addition to the technical skills. The government has consequently implemented these programs and initiatives to create an enabling ecosystem for MSE development, realizing sustainable economic growth in Ethiopia.

### **2.8.3. Role of Financial Institution and Development Partners**

Financial institutions and development partners are of great importance to MSEs in Ethiopia through the availability of necessary financial resources, technical assistance, and capacity-building programs required for growth and sustainability. Specifically, microfinance institutions have emerged as key actors in the financial landscape with appropriate provisions of financial products targeted at meeting the peculiar needs of MSEs.

International organizations and NGOs, as development partners, play a role in promoting the efforts of the Ethiopian government to implement programs focused on improving MSE performance. This might include access to finance, training, capacity-building, or market linkages. Given this scenario, the involvement of financial institutions and development partners in the creation of an enabling environment for MSEs can be a vital stimulus to economic growth and development in Ethiopia.

## **2.9. MSEs in Ethiopia and Other Developing Countries**

Like in other developing countries, different studies have been conducted in Ethiopia with a view to emphasizing the potential role and contribution of MSEs both to the process of economic development and in offering job opportunities. Indeed, MSEs constitute one of the ways through which poverty reduction, income generation, and social empowerment are considerably enhanced among less privileged communities, as evidenced in Bowenetal (2009). Such studies do point out the fact that there is an imperative need for targeted support and interventions in order to enhance the performance of MSEs and address challenges that beset such enterprises.

Moreover, various comparative studies conducted in the context of other countries of the developing world on MSEs have provided rich insight into best practices and effective means through which MSE growth has been fostered. This tends, with reference to case studies of success, to share out common challenges, while policymakers and stakeholders of Ethiopia could then fashion appropriate approaches toward effectively supporting the MSE sector there.

Successful MSE cases in Hiwane Town can perhaps serve as examples and lessons to foster growth and development at the local level. For instance, a handicraft business enterprise operating within the locality was able to access community networks and market linkages toward

increasing sales and expanding customer numbers. This is a case demonstrating how the understanding of local market dynamics and relationships with customers and suppliers become very important.

Moreover, there is a typical example of an agro-processing MSE in Hiwane Town, which employed innovative technology to enhance its productivity. This enterprise used modern techniques in processing its products with the view of offering a wide variety of product ranges to be able to increase its shares in the market as a way to realize local economic development. The above case shows that MSEs can be innovative and realize economic development if they are provided with adequate support and means.

## **2.10. Exploiting Opportunities and Address Challenges**

### **2.10.1. Best Practice to Enhance MSE Performance**

Different best practices can be applied to improve the performances of MSEs in Ethiopia. The building of strong business networks and relationships amongst MSEs is a good strategy that boosts MSE performance. MSEs are able to share resources, expertise, and experience through partnerships and alliances that make them more competitive and viable in the marketplace. Hassan (2018) states that MSEs have the opportunity through collective marketing to increase their visibility and reach out to a wider customer market.

Besides, the investment in training and capacity-building programs will address the management skill gaps. It is with necessary skills that owners of MSEs and employees can run businesses with maximum efficiency, generate innovations, and observe changes in market demands. Moreover, it will ensure a rise in productivity and pave ways for ease in doing business through embracing modern technological changes, hence enhancing MSE performance in a competitive environment (Nega, 2021).

### **2.10.2. Policy Recommendations for Government and Stakeholders**

Targeted policy recommendations by the government and interested stakeholders will contribute to an enabling environment for MSEs. Simplifying regulatory procedures will reduce bureaucracy and, therefore, facilitate the compliance and registration process, making it more

attractive for entrepreneurs to start and expand businesses. Access to finance can also be improved through setting aside specific funds and offering incentives targeted at MSEs to reduce financial constraints that hinder investment.

This would also require stimulating collaboration, particularly by the government agencies, financial institutions, and development partners, in promoting an integrated MSE support system. Better coordination and alignment of the stakeholders' efforts and resources will enable them to identify the major obstacles which constrain MSEs while seizing opportunities for its growth. Finally, the collaborative approach will enable MSEs to make a much more substantial development and job creation impact in Ethiopia's economy.

### **2.10.3. Strategies to Improve Access to Finance, Skills Development, and Market Linkages**

Improving access to finance, skills development, and market linkages are all vital ingredients for MSEs to perform well in Ethiopia. In this respect, policymakers may encourage the establishment of specialized financial institutions and programs with specific designs responding to the special needs of MSEs. This will involve microfinance initiatives, loan guarantee schemes, and capacity-building programs for financial literacy. Hassan and Kalinowski (2018) supports this argument, suggesting that this will help address financial constraints and enable MSEs to invest in vital resources and technologies for their growth.

It also helps in entrepreneurial skills development through training programs and vocational education which would assist entrepreneurs and their employees to enhance knowledge, thereby improving the business processes. Collaboration with local educational institutions and NGOs will help enhance the delivery of appropriate training and capacity-building programs. Second, market linkages through partnerships with larger firms, establishment of cooperative associations will enable MSEs to have access to new markets and customers that will enhance competitiveness and ensure sustainability over time.

# CHAPTER THREE: DESCRIPTION OF THE STUDY AREA AND RESEARCH METHODOLOGY

## 3.1. Description of the Study Area

### 3.1.1. Location

Hiwane Town is located in the southeastern part of Tigray, Ethiopia. It is situated approximately 53 kilometers from Mekelle, the regional capital, and about 657 kilometers from Addis Ababa, the capital city of Ethiopia. The coordinates for Hiwane Town are approximately 13°6' N latitude and 39°29' E longitude. The map also highlights the surrounding areas, including Hintalo Wejerat, which is located to the south of Hiwane Town, further contextualizing its geographical positioning within the region.

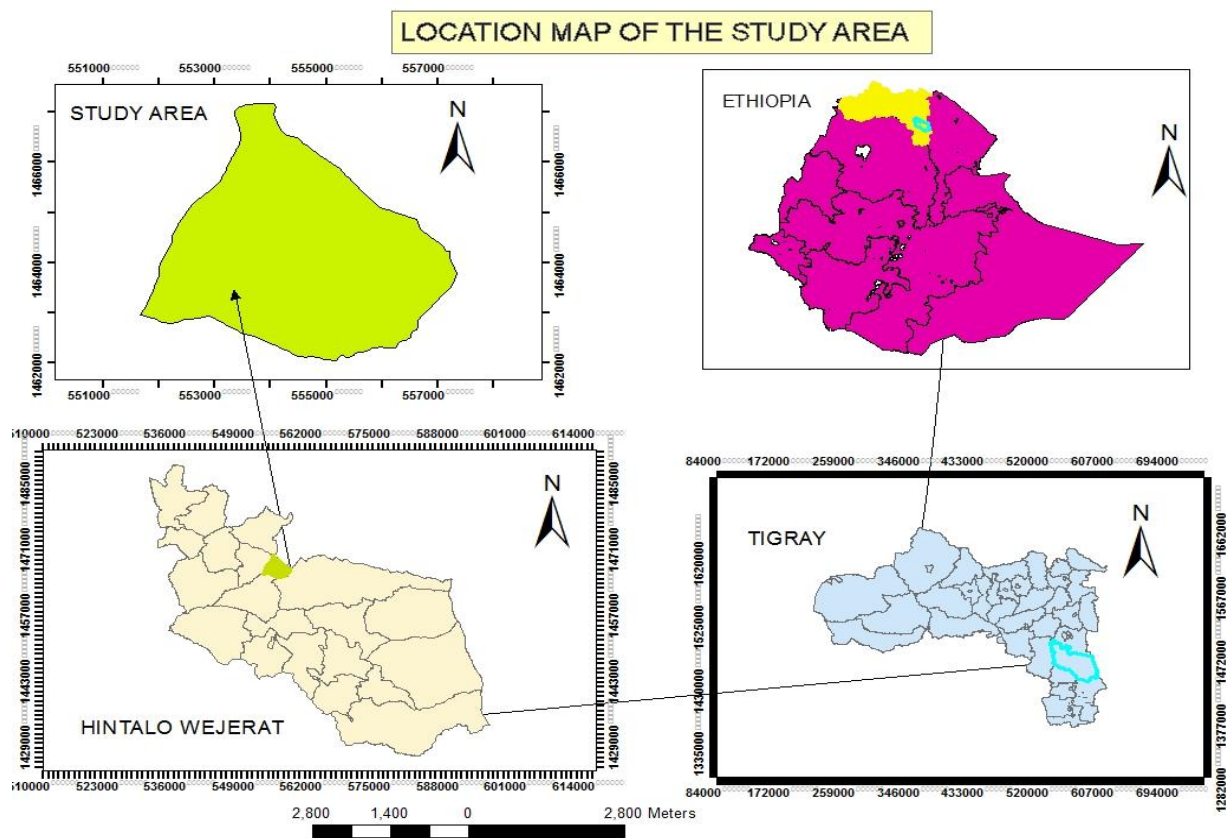


Figure 1. Map of the Study Area

### **3.1.2. Population of the Study Area**

Hiwane Town, located in southeastern Tigray, Ethiopia, hosts 14,720 inhabitants, comprising 6,840 males and 7,055 females, according to the Hiwane municipal report dated 2017. The total population for Hiwane municipality report, 2017, reports a total of 14,720 individuals comprising 6,840 males and 7,055 females, thus showing a nearly equal sex distribution. All these factors affect the population density and structure of the town, which in turn affect the social dynamics, economic activities, and governance at the local level (Hiwane municipal office, 2025).

### **3.1.3. Topography and Soil**

Hiwane Town is generally flat, described by many as plain land; this is usually good for agriculture, as cultivation is normally easy, and infrastructural development may also be implemented with relative ease. The dominant types of soil in the area are: black soils, which totally occupy 91% of the area, being fertile with a high water retention capacity and hence highly fit for agriculture, especially for crop production; leptosols, on the other hand, occupies 9%, which is characterized by a thin top layer. This makes it less fertile, causing problems for farming if managed under poor practices. These different terrains and soil types can contribute to Hiwane Town's agricultural potential. In this region, black soil is dominant, having a great influence on local farmers, affecting their agricultural productivity, thus affecting the economic viability of the town as a whole.

### **3.1.4. Climate**

Hiwane has a *woinadega* climate, which generally characterizes midland areas in Ethiopia with moderate temperatures and substantial rainfall, suitable for various forms of agriculture. Annual rainfall in the town reaches 665.9 mm and is good for crop production and the regional water supply. The average annual temperature is 28.1°C, and this area is therefore warm and highly suitable for agriculture and human settlement. These temperature extremes range from 29.8°C maximum to 9.3°C minimum, with the highest usually occurring in the month of May and the lowest in November. The seasonal variation may, therefore, alter agricultural cycles and crop selection (Hiwane Town Agricultural Office, 2017).

### **3.1.5. Vegetation**

The vegetation of Hiwane Town is essentially trees of the genus eucalyptus, which are primarily planted as sources of timber and windbreak. The native species comprise Wanza and Acacia, another indication of the varied ecologies in the region.

However, the vegetation cover is described as sparse, which could hint at probable issues such as overgrazing, land degradation, or even climate change impacts. Surrounding bushes and shrubs may help to raise the level of local biodiversity and might support different types of wildlife, though the density of vegetation might be low due to human activities or climatic factors.

### **3.1.6. Socio-Cultural Aspects**

Hiwane Town hosts diversified populations—the ethnic communities include Tigray, Amhara, Oromo, and others. This contributes to the rich tapestry of culture that often defines the local ways and traditions in this place, influencing customs, traditions, and social interactions in one way or another.

## **3.2. Research Design**

The research design selected for this thesis was a cross-sectional study method. This approach is of immense importance for the research study, since one would be able to look into different aspects of micro and small enterprises within one period of time. The main respondents in this research study were owners of MSEs, which would help to give an overview of how the MSEs work and the challenges they have to put up with. Another great advantage of a cross-sectional study is that it allows for the comparison of a number of variables simultaneously to provide an in-depth analysis of the factors that affect MSEs performance and dynamics. This design will, therefore, enable the collection of multiple points of data that could be helpful in mapping out any trends and relationships between the variables leading to a better understanding of the MSE landscape.

### **3.3. Data Sources and Collection Tools**

#### **3.3.1. Types of Data and Their Sources**

To address the objectives set out in the study comprehensively, the researcher utilized both primary and secondary data sources.

##### **1. Primary Data Sources:**

Data were directly collected from the target population of the study owners of micro and small enterprises, experts, and households. This has provided first-hand information concerning their experiences, challenges, and strategies that contribute to their success.

##### **2. Secondary Data Sources:**

The secondary data were collected from various sources to identify information concerning the MSE sector. Published texts of academic journals, books, and government reports had been useful in statistical data, historical backgrounds, and analyses of past research studies relevant to the study. Other supportive unpublished documents included internal reports and assessments from the MSE owners that had provide insights into business plans, operational reports, financial statements, and other information not publicly known. In this regard, the researcher had been able to go through existing literature concerning research papers on the identification of challenges and opportunities which MSEs faced shortly in the near past, based on best practice, innovative strategy, and sector-specific dynamics. In addition, industry websites, government databases, and digital repositories would also be explored for the purpose of accessing relevant information that could be obtained with the use of different databases and repositories hosting respective studies, statistical reports, and market analyses concerning MSEs.

#### **3.3.2. Data Collection Tools**

For this purpose, the researcher used different data collection tools and methodologies that should provide an in-depth analysis with respect to the MSE sector. In this context, combining these all different sources of data and collections tools had been support this study using SPSS in reaching its full understanding of the various factors that control micro and small enterprises, thus meeting the objectives effectively.

**1. Questionnaire:** A structured questionnaire was designed to collect quantitative data from MSE owners. This tool includes a range of closed-ended questions aimed at capturing specific information about business operations, performance metrics, financial practices, and challenges encountered by the enterprises. The data were encoded and analyzed because the nature of this questionnaire was quantitative, one can analyze it statistically; therefore, one can make comparisons across different variables.

**2. Interviews:** In-depth interviews were used to collect qualitative data from the owners of MSEs by using purposive sampling method. The interviews were semi-structured; open-ended questions have been included that had help the respondents give more information about their experiences and provide rich, contextual insights. Interviewing provides an avenue into the multifaceted of intricacies and nuances involved in managing MSEs.

**3. Observational Methods:** Under this, observational techniques had been used to directly observe the operational practices in selected MSEs by using purposive sampling method. This could perhaps involve the researcher visiting the enterprises to observe day-to-day activities, customer interactions, and management practices as a whole. Such direct observation would further complement the data obtained from questionnaires and interviews and give a well-rounded perspective on how MSEs function.

### **3.4. Sampling Size and Sampling Techniques**

To ensure the data is more valid and reliable, both probability and non-probability sampling techniques were used. The total population in Hiwane Town stands at 14,840, comprising 6,840 males and 7,920 females. Of these, 230 households are currently engaged in MSEs. From these, the researcher used simple random sampling to identify 146 respondents using formula so that every household gets an equal chance of being selected. On the top, the researcher was purposively sampling 5 experts in the MSE sector.

#### **3.4.1. Sample Size Determination**

Sample is apportioned of general population having uniform character. Sampling is the taking of limited member from the entire population to test/examine for generalization of the total population character. Thus, in this study the sample was a population of existing small and micro

enterprises in Hiwane town. For the selected samples, the questionnaires were given to collect the necessary information or data.

There are different approaches to determine the sample size. These include using a census for small population, imitating a sample size of similar studies, using published tables, and applying formulas to calculate a sample size (Salem, 2016).

To determine the appropriate sample size, the basic factors to be considered are the level of precision required by users, the confidence level desired and degree of variability. The 'degree of precision' is the margin of permissible error between the estimated value and the population value. In other words, it is the measure of how close an estimate is to the actual characteristic in the population. The level of precision may be termed as sampling error. The confidence or risk level is ascertained through the well-established probability model called the normal distribution and an associated theorem called the Central Limit theorem. Normal curve results whenever there are a large number of independent small factors influencing the final outcome. The degree of variability in the attributes being measured refers to the distribution of attributes in the population.

The more heterogeneous a population, the larger sample size required to be, to obtain given level of precision (Guma, 2012).

Yemane (1967) formula was used so as to determine representative sample size of target;

$$n = N / [1 + N(e^2)] \dots\dots\dots\text{eqn (1)}$$

Where n is sample size, N is total population, e is the desire level of precision=5%

$$= 230 / [1 + 230(0.05)^2] = 146$$

After the determination of sample size, the allocation of these sample size to each sectors of MSEs in the study area was carried out through proportional allocation method of stratified random sampling. The proportional allocation method was originally proposed by Bowley (1926).

$$n_i = n (N_i / N) \dots\dots\dots\text{Equation 2.}$$

The sample size in each sectors were calculated using equation 2 and showed in table1.

**Table 1** *Sample Size in Each Sector*

<b>Sector</b>	<b>Number (Ni)</b>	<b>Sample (ni)</b>
Manufacturing	115	60
Construction	48	25
Urban agriculture	42	22
Trade	25	13
<b>Total</b>	<b>230</b>	<b>120</b>

Owing to time and financial resource constraints, a non-probability sampling method was also employed; in this case, it had been a stratified proportional random sampling technique. Its importance in this regard is that the MSEs population is heterogeneous, combining pursuits within manufacture, construction, urban agriculture, trade, and services. The stratified sampling technique was hence importance in ensuring that the sample truly reflects the diversity within the MSE community so that a complete grasp of the sector's dynamics might attained. This blend of sampling techniques was allowing the research to collect data that is robust while accommodating practical limitations.

### **3.5. Methods of Data Analysis and Interpretation**

Data that was collected through different methods had been processed and analyzed by using both quantitative and qualitative analysis techniques. The quantitative data was analyzed using table's correlations and percentage, whereas the qualitative data was analyzed in the form of a qualitative description by word.

The following are the data collection instrument used collect primary and secondary data to support the research work Structured Questionnaires used to collect primary data from 120 MSEs and Desk review to appraise various policy documents and performance reports. The data collected verified, edited, coded, and entered in to data view of SPSS and analyzed by using graphs, tables, percentages, and correlation.

Correlation is important to measure the strength of the challenges of MSEs or the to measure the relationship among the challenges of MSEs.

### **3.6. Data Process and Analysis**

The data collected from government authority and literatures (secondary data) and primary data were stored. These data were classified and ordered according to their type. The collected data was being recorded and analyzed using SPSS software's. The main software used to analyze the data was IBM SPSS statistic 20. The descriptive statistics and inferential analysis were used. In descriptive analysis the regression was used to indicate the relationship among the variables that are considered as challenges of SMEs.

### **3.7. Reliability and Validity of Data**

Reliability refers to the consistency of a measure. If we attain the same result repeatedly the measure is considered reliable. For example, if an assessment is designed to measure a trait (such as introversion), then each time the assessment is administered to a subject, the results should be approximately the same (Cherry, 2013). It is not possible to calculate reliability exactly, but it can be estimated in various ways Reliability is concerned with the consistency of measures. It is dependent on its ability to produce the same score when used repeatedly (Berhanu, 2014). The reliability of a standardized test is usually expressed as a correlation coefficient, which measures the strength of association between variables. Such coefficients vary between -1.00 and +1.00 with the former showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability (Admasu, 2012). Validity defined as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under the study. It shows whether an instrument actually measures what it is supposed to measure, given the context in which it is applied (Bless, 2006) while, the instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. In this study the validity and reliability of the data was checked using scale analysis based on Cornbrash's alpha. The closer Cranach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. The reliability determined as, if "> 0 .9 Excellent, >0 .8 Good, >0 .7 Acceptable, 0 .6 Questionable, > 0.5 Poor, and < 0.5 Unacceptable" (George & Mallery, 2003).

### 3.8. Results of Reliability and Validity

The result of reliability test using Cornbrash's Alpha was shown in table 2. From the analysis the value of Cronbach's Alpha was 0.912. This represents an excellent correlation between items, because if the value of Cronbach's Alpha was greater than or equal to 0.9, the relation between the items was concluded as excellent relationship (George & Mallery, 2003). Reliability tests resulting in an alpha of 0.7 are generally accepted as having high reliability (Rovai, 2014). Also according to this also the study data has high reliability as it was greater than 0.7.

**Table 2** Reliability Test Result Using Cronbach's Alpha

Case Processing Summary		
	N	%
Valid	120	100
Excluded	0	0
Total	120	100
Reliability Statistics		
Cronbach's Alpha	Based on Standardized Items	N of Items
.912	.915	9

Table 3 indicates that internal consistency values with respect to item-to-item correlation were more than 0.3, this result indicates that the data was valid. In the matrix X1, X2, X3, X4, X5, X6, X7, X8 and X9 represents marketing factors, entrepreneurial factors, and technological factors, managerial factors, and financial factors, working place factors, infrastructure factors and performance respectively.

**Table 3** *Inter-Item Correlation Matrix for Validity Test*

	X1	X2	X3	X4	X5	X6	X7	X8	X9
X1	1.000	.316	.980	.355	.365	.353	.493	.306	.332
X2	.316	1.000	.398	.420	.355	.352	.359	.433	.387
X3	.498	.498	1.000	.337	.368	.325	.301	.344	.359
X4	.355	.420	.337	1.000	.302	.562	.395	.465	.341
X5	.065	.550	.368	.302	1.000	.285	.388	.312	.322
X6	.353	.352	.325	.562	.385	1.000	.401	.453	.325
X7	.493	.359	.401	.395	.388	.401	1.000	.448	.346
X8	.306	.433	.344	.465	.412	.453	.448	1.000	.321
X9	.332	.387	.359	.341	.322	.325	.346	.521	1.000

## CHAPTER FOUR:

### RESULTS AND DISCUSSION

#### 4.1. Introduction

This chapter mainly deals with the data analysis and interpretation. It focuses on key finding of study that is generated through questionnaire from 120 selected respondents and interview from other individual or concerned body(though the total sample size was 146,26 of them were lost and burned by the respondents ). Thus, data collected in the context researcher objectives where presented and analyzing using descriptive statically method and interpreted in the way through which the relevant to the study.

#### 4.1.1. Results Obtained from Questionnaires

**Table 4** *Personal Profile of Owners and Experts of SMEs*

Respondents	Age of Respondents					Sex of Respondents		
	18-24	25-34	35-40	>45		Male	Female	
	No	%	No	%	No	%	No	%
Owners of SMEs	40	33	50	42	20	17	10	8
Expert of SMEs	0	0	2	40	2	40	1	20

#### Age structure of participants

From a total of 120 owners of MSEs selected as a sample 40 (33%) of the owners of the MSEs are between the age of 18-24, 50(42 %) of the owners are between 25-34 age while 20(17%) of the owners are from 35-40 age, the remaining 10(8%) of the owners are above 45 years old. One can simply conclude that SMEs in Hiwane town are owned by young age groups and this implies that there is much job opportunity for the young are than adults and old ages. Similarly, study conducted by Abraham Ababiya (2019) found that more than half of the small and micro

enterprises are operated/owned by the youths. Table two 2(40%) are between 25-34 age, while 2(40%) are between 35-40 age & the remaining 1(10) of experts are above 45 years old.

### Sex structure of participants

Table4 also shows that 72 (60%) of the owner of MSEs are males while 48 (40%) of them are females. This figure indicates that the majority of the owners are a male which indicates SMEs create much employment opportunities for male than female population in the study area. This might be due to the nature of the jobs and mostly females are made busy by house works and treating families. From above table two 4(80%) of the experts are male and 1(20%) of the experts also female. This implies the major of the respondent for expert are male.

**Table 5 Marital and Educational Status of Participants**

Respondents	Marital Status					Educational Level						
	Married	Single	Divorce	Widow		Illiterate	<8	9-12	Diploma	Degree+		
	No	%	No	%	No	%	No	%	No	%	No	%
Owners of SMEs	60	50	40	33	14	12	6	5	4	3	80	67
Expert of SMEs	5	100	0	0	0	0	0	0	0	0	0	0

### Marital Status of participants

Table 5 showed that, 60(50%) of the owners of MSEs are married, 40(33%) are single, 6(5%) are widowed and the remaining 14(12%) are found to be divorced. This shows that the highest numbers of MSEs owners are married and the SMEs create employment opportunity for the married group of the society. Alike to this Dala (2022) found that small and micro enterprises more to create employment and generate income for married society.

### Educational Status of participants

Table 5 showed that 4 (3%) of the owners are uneducated, 80(67%) have attended primary school education. 22(18%) of the owners MSEs have completed secondary school and

preparatory school, 8(7%) also completed diploma while the rest 6 (5%) of the owners MSEs have BA degree educational status. This indicates most of the owners MSEs have completed primary school have more job opportunity than the uneducated owners of MSEs in the study area. In line with to the findings of that found majority of the engaged in SMEs were completed diploma holders (Wudu, 2023). With regard to the educational status of the experts have two categories diploma and degree. From table three 1 or 20%) of the expert of SMEs have completed diploma and 4(80%) of the experts are degree graduate.

**Table 6** Sector Respondents the Owner of SMEs Engage/Activity

Sectors	Respondents	%
Service	60	50
Trade	25	21
Manufacturing	22	18
Urban agriculture	13	11
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: Field survey, 2025*

As shown in table 6, the sample firms are operating in the four sectors of the enterprise. Most of them are engaged in Service 60(50%), Trade 25(21%), Manufacturing 22 (18%) and Urban agriculture (13%). This division of MSEs by sector type is believed to be helpful to study each sector critical factors that affect the performance of MSEs. From the above table four the researchers understand in Hiwane town manufacturing sector are more creating employment opportunity to the people. Alike to the findings of Ababiya (2015) that found majority of the owners of SMEs are engaged in Trade in his study area.

**Table 7** Number of Employee

Sectors	Respondent	%
Service	60	70
Trade	30	23
Manufacturing	22	5
Urban agriculture	8	2
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: field survey 2025*

Table 7 show that service sector has 145 employees, which account 70% of the total workers, from the four sectors trade sector has 47(23%) of the total sectors, manufacturing and urban agriculture also has 11(5%) and 5(2%) of worker respectively. Ejigu (2016) indicated service sector are the most job creation for the people of in the study area.

**Table 8** *Type of Support Obtained from the Local Organization and Stakeholder*

Types of Support	Respondent	%
Market access	42	35
Training and awareness	28	23
Loan	50	42
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: field survey 2025*

The above table 8 show that 50(42%) of the owners of MSEs get loan from local organization and stockholder, 42(35%)of the owners also get market access from the local organization, the rest 28(23%)of the owners gets support training and awareness (Mathew, 2019). This implies that most of the owners of MSEs get support loan from the local organization and stock holder in the study area.

**Table 9** *Basic Causes of insufficient Market Access*

Market Access Constraint	Respondents	In percent(%)
Lack of demand forecasting	26	22
Lack of market information	18	15
Lack of promotion to attract users	22	18
Poor customer relationship	54	45
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: field survey 2025*

From the above table 9, the most cause of insufficient market access (World Bank, 2020), 54(45%) of owners replied that there is poor customer relationship insufficient market for their enterprises products and service, the 26(22%) of owners of MSEs reflect Lack of demand

forecasting for their market accesses products and services. About 22(18%) respondents replay that the major cause for their enterprise are lack of promotion to attract potential users the rest 18(15%) owners of MSEs suggested the most cause for their market accesses are the lack of market information. Therefore, the researcher can conclude from the owners of MSEs Poor customer relationship was the major cause for the insufficient market accesses in the study area (Mulu, 2023).

**Table 10** *Evaluation of Market Access, Accessibility of Location and Communication*

<b>Item</b>	<b>Variable</b>	<b>Respondents</b>	<b>%</b>
Accessibility of enterprise location in Hiwane town	Very poor	8	7
	Poor	6	5
	Fair	46	38
	good	42	35
	Very good	18	15
	<b>total</b>	<b>120</b>	<b>100</b>
Respondents evaluate their Communication with MSEs office	Very poor	4	3
	Poor	6	5
	Fair	44	37
	Good	46	38
	Very good	20	17
	<b>total</b>	<b>120</b>	<b>100</b>
Respondents evaluated about the Access of market for their product	Very poor	24	20
	Poor	54	45
	Fair	20	17
	Good	16	13
	Very good	6	5
	<b>total</b>	<b>120</b>	<b>100</b>

*Source: field survey 2025*

In the above table,46(38%) of the owners of MSEs say that fair accessibility location of their enterprise, 18(15%) are reply that very good accessibility of location their enterprise, 42(35%) %

of the owners of MSEs suggest their business are good accessibility of location and 6(5%) and 4(7%) are respectively say that poor and very poor location accessibility for their enterprise. The researcher understands from the above table most of MSEs in Hiwane town are found in the town and it is good accessibility of location of MSEs. In line with the findings of Geremew (2016) that found majority of the owners of MSEs are Based on the proximity of the business location from its customer, raw materials the enterprise require and competitors.

From the above table second item show that 20(17%) of the owners are very good communication with the MSEs office, 46(38%) are suggest that good communication with the MSEs office when they faced challenges as well as to gain support like loan and training, 44(37%) owners replay fair relation with the office of MSEs, 6(5% ) of the owners of MSEs has poor communication with their office and 4(3%) are reply that very poor relationship with MSEs. From the above table the researcher understands the major respondents very good communication with the MSEs Office.

The above table ten shown from item three 24(20%) of the owners of MSEs say that their product and service are very poor accesses of market, 54(45%) are suggest their product and service are poor market accessibility, 20(17%) also replay their product and service are fair accessibility of market, 16(13%) of the respondents say that good market accessibility for their product and service the rest 6(5%) of the owners of MSEs suggest their product and service are very good market access. So the researcher understands. From table seven, item three more than half of the owners of MSEs say that there is very poor and poor market accesses for their product and service this implies that poor market accesses in the study area. This result is consistent with the results that found accordingly, majority (68%) of the respondent replied that they didn't have market access (Geremew, 2016).

**Table 11** *Contribution of the Government to the MSEs*

<b>Does Government support MSEs?</b>	<b>Respondents</b>	<b>%</b>
No	36	30
Yes	84	70
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: field survey 2025*

Table 11 shows that the majority of the owners 84(70%) have gotten support from the governments (ILO, 2008), but about 36 (30%) are have not support from the government. Therefore, this shows that the majority of enterprises have gotten support from the government but significant number of the owners of MSEs Responds is not enough some of the government support including giving credit, technical support, preparing marketing place for their finished product (Ajubush and Mohammed, 2021).

From this the researcher understands government as does giving support of MSEs to solve their problem so it is enough to solve the challenges of MSEs.

**Table 12** *Major Constraint of MSEs in Hiwane Town*

No	<b>Constraint of MSEs</b>	<b>Respondent</b>	<b>%</b>
1	Raw material supply problem	24	20
2	Lack of Technology	16	13
3	Lack of formal/informal linkages	14	12
4	Market problem	24	20
5	Financial problem	42	35
	<b>Total</b>	<b>120</b>	<b>100</b>

*Source: Field survey 2025*

From the above table twelve 42(35%) of the participant suggest financial problem are very high significance to run for their business. This means that enough loan from bank and institutional organization for their growth of business, 24(20%) of the owners say that lack of raw material for their enterprise is a big challenge. Again 24(20%) of the respondent replys market problem have medium effect for their business. However 16(13%) of owner say that technology problem

has low influence for their businesses (Ajubush, 2021), and moreover 14(12%) of the owners of MSEs reply informal linkage have very low affect for their enterprise. From the above table nine the researcher understood financial problem have the major influence on their MSEs business. This finding is consistent with other empirical studies of (Abera, 2019) that found the major constraint of SMEs are related to financial problem like inadequacy of credit institutions, Shortage of working capital and lack of cash management skill.

## **4.2. Special factors that attract owners of MSEs to join the sector**

According to the owners of MSEs say that when they join to the enterprise are by different factor these are, Lack of employment alternatives, good government support and Profitability of the business. According to the owners, more than half of the owners of MSEs have lack of employment alternatives while they join into the business (Tegene, 2022).

## **4.3. Benefit of the SMEs to the Local Community**

The owner of MSEs responds that the MSEs give some benefit to the society. Some of the benefit of MSEs include: they are sources of employment to the society and they supply different product to the community comparatively at low cost, they serve as transformation to large enterprise and they consume raw material input from the local community during that the local community gain income for their sale raw material to the MSEs (Mulu, 2023).

## **4.4. Interview Results from Experts**

### **A. Suggestions to minimizing the challenges of enterprise in the study area**

The experts of MSEs in Hiwane town say that to minimize the challenges of enterprise that affect the owner of the business they always help like training and support of long and short time term of loan to minimize from their problem. Moreover the experts says that support new machinery after the Tigray war for some of SME owners without payment and they motivate the owner of the MSEs.

### **B. What are the special factors that attract enterprise owner to join in to the enterprise?**

According to the expert of MSEs say that many people that attract to the business are in order to gain good profit by the business and when they unemployed the people are the most factor attract to join the business and in order to found good salary by the business.

### **C. What do you think the possible solutions for the challenges SMEs?**

Experts suggest that the government be able to assess the MSEs in supplying the necessary finance for the enterprise through the establishment of micro institution by low interest rate in the bank. The MSEs should be collaborating with government and non-government organization (Ajubush, 2021). Moreover, the owners of SMEs are currently having very serious security problem as a post war impact.

**Table 13** *Expert Response, on Accessibility of Location Communication with Owners of MSEs*

<b>Item</b>	<b>Variable</b>	<b>Respondents</b>	<b>%</b>
How do you evaluate the Accessibility of the Location of enterprise?	Very poor	0	0
	Poor	0	
	Fair	2	
	Good	3	
	Very good	0	
	<b>Total</b>	<b>5</b>	<b>100</b>
How do you evaluate your Communication with micro and Small enterprises owner, when they face challenges?	Poor	0	0
	Fair	0	0
	Good	5	100
	Very good	0	0
	<b>Total</b>	<b>5</b>	<b>100</b>
Which one the following is a major problem affecting the performance of business sector?	Financial problem	2	40
	Technology	1	20
	Market problem	1	20
	Raw Material Supply	1	20
	Infrastructure	0	0
	<b>Total</b>	<b>5</b>	<b>100</b>

Source: Field survey, 2025

From the above table 13 item one 60% of the expert of MSEs in Hiwane town say that good accessibility of location enterprise, 40% of the expert suggest fair accessibility of location enterprise in the study area.

From table 13 item two all of officer MSEs reply that they have good relation with the owner /operator of the business as they say that always motivate the owner like training when the owner of the business face challenges.

From item three 40% of the experts say that in Hiwane, town the main constraint for the performance of MSEs are financial problem to owners of the business do not get enough loan

from bank and other institutional organization particularly after the Tigray war, Beside this 20% of the expert say that technology is the other factor that effect the MSEs in Hiwane town. The other problem indicated by the office experts are 20% market problem and 20% raw material supply. Therefore, the government and the other concerned body have to give attention to minimize such kind of problems to improve the performance of MSEs Finally, the study sought to investigate the challenges of MSEs that operates in Hiwane town However, the variables used in the statistical analysis did not include all constraint of MSEs in the study area. Thus, future researchers could incorporate the problem of MSEs such as corruption, size of the enterprise and inflation rate.

*[Insert Figure 2: The Major Challenges of MSEs of Hiwane Town here]*

**Figure 2.** The major challenges of MSEs of Hiwane town

The researcher prepared eight factors to assess the challenges of the MSEs of Hiwane town on the MSEs performance development by the measure of central tendency. From the survey result the mean of each factors were determined from the answer of respondent's ranges from 1 to 5 (strongly disagree to strongly agree). The result of the analysis was shown in figure 2, and it indicated that all factors have the great impacts on the MSEs Performance development. Among all assessed factors financial factors, technological factors and working place factors have a great amount influence and relatively marketing factor, entrepreneurial factor and managerial factor have small amount of influence (Dr. Afeikhena JEROME). From the result of analysis, it can be concluded that all the factors from the ranked that is financial factor to the last ranked factor that is marketing factor have a significant effect on the performance development of MSEs of Hiwane town.

**Table 14** *Post Conflict Constraints*

No	Increasing security problem in the post conflict	Respondent	In%
1	Yes	102	85
2	No	18	15
	<b>Total</b>	<b>120</b>	<b>100</b>
	Increasing the inflation rate in post conflict		
1	Yes	92	76.7
2	No	28	23.3
	<b>Total</b>	<b>120</b>	<b>100</b>

Table 14 shows that the majority of the owners 102 (85%) has faced security problems in the post conflict but only few numbers of them 18(15%) has not yet faced the security problems in post conflict. Moreover, about 92(76.7%) of the respondents or majority of the respondents also interacted by the increasing of inflation rate situation in the post conflict (Longman & Straus, Post Genocide of Rwanda).

## **4.5. Inferential Statistics and Regression Analysis**

These were results of inferential statistics. For the purpose of assessing the objectives of the study the regression analyses were used. In the regression analysis multiple linear regression was used, all seven factors were taken as challenges variable on the performance of MSEs. Then using statistical techniques, conclusions are drawn and decisions are made from the results inferential analysis.

### **Regressions Analysis**

To estimate the degree to which the explanatory variables explain the variance in the explained variable, regression analysis was used in the study. The normality test was carried out for all variables using P value, in all cases it is above 0.05. In terms of shapiro-wilks test the data were approximately normally distributed and also the Q-Q plot indicated as data was normally distributed. Multicollinearity also checked using Correlation matrix, Tolerance, Variance Inflation Factor (VIF) and Condition Index. The results of this analysis were shown in table 15.

**Table 15** *Regression Analysis Model Summary*

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979a	.958	.957	.4237
<b>Coefficients</b>				
	Unstandardized Coefficients	Standardized Coefficients	t	
	B	Std. Error	Beta	
(Constant)	.135	.052		2.600
Marketing factors	.123	.02	.607	53.017
Entrepreneurial factors	.120	.003	.491	39.670
Technological factors	.125	.004	.409	33.911
Managerial factors	0.121	.003	.45	38.658
Financial factors	.127	.004	.394	33.004
Working place factors	.116	.004	.331	27.487
Infrastructure factors	.123	.004	.356	30.006

Table 15 expressed the estimates of the multiple regression of MSEs performance against seven variables for the sample size of 120 MSEs operators. In a model summary, the "R" value is used to indicate the strength and direction of the relationship between the variables. The closer the value gets to 1, the stronger the relationship. In this case as shown in the table 15, R= 0. 979. This means there was an overall strong and positive relationship between the variables. The R square in the study was 0. 958. This value indicates that the independent variables (managerial, entrepreneurial, marketing, working place, financial, technological, politico-legal and infrastructural,) can explain 95.8% of the variance in the performance of micro and small enterprises in Hiwane town. The remaining 4.2 % of the variance is measured by using other independent variables that did not included in this study.

Standardized beta coefficient column shows the contribution of an individual variable to the model. The beta weight is the average amount of the dependent variable increases when the independent variable increases by one standard deviation. The largest influence on performance of MSEs is from the marketing factor (0.607) and the next is customer entrepreneurial factor (0.0.491). The third rank was managerial factor with the beta value of (0.450) and technological factor has the beta value of (0.0.409), forth ranked. Financial factor has the beta value of (0.394), infrastructural factor has beta value (0. 356), politico-legal factor has beta value of (0.339) and last and least was working place factor with beta value of (0.331).

From unstandardized coefficients of B value, the all factors (all independent variables) become zero, the performance (dependent variable) was became 0.135 unit. A one unit of increase of marketing adds the performance of MSEs 0.123. Similarly, a unit increase in entrepreneurial factor adds 0.12 units to the performance. A single value increase in managerial factor increases the value of performance in o.121. In the same manner a unit increase in technological factor, financial factor, and infrastructural factor, factor and working place factor add the value of MSEs performance in 0.125, 0.127, 0.123, o.111 and 0.116-unit value respectively. Generally, the multiple linear regressions for the model expressed in equation 3. The result revealed that among all financial factors has large on influence on MSEs Performance development.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + e \dots\dots\dots \text{equation (3)}$$

$$Y = 0.135 + 0.123 X_1 + 0.12 X_2 + 0.125 X_3 + 0.121 X_4 + 0.127 X_5 + 0.111 X_6 + 0.116 X_7 + 0.123 X_8 + e \dots\dots\dots \text{equation (4)}$$

Where  $\beta_0 = 0.135$ ,  $\beta_1 = 0.123$ ,  $\beta_2 = 0.120$ ,  $\beta_3 = 0.125$ ,  $\beta_4 = 0.121$ ,  $\beta_5 = 0.127$ ,  $\beta_6 = 0.111$ ,  $\beta_7 = 0.116$  And  $\beta_8 = 0.123$ . And  $X_1$  is marketing factor,  $X_2$  is entrepreneurial factor,  $X_3$  is technological factor,  $X_4$  is managerial factor,  $X_5$  is financial factor,  $X_6$  is politico-legal factor,  $X_7$  is working place factor and  $X_8$  is infrastructural factor.

## **CHAPTER FIVE:**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1. Conclusion**

The study was conducted to examine the major challenges and opportunities faced by micro and small enterprises (MSEs) in Hiwane town, Ethiopia. The findings reveal that while MSEs serve as a vital engine for employment creation, income generation, and local economic development, they face multiple challenges that limit their growth and sustainability. Among the major challenges identified are limited access to credit and finance, shortage of working premises, inadequate infrastructure, lack of market access, weak technical and managerial skills, Inadequate credit assistance inflation, political and economic instability, security problems and limited institutional support.

Bureaucratic delays in licensing and registration as well as poor coordination among institutions, were also found to be significant barriers. Despite these obstacles, the study also revealed several promising opportunities. These include increasing government policy attention to the sector, growing local market demand, availability of a young labor force, and the potential for MSEs to link with cultural heritage of the town. there is also potential for innovation and expansion, especially if proper training and support mechanisms are provided.

In conclusion, MSEs in Hiwane Town have the potential to play a greater role in reducing unemployment and promoting sustainable local development. However, to realize this potential, the existing challenges must be systematically addressed through coordinating efforts by the government, financial institutions innovation and expansion, especially if proper training and support mechanisms are provided. The major constraint for their enterprise was financial problem which is the most constraint for their growth of MSEs in the study area.

The most basic causes for insufficient market accesses for the SMEs were lack of demand forecasting, lack of promotion to attract potential users and lack of market information. From the four sectors of MSEs, manufacturing is the most employment generation in the study area followed by construction sector. In the study area when they to join to the business through different factor some of them are Lack of employment alternatives, Good government support

and Profitability of the business. But Lack of employment alternatives is the most factors to attract/join to the business.

### **Summary of Findings**

The study was conducted in Hiwane town of Tigray national regional state with the title of assessing the challenges and opportunities of MSE operators engaged different sectors such as manufacturing, construction, service, trade and urban agriculture. The study took the major challenges like marketing, financial, raw material shortages, managerial, politico-legal, entrepreneurial, technological, working place and infrastructural factors, inflation, security problems, political and economic instability on the performance development of MSEs sector. The major opportunities were governmental and non-governmental support, access of loans from different micro finances and banks, fund support from non-governmental organization ,technical training support from non-governmental organization, capacity building from donors. About 44.3% of the MSE surveyed during the study had about 5-20 workers, that they hired. From the analysis of field survey result, the main challenges such as marketing, financial, managerial, politico-legal, entrepreneurial, technological, working place and infrastructural factors, all of the factor has directly relation with the performance development of MSEs sector. More than 50% of the respondents were agreed to all question prepared under each factor were the number question are five under financial, four under technological, three under working place, six under infrastructural factors, five under politico-legal factor, six under entrepreneurial, six under managerial factor and six under marketing factor. The analysis over general factor conclude that financial factor lead to the all factors by large influence with 4.32. Where the other according to their rank depending on amount of mean that indicate the impact on performance development of MSEs technological factors is 4.30.

Working place factor 4.23, infrastructural factors 4.27, politico-legal factors 4.241, entrepreneurial factors 4.07, managerial factors 4.09 and the last and the least one is marketing factor which is 3.58 mean. The regression analysis indicated that a one-unit increase of marketing, entrepreneurial, technological, managerial, financial, politico-legal, working place and infrastructure add the performance in 0.123, 0.12, 0.125, 0.121, 0.127, 0.111, 0.116 and 0.123 unit respectively. And also the value of  $R= 0.979$ . This means there was an overall strong and positive relationship between the variables.

## 5.2. Recommendation

Based On the findings of this study on the major challenges and opportunities of Micro and Small in Hiwane Town, the following recommendations are proposed to support the development and sustainability of the sector;

1. **Enhance Access to Finance and Credit Services;** financial institutions, in collaboration with the local government, should ease loan access for MSEs by reducing collateral requirements and providing financial literacy training. Establishing a local micro finance center specifically for MSEs could further improve access to credit.
2. **Improve Infrastructure and Work spaces;** the municipality of Hiwane Town should prioritize the provision of well serviced working areas with access to electricity, water, roads, and sanitation. Relocating MSEs to more accessible areas and industrial zones can boost productivity and market reach.
3. **Strengthen Training and Capacity Building;** Continuous training programs on entrepreneurship, business planning, marketing and financial management should be organized by the government and NGOs. Tailored technical training will also empower enterprise owners to innovate and improve quality.
4. **Facilitate Market Linkages and Promotion;** Establishing local and regional trade fairs and digital platforms will help MSEs in Hiwane promote their products and access broader markets. Encouraging cooperation among MSEs can also help build stronger market networks.
5. **Simplify Legal and Bureaucratic Procedures;** the government should simplify business registration and licensing procedures, and ensure that policies affecting MSEs are transparent and consistently applied.
6. **Strengthen Institutional Support and Monitoring;** Local government bodies, particularly the MSE development office, need to enhance coordination and follow up on support programs. Regular monitoring and evaluation can ensure that support reaches the targeted groups effectively.
7. **Promote Youth and Women Participation;** Specific incentives and support mechanisms should be introduced to encourage youth and women entrepreneurs, including access to finance, and mentorship opportunities.

8. The interim government of the region should enhance the security circumstances of the town as well as the entire region, Tigray. At the contemporary the MSEs of the town has not fully functional due to one factor of the security threat.

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## **Appendices**

### **Appendix I:**

#### **Questionnaire for Owners of MSEs**

**MEKELLE UNIVERSITY COLLEGE OF SOCIAL SCIENCES AND LANGUAGES  
DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL STUDIES**

Dear participants,

This questionnaire is aimed to conduct a research on opportunity and challenges of micro and small Enterprises (MSEs) in Hiwane town. Your responses are extremely important for attaining the intended objectives of the study and will have significant contribution in effectively analyzing the problem under consideration. Therefore, you are kindly requested to genuinely respond by completing the questionnaire. The collected data is purely needed for academic purpose for partially fulfillment of bachelor of degree in geography and environmental study. Hence, the ideas you suggested will be kept confidentially and you need not to write your name in the questionnaire.

#### **General Instruction**

NO need of writing your name. Circle those alternatives that you think is correct/right. Write your assumption in the free space.

#### **Part one: Back Ground of Respondents**

1. Sex; A. Male B. Female
2. Age; A. 18-24 B. 25-34 C. 35-40 D. above 45
3. Marital status; A. Single B. Widowed C. Married D. Divorce
4. Educational level; A. Illiterate B. 1-8 C. 9-12 D. Diploma E. Degree and above

#### **Part two: Questionnaires related to challenges and opportunities of micro and small enterprise (MSEs)**

1. What is the particular activity your business sector get involved?

2. What type of product is your business sector produces?
3. Is there any spatial factor that attracts you to join in to this sector?
4. How many employment opportunities do your business sector created?
5. What type of support do you get from the local organizations and other stockholders? A. Market access B. Training and awareness creation C. Loans D. if others please specify
6. Please put the following constraints in their order of influence, based on the problem your enterprise faced. A. Lack of loans B. Problem related to working place C. Market access D. Problem of trained man power E. Lack of training and awareness creation F. Accessibility of working places,security,and inflation G. If you have other challenges please specify
7. How do you evaluate the market access to your enterprises' products and services? A. Very Poor B. Poor C. Fair D. Good E. Very good
8. If your answer for question number 7is very poor or poor, discuss the basic causes for insufficient market access of your enterprises' products and services?
9. If your answer for question number 7is very good or good, what type support do your enterprise get related to market access?
10. What type the benefit do your enterprise provides to the local community?
11. how do you evaluate your communication with micro and small enterprises office, when you face challenges and to get better opportunities? A. Very Poor B. Poor C. Fair D. Good D. Very good
12. What types of efforts do micro and small enterprises offices provide for your enterprise?
13. What has to be done to solve or at least to minimize the challenges your enterprise faced?
14. How do you evaluate the accessibility of the location of your enterprise? A. Very Poor B. Poor C. Fair D. Good D. Very good
15. Which one the following is a major factor affecting the performance of your business sector? A. Financial problem B. Technology C. Market problem D. Raw material supply E. infrastructure
16. The following table contains list of the major constraint of MSEs in Hiwane town. Please try to put them in their ascending order of influence or challenges to your enterprise. Put a number from 1 to 5, to indicate level of significance or the degree of challenge resulted by the following variables.

**Where, 5=very high, 4=high,3=medium, 2=low 1=very less**

No.	Constraint of MSEs	Level of significance
1	Raw material	
2	Technology, inflation	
3	Linkage	
4	Market problem	
5	Financial problem, security	

## **Appendix II:**

### **Questionnaire for Experts and Officers**

#### **MEKELLE UNIVERSITY COLLEGE OF SOCIAL SCIENCES AND LANGUAGES DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL STUDIES**

Dear participants,

This questionnaire is aimed to conduct a research on opportunity and challenges of small and Micro Enterprises (MSEs) in Hiwane town. Your responses are extremely important for attaining the intended objectives of the study and will have significant contribution in effectively analyzing the problem under consideration. Therefore, you are kindly requested to genuinely respond by completing the questionnaire. The collected data is purely needed for academic purpose for partially fulfillment of bachelor of degree in geography and environmental study. Hence, the ideas you suggested will be kept confidentially and you need not to write your name in the questionnaire.

#### **Back Ground of the Respondents**

##### **Part one**

1. Sex: A. male B. female
2. Age: A. 18-24 B. 25-34 C. 35-40 D. above 45
3. Marital status: A. single B. widowed C. married D. divorce
4. Educational level: A. illiterate B. 1-8 C. 9-12 D. diploma level E. Degree and above

##### **Part two: Questions related to challenges and opportunities of MSEs.**

1. What are the special factors that attract enterprise owner to join in to the enterprise?.
2. How do you evaluate the accessibility of the location of enterprise? A. Very Poor B. Poor C. Fair D. Good D. Very good
3. How do you evaluate your communication with micro and small enterprises owner, when they face challenges and to get better opportunities? A. Very Poor B. Poor C. Fair D. Good D. Very good

4. What your office has done to minimize the challenges of enterprise in Hiwane town faced?
5. What do you think the possible solution for the MSEs?
6. Please put the following constraints in their order of influence, based on the problem enterprise faced. A. Lack of loans B. Problem related to working place C. Market access D. Problem of trained man power E. Lack of training and awareness creation F. Accessibility of working places G. If you have other challenges, please specify
7. Which one the following is a major factor affecting the performance of business sector? A. Financial problem B. Technology C. Market problem D. Raw material supply E. infrastructure
8. What has to be done to alleviate or at least to minimize the challenges faced by enterprise in Hiwane town
9. If your answer for question number, no 2 is yes describe some of the challenges that facing to business sector?
10. The following table contains list of the major constraint of MSEs in Hiwane town. Please try to put them in their ascending order of influence or challenges to MSEs enterprise in Hiwane town. Put a number from 1 to 5, to indicate level of significance or the degree of challenge resulted by the following variables.

**Where, 5= very high, 4= high, 3= medium, 2= low 1= very less**

No.	Constraint of MSEs	Level of significance
1	Raw material	
2	Technology	
3	Linkage	
4	Market problem	