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# Exploring Factors Affecting Growth of Micro and Small Enterprises: Evidence from Ethiopia

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**ABSTRACT**

Micro and small businesses (MSEs) create jobs at a low cost and assist society's progress toward wealth and growth. The aim of the study is to examine major factors that determine the growth of MSEs in the Siltie Zone, in southern Ethiopia. Out of the total 2,244 MSEs units, 488 respondents were sampled for the study using stratified and simple random sampling techniques. Descriptive statistical tools and a binary logit model are applied. Employment was employed as a growth indicator in the study. The findings of the study showed that out of the total sample, 49% of MSEs were growing and 51% of MSEs were not growing in terms of employment. The results showed that individuals and their relatives are the main source of finance for the majority of MSEs for two major reasons. The first and the most important reasons are due to the religion factor. A majority of the respondents replied that access to credit is forbidden to Muslim followers. The second reason is unwillingness to access credit; they fear the high interest rate of debt, the complexity of the procedure, and the lack of collateral. In addition to that access to infrastructure, access to finance and government policy are the major factor affecting MSEs engaged in construction sector. The major independent variables affecting growth of MSEs engaged in manufacturing sector are access to infrastructure, working premises, government policy and market linkage. Access to finance, market linkage and business management capacity are the determinant factor hindering the growth of MSEs operating trade sector. Access to infrastructure, market place and government policy were the determinant factor affecting the growth of MSEs operating service sector. Access to working premises, market linkage, government policy and owner motivation are affecting the growth of MSEs operating urban agriculture sector. Hence, government organizations concerned with the promotion and development of MSEs needs to work with the factors in each sector for economic growth.

## 1. INTRODUCTION

The micro and small business sector is widely regarded as a country's economic backbone [1]. MSEs provide enormous benefits to both industrialized and developing countries, allowing them to advance their economies. They have a significant role to play in creating more jobs and converting the economy. MSEs' contributions to the development of productive jobs are based on their position in the middle of the spectrum of sizes and resource intensities in a growing economy. As a result, developing economies have begun to emphasize the critical role that MSEs may play in their growth [2].

According to a survey undertaken by (CSA), Ethiopia has approximately 974,679 micro-enterprises that provide a source of income for approximately 1.3 million people [3]. Another CSA study from 2003 found that 1,863 MSEs employed around 97,782 individuals [4].

In 2006, the Ethiopian government launched the first MSE plan. The initial strategy was updated in 2010/11 with fresh enthusiasm and more ambitious goals for job creation, entrepreneurship expansion, and MSE transfer to medium and large businesses [5].

According to the country's plan, the Southern People's regional state bureau of urban development is in charge of promoting and developing micro and small enterprises in order to produce money and provide employment opportunities for the unemployed. According to research by the Silte zone industry and business development department, more than 3000 MSEs were founded in the study area between 1997 and 2010 E.C. in five sectors: manufacturing, construction, service, commerce, and urban agriculture. However, several of these MSEs are currently operational. The remaining MSEs are inoperable. Even the majority of operational MSEs are not expanding.

Even while MSEs make significant contributions to poverty reduction, they face a variety of challenges at both the start-up and operational levels [6]. The contribution of youth entrepreneurs is equally important in this drive and their marginalization could close the doors of development [7]. A huge proportion of MSEs are unable to expand (in terms of employment) and hence remain survival (non-growing)

businesses that are unable to offer jobs [8]. Around 69 percent of the 1000 MSEs observed in Ethiopia are survival variants, mainly in Addis Ababa, the capital. Most MSEs (75.6%) haven't grown at all since they were started, and only 21.9% have hired more people [9].

The same is true in the Silte zone research region. More than 3000 micro and small businesses were formally registered up until 2010 E.C., but the majority of them are no longer operational, and only a few are doing well. The establishment of MSEs is insufficient; detailed monitoring and evaluation are required. Furthermore, recognizing MSE development causes is critical because it lays the groundwork for developing a policy framework and plan to ensure MSE operators' success [10, 11]. The investigator should examine the content of the variables that have high loadings from each factor to see if they fit together conceptually and can be named [12].

Even though, many researches in Ethiopia were conducted in MSEs, there focuses were only in the large cities and towns not at zonal level of the country. Therefore, this work is designed to fill the research gap at zonal level specifically, in Silte zone of SNNP of Ethiopia. Therefore, this study focused on identifying factors that determine growth of MSEs empirically.

## 2. LITERATURE REVIEW

### 2.1 Definition of MSEs

The term MSE encompasses a wide range of definitions and metrics, which differ from country to country and from source to source. The definitions vary depending on the economic activity sectors.

The number of employees, total net assets, sales and investment levels, annual turnover, annual balance sheet or production volume, and the company's independence are some of the most widely utilized criteria [13]. The number of employees and annual turnover appear to be the most essential criteria used to define MSEs [14], while Harjula [13] argues that while the number of employees is the most often used criterion, the optimal criterion in each situation depends on the user's objective.

Alternative definitions for poor nations are provided by the United Nations Industrial Development Organization (UNIDO). Micro enterprises are defined as businesses with fewer than five employees, while small businesses have between five and nine employees [15].

The 2011 MSE development strategy expanded on the previous definition by taking into account the number of employees and the current inflation rate after 13 years. At the time, most businesses relied on family members to work for them, and there wasn't a lot of information about people in the sector, so the definition was based only on paid capital or capital investment [15].

After gaining experience from the Federal Democratic Republic of Ethiopia [15] improved the definition by using the number of employees and total assets as criteria and dividing the sector into industry and services by considering the coming 5 year inflation and currency fluctuation/irregularity. A micro enterprise of industry operator is one that employs no more than 5 people, including the owner, and/or has a total asset of no more than Birr100,000, while a micro enterprise of service employs no more than 5 people, including the owner, and has a total asset of no more than Birr50,000. For industry operators, a small enterprise is one that employs 6 to 30 people and/or has a paid-up capital of total assets of Birr 100,000 and not more than Birr 1.5 million; for service providers, a small enterprise is one that employs 6 to 30 people and/or has a paid-up capital of total assets of Birr 50,001 and not more than Birr 500,000 [16].

### 2.2 Empirical evidence on the factors affecting the growth of MSEs

Empirical studies on the factors that affect the growth of micro, small, and medium-sized enterprises (MSEs) can be loosely split into two groups: internal elements of the company and external factors that are outside the control of the MSEs [17].

#### 2.2.1 External factors

Environmental and external factors to have a big impact on the performance and growth of small firms can be summarized as follows:

Access to finance. The lack of external financing is regarded as a major impediment to the growth of MSEs, and it has contributed to a high failure rate among those MSEs. Various studies have shown that small businesses typically start out with their personal savings, bolstered by loans from family and friends. Because the majority of business owners and operators are low-income, they must begin operations with a small amount of cash. A few are able to meet their capital needs through community-based informal loan arrangements, while formal sector institutions are rare [17, 18].

Access to working premises. In order for an organization to thrive and flourish in the long-term, it is crucial to have a working environment that allows for easy access to both resources and markets. The majority of the women in the cooperative do not have their own workplace; they share it with the other members [19].

Access to infrastructure. Most small enterprises were unable to find a suitable location for their operations. Some of the tiny businesses are located in areas where public services and economic infrastructure are in short supply or non-existent (water and electricity, transport systems, telecommunication systems, sanitation services). Small businesses that have access to these services face a higher cost per unit than those in middle or upper-income neighborhoods [20, 21].

Policy and regulatory challenges. According to Thomran et al. [22] the business climate has an impact on MSE growth [23]. Recognized rivalry as one of the primary barriers to small business success. According to Belás and Sopková [24], an unfriendly tax structure, as well as cumbersome laws and regulations, can severely stifle small business growth. The solution of the addressed problem will be through admitting the problem from the concerned offices and taking corrective action. Finally, researchers and academicians will find it an addition value to the literature in its field [25]. According to Krasniqi [26], corruption is a major contributor to the rise in unfair competition. He went on to say that the cost of complying with regulations, as well as higher tax rates, raises small business expenses while limiting growth. In a similar way, St-Jean et al. [27] said that unfair competition from the informal sector, complicated laws, and high tax rates were the main things that kept small businesses from growing.

Marketing challenges. For the success of MSEs and some government efforts, there must be a market for the products

and services they produce; marketing is one of the most difficult aspects of developing the sector [28]. Today's consumers have more choices for their financial needs than ever before [29]. There is a dearth of acceptable working and selling spaces for MSEs in Ethiopia, as well as a lack of market competitiveness and expertise for MSEs operating in the country. In addition to the studies of ref. [30, 31], several other studies conducted in various regions have found that marketing is one of the most significant obstacles to the growth of micro and small businesses.

Human resources capacities. One of the most important variables in the growth of small businesses is the availability of human resources. Sherefa [32] asserts that companies with highly educated and talented employees are more productive. According to Pasanen [33], Lee [34], human resource capacity is one of the most important factors in the success of MSEs. There is a positive link between the capacity of human resources and the growth of small businesses. As a result, employees become more skilled and motivated, which improves the long-term health of small businesses. For this there may be other factors than these that have been studied [35].

2.2.2 Internal factors affecting MSEs

The success or failure of MSEs is not solely a function of the business climate. It also depends on what's going on inside the company and on a number of other important strategic factors, such as:

Characteristics of entrepreneurs. The impact of entrepreneurial qualities on small business success has been extensively examined, with varied results. Several studies have conclusively proven that some attributes have positive and significant associations with small business success, while others have found no such links [36]. Some authors approached their research from the standpoint of the entrepreneur's thinking and personality [32], while others looked at it from the standpoint of the entrepreneur's education, family history, and capability. A third group of researchers looked at the entrepreneur's personal role and goals for success [31].

Managerial capacities. Several studies have identified the senior management team's management capabilities as critical to small business success. Management capacities, according to Sidika [37], are sets of knowledge, skills, and competences that can help a small business become more efficient. According to Singh and Olawale and Garwe [38], management skills are critical for MSEs to survive and grow. They also claim that management skills play an important role in MSEs' success, and that a lack of management abilities is a barrier to growth and one of the factors that can lead to failure. According to Singh and Belwal [39] and Muzeyin et al. [40], the growth pattern of small businesses is linked to their managerial capabilities. The study proposes to provide a new impact of theoretical framework [41].

Marketing skills. One of the most important factors in a company's survival and growth is its marketing abilities. Van Scheers [42] says that a lack of marketing skills can have a negative impact on the success of a small business.

### 2.3 Summary of literature review

Different studies have been conducted on the issues of the factors affecting growth of micro and small enterprises, such as the study that has been conducted by [2, 6, 8, 36, 38], those studies have been studied the external factors the affect the performance of MSEs, whereas others investigated the barriers and protentional of MSEs and its effect on the economy. But no study has investigated the growth status of MSEs in terms of employment number and covered different sectors such as construction, manufacturing, service, trade, and urban agriculture sector. Therefore, the results of this study will have an immense contribution to the literature review of this field.

### 2.4 Conceptual framework of the study

In this study, the researchers analyzed the different factors that affect the growth of MSEs in Silte zone. Previous related works were reviewed in order to develop the conceptual framework. Figure 1 below presents a conceptual framework of the relationship between the external and internal factors affecting the MSEs growth (Independent variable) and MSEs growth (Dependent variables).

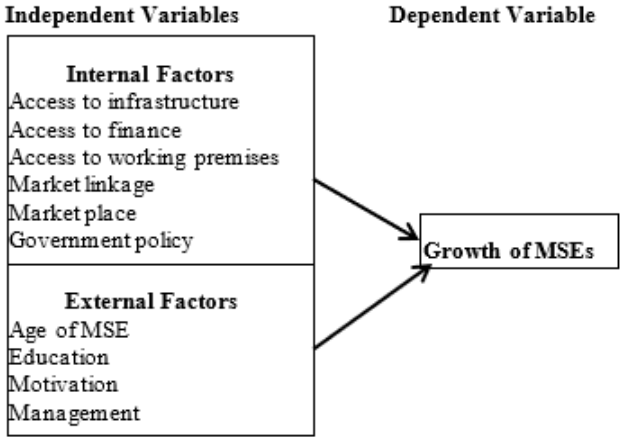


**Figure 1.** Conceptual framework

## 3. METHODOLOGY

This research study employed descriptive and explanatory research design with qualitative and quantitative approach. According to Siltie zone Industry and Enterprise development department data, 3,082 MSEs registered before 2010 E.C around 2244 MSEs are currently operating. The remaining MSEs shut down during the starting phase. As a result, the study concentrated on the 2244 active MSEs. The required sample size was calculated using Yemane [43] sample size determination formula. 488 sample sizes were chosen, at 96% confidence level and 0.04 precision levels.

$$n = \frac{N}{1+N(e)^2}$$

where: n = is number of respondents

N = population size =2244

$e^2$ = sampling error/level of precision = 0.04

Accordingly, out of the total 2244 MSEs units, 488 respondents (coordinators /operators) were selected as sample for the study.

After determining the sample size, MSEs was stratified into five stratums based on the sector they are operating; Construction (building material production, cobble stone production, cobble stone paving) (81), Manufacturing (Metal

& wood work, garment, and agro processing) (84), Trade (packed water, alcohol free soft drinks, goods) (102), Service (garage, meal and barber) (87), and urban agriculture (cattle fattening, honey production, dairy farm) (69). Then by using simple random sampling technique 423 MSEs was valid for analysis. They were taken from each stratum with probability proportional to size sampling (PPS). Face to face interviews were purposively held with 6 respective officials and 10 experts of the sampled weredas and town in the zone.

This research included both primary and secondary data sources. The researchers gathered primary data from MSEs using a structured questionnaire and an unstructured interview with officials and experts from local MSEs. Government documents, periodicals, and published and unpublished research articles were used to compile secondary data [44].

A logistic regression model was used to determine the elements that influence MSE. Also, narrative and interpretation were used to look at qualitative data from MSE employees and experts.

## 4. RESULTS AND DISCUSSIONS

### 4.1 Growth status of MSEs in terms of employment number

Response obtained through questionnaire shows that, majority of MSEs are found not growing and only some of them were growing as mentioned in Table 1.

**Table 1.** Micro and Small Enterprises distribution and status of employment growth

| Stratum | Sample Size | Growing | % | Not Growing | % |
|---|---|---|---|---|---|
| Construction | 81 | 36 | 44.4 | 45 | 55.6 |
| Manufacturing | 84 | 36 | 42.9 | 48 | 57.1 |
| Service | 87 | 37 | 42.5 | 50 | 57.5 |
| Trade | 102 | 39 | 38.2 | 63 | 61.8 |
| Urban agriculture | 69 | 25 | 36.2 | 44 | 63.8 |
| Total | 423 | 173 | 40.9 | 250 | 59.1 |

Source: survey result, 2019

In construction sector 36 MSEs (44.4%) are growing and 45(55.6%) MSEs are not growing. Among 84 MSEs operate in manufacturing sector 42.9 % are growing and 57.1% are not growing. Out of 87 MSEs operate in service sector 37 MSEs (42.5%) are growing and the rest 50 (57.5%) are not growing. Out of 102 MSEs in trade sector 39 (38.2%) MSEs are growing, the rest 63 (61.8%) are not growing. Among 69 MSEs operate in urban agriculture only 25 (36.2%) MSEs is growing, the rest 44 (63.8%) of MSEs are not growing. Moreover, out of the total 423 MSEs owners, only 173 (40.9%) were found growing and the remaining 250 (59.1%) MSEs were not growing in terms of employment growth. This result is in line with the findings of Dagmawit (2016), who found 60% of MSEs were not growing and only 40% of them were growing.

Majority of MSEs owners/operators are engaged in trade sector followed by service which implies trade is the dominant activity of the study area followed by service sectors while others were found to be a less significant in attracting enterprise owners to engage in. This finding in line with an earlier study by Abay et al. [45], which founds in Tigray Regional state majority of MSEs were engaged in trading. This finding further agrees with the findings of Tarfasa et al. [46] in which they established that majority of MSEs owners/operators are operating in trade sector.

### 4.2 Factors affecting the growth of MSEs

Based on the literature review ten factors were identified and then measured their impact level on the growth of MSEs in the study area.

4.2.1 Major factors affecting the growth of MSEs in construction sector

Table 2 shows that from 81 MSEs 64.2%, 60.5%, and 77.8% replied that access to infrastructure, access to finance and government policy are major factor affecting the growth of MSEs engaged in construction sector. In addition to that the results indicated that the major challenge for MSEs growth in construction sector are government policy, access to finance and access to infrastructure.

The result of binary logit regression also shows that among 10 explanatory variables three predictor variables produced statistically significant results $p< 0.05$. Access to infrastructure ($p= 0.032$), access to finance ($p=0.036$) and government policy ($p=.030$). One unit increase in access to infrastructure would lead to increase growth by 7.301 while one unit increase in access to finance would increase growth by 5.227. A unit increase in Government Policy would increase growth by 8.085 as mentioned in Table 3.

**Table 2.** Major factors affecting the growth of MSEs in construction sector

| MSEs | Factor | | Growing | | | | Not growing | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | | No | | Yes | | No | |
| | | | No. | % | No | % | No | % | No | % |
| Construction Sector | External Factors | Access to Infrastructure | 47 | 58.0 | 4 | 4.9 | 5 | 6.2 | 25 | 30.9 |
| | | Access to finance | 26 | 32.1 | 25 | 30.9 | 23 | 28.4 | 7 | 8.6 |
| | | Access to working premise | 10 | 12.3 | 41 | 50.6 | 24 | 29.6 | 6 | 7.4 |
| | | Market linkage | 12 | 14.8 | 39 | 48.1 | 9 | 11.1 | 21 | 25.9 |
| | | Market place (location) | 20 | 24.7 | 36 | 44.4 | 15 | 18.5 | 10 | 12.3 |
| | | Government policy | 48 | 59.3 | 3 | 3.7 | 15 | 18.5 | 15 | 18.5 |
| | Internal Factors | Age of MSEs owners | 50 | 61.7 | 1 | 1.2 | 13 | 16 | 17 | 21 |
| | | Education Level | 9 | 11.1 | 21 | 25.9 | 12 | 14.8 | 39 | 48.1 |
| | | Motivation of Owner | 15 | 18.5 | 36 | 44.4 | 20 | 24.7 | 10 | 12.3 |
| | | Management capacities | 42 | 52 | 9 | 11.1 | 17 | 21 | 13 | 16 |

Source: survey result, 2019

**Table 3.** Binary logistic result in construction sector

| | Variables | B | S.E. | Wald | df | Sig. | Exp (B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | infras (1) | 1.988 | .845 | 5.535 | 1 | .032 | 7.301 |
| | finance (1) | 1.654 | .935 | 3.129 | 1 | .036 | 5.227 |
| | workplc (1) | 1.471 | .854 | 2.966 | 1 | .085 | 4.356 |
| | marklink (1) | .782 | .848 | .849 | 1 | .357 | 2.185 |
| | polcy (1) | 2.090 | .962 | 4.720 | 1 | .030 | 8.085 |
| | age (1) | .066 | 1.090 | .004 | 1 | .952 | 1.068 |
| | educt | | | 7.980 | 3 | .056 | |
| | educt (1) | .410 | 1.837 | .050 | 1 | .824 | 1.506 |
| | educt (2) | 3.088 | 1.599 | 3.728 | 1 | .053 | 21.937 |
| | educt (3) | 2.633 | 1.532 | 2.955 | 1 | .086 | 13.915 |
| | motv (1) | -1.408 | .941 | 2.241 | 1 | .134 | .245 |
| | mngmt (1) | .104 | .699 | .022 | 1 | .882 | 1.109 |
| | markpl (1) | .150 | .707 | .045 | 1 | .832 | 1.162 |
| | Constant | -.565 | 1.719 | .108 | 1 | .742 | .568 |

Source: survey result, 2019

**Access to infrastructure (infras):** The odds ratio shows that the probability of growth for those MSEs who had access to infrastructure is 7.3 times higher than who had no access to infrastructure. This study indicates that sufficient accesses to infrastructure is more likely to influence the grow MSEs operating in construction sector compare to those that have not sufficient access to infrastructure.

**Access to credit (finance):** MSEs with access to credit from formal financial sources are 5.2 times more likely to grow than MSEs without access to credit from formal financial sources. The findings show that MSEs with access to loans from a formal financial source are more likely to grow quicker than those who do not. The results of this study agree with those of Eshetu and Zeleke [47], who found that having access to credit from formal financial sources has a big positive effect on the growth of MSEs.

**Government policy (polcy):** The odds ratio shows that the probability of growing for those MSEs who are supported by government agency is 8.08 times higher than the MSEs who do not obtain government support.

The studies conducted by Cherkos et al. [48] also states that among obstacles experienced by entrepreneurs operating construction sector are access to infrastructure, access to finance and government policy.

The importance of MSEs to a country's economy demonstrates the relevance of government policies that assist them, such as legislation that allows them to function efficiently and lower their administrative expenses [49]. Even though governments have taken steps to encourage and support micro, small, and medium-sized enterprises (MSEs) in order to help them grow and get rid of poverty, there are still gaps in the law and legal administrative procedures, such as how to get help from the government [49].

Complex tax systems, a lack of faith in the court system, and the necessity to pay bribes to obtain public services are all major impediments, according to World Bank research [50].

Therefore, based on the results and discussion above, it shows that access to infrastructure, access to finance and government policy are found significant in determining the probability of MSEs growth engaged in construction sector.

### 4.3 Major factors affecting the growth of MSEs in manufacturing sector

Table 4 results shows that among the total respondents 76.2%, 75%, 67.8% and 65.5% replied that government policy, working premises, market linkage and access to infrastructure respectively are serious factors affecting the growth of enterprise in manufacturing sector. In addition to that, the results indicated that external factors are the major bottle neck challenge for MSEs growth in manufacturing sector.

The result of binary logit regression Table 5 also confirms that among 10 explanatory variables access to infrastructure (p= 0.031), working premises (p=.030), government policy (p=.037) and market linkage (p= 0.024) showed statistically significant results at $p< 0.05$ significance level. One unit increase in access to infrastructure would lead to increase growth by 2.974 while one unit increase in working premises would increase growth by 4.585. One unit increase in the market linkage would increase business growth by 7.396. A unit increase in Government Policy would increase growth by 2.683.

**Access to working place (workplc):** The odds ratio shows that the probability of MSEs growing operating at their own working place is 4.458 times higher than the MSEs who obtain working place by renting. Therefore, the study shows MSEs that have own working premise are more likely to grow faster as compared to the others. This may be due to the fact that, those MSEs operate the business at their own working premise are not face too costs of working place and they have the probability to grow faster than their counterpart.

**Government policy (polcy):** The odds ratio shows that the probability of MSEs growing who are supported by government body is 2.6% times higher than MSEs who do not obtain support from government agency.

**Table 4.** Determinant factors affecting the growth of MSEs in manufacturing sector

| MSEs | | Factor | Growing | | | | Not growing | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | | No | | Yes | | No | |
| | | | No. | % | No | % | No | % | No | % |
| Manufacturing Sector | External factors | Access to Infrastructure | 47 | 56.0 | 13 | 15.5 | 8 | 9.5 | 16 | 19 |
| | | Access to finance | 36 | 44.4 | 24 | 28.6 | 11 | 13.1 | 13 | 15.5 |
| | | Access to working premise | 50 | 59.5 | 10 | 12 | 13 | 15.5 | 11 | 7.4 |
| | | Marketing linkage | 48 | 57.1 | 12 | 13.3 | 9 | 10.7 | 15 | 17.9 |
| | | Marketing place(location) | 12 | 13.3 | 12 | 13.3 | 12 | 13.3 | 48 | 57.1 |
| | | Government policy | 49 | 58.3 | 11 | 7.4 | 15 | 17.9 | 9 | 10.7 |
| | Internal factors | Age of MSEs owners | 12 | 13.3 | 48 | 57.1 | 12 | 13.3 | 12 | 13.3 |
| | | Education Level | 10 | 11.9 | 14 | 16.7 | 15 | 17.9 | 45 | 53.6 |
| | | Motivation of Owner | 15 | 17.9 | 45 | 53.6 | 10 | 11.9 | 14 | 16.7 |
| | | Management capacities | 19 | 22.6 | 41 | 48.8 | 17 | 20.2 | 7 | 8.3 |

Source: survey result, 2019

**Table 5.** Binary logistic result in manufacturing sector

| | Variables | B | S.E. | Wald | Df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | Infras (1) | 1.090 | .962 | 1.2838 | 1 | .031 | 2.974 |
| | Credit (1) | .782 | .848 | .849 | 1 | .357 | 2.185 |
| | Workplc (1) | 1.523 | .858 | 1.775 | 1 | .030 | 4.585 |
| | Marklink (1) | 2.001 | .909 | 4.845 | 1 | .024 | 7.396 |
| | Polcy (1) | 1.972 | .935 | 4.448 | 1 | .037 | 2.683 |
| | Age (1) | -.029 | 1.090 | .001 | 1 | .979 | .972 |
| | Educt | | | 7.971 | 3 | .057 | |
| | Educt (1) | .275 | 1.829 | .023 | 1 | .880 | 1.317 |
| | Educt (2) | 2.956 | 1.576 | 3.519 | 1 | .061 | 19.223 |
| | Educt (3) | 2.631 | 1.510 | 3.038 | 1 | .081 | 13.892 |
| | Motv (1) | -1.234 | .865 | 2.037 | 1 | .154 | .291 |
| | Mngmt (1) | .231 | .979 | .056 | 1 | .813 | 1.260 |
| | Markpl (1) | .104 | .699 | .022 | 1 | .882 | 1.109 |
| | Constant | -.322 | 1.672 | .037 | 1 | .847 | .725 |

Source: survey result, 2019

**Access to infrastructure (infras):** Econometric result of this study shows the probability of growth for those MSEs who had access to infrastructure is 2.97 times higher than who had no access to infrastructure. This study indicates that sufficient accesses to infrastructure is more likely to influence the grow MSEs operating in manufacturing sector compare to those that have not sufficient access to infrastructure.

**Market linkage (marklink):** MSEs who have more access to market linkage in manufacturing sector grows is 7.3 times higher than those who do not have. Market linkage should be created for all MSEs.

According to a previous study, having the correct business policies, rules, and related institutions is critical for an economy's health [28]. According to Ageba et al. [51], the biggest factors affecting the manufacturing sector's performance are bureaucracy in company registration, unjustified taxes, and associated concerns. Policy environment alone may not be enough to get the best results to the studies of ref. [51, 52]. This is because how well MSE operators can access resources like talent, technologies, capital, infrastructure, markets, and so on affects how they respond to the policy environment.

The result of the present study is consistent with the previous study of ref. [45] which stated access to sufficient working place has significant positive effect on MSEs growth. Bereket et al. [53] also supports MSEs which have to access to working premise are more likely to grow faster than those that do not have.

Growth of firms is also enhanced by the availability infrastructure inputs such as water, electric light, road network, etc. As per the Table 4 above, MSEs that have sufficient accesses to infrastructure are more likely to grow faster than those that have not sufficient access to infrastructure. This result is consistent with the previous study of ref. [52, 53] which stated access to infrastructure has significant positive effect on MSEs growth. The result of this study is also in line with Bereket [54] that indicts in Hawassa city the major challenges facing MSEs were shortage of electricity and unscheduled power cuts, market access, and bureaucratic working procedure.

Therefore, the finding of this study concludes that access to infrastructure, working premises, and government policy and market linkage are found significant in determining the probability of MSEs growth engaged in manufacturing sector.

### 4.4 Major factors affecting the growth of MSEs in trade sector

According to the survey results indicated in the Table 6, finance related problems (79.4%), management capacity (56.9) and market linkage (51%) are determinant factor affecting the growth of Small and medium Enterprises operating in trade activity.

The result of binary logit regression Table 7 shows that among 10 explanatory variables 3 variables were found significant in determining probability of MSEs growth at less than $p< 0.05$ significance level. Access to finance ($p= 0.029$), market linkage ($p=0.033$) and business management capacity ($p=.044$). One unit increase in access to finance would lead to increase growth by 4.100 while one unit increases in access to market linkage increase growth by 4.047. A unit increase in business management capacity would increase growth by 2.851.

**Access to credit (finance):** Every business requires money to start or grow because no one can start or run a business without adequate funds. Finance required for business activities may consist of owner's contribution and borrowings from different sources. The odds ratio shows that the probability of MSEs growth who have access to credit is 4.1 higher than those MSEs that have no access to credit.

**Table 6.** Factors affecting the growth of MSEs in trade sector

| MSEs | | Factor | Growing | | | | Not Growing | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | | No | | Yes | | No | |
| | | | No. | % | No | % | No | % | No | % |
| Trade Sector | External factors | Access to Infrastructure | 9 | 8.8 | 21 | 20.6 | 35 | 44.6 | 37 | 36.3 |
| | | Access to finance | 70 | 68.6 | 2 | 2 | 11 | 10.8 | 19 | 21.8 |
| | | Access to working premise | 10 | 11.5 | 62 | 61 | 24 | 27.6 | 6 | 5.9 |
| | | Marketing linkage | 35 | 44.6 | 37 | 36.3 | 9 | 8.8 | 21 | 20.6 |
| | | Marketing place(location) | 47 | 46.1 | 25 | 24.5 | 5 | 4.9 | 25 | 24.5 |
| | | Government policy | 15 | 12.7 | 57 | 55.9 | 15 | 14.7 | 15 | 14.7 |
| | Internal factors | Age of MSEs owners | 20 | 19.6 | 52 | 51 | 13 | 12.7 | 17 | 16.7 |
| | | Education Level | 14 | 13.7 | 16 | 15.7 | 29 | 28.4 | 43 | 42.2 |
| | | Motivation of Owner | 30 | 29.4 | 42 | 41.2 | 20 | 19.6 | 10 | 11.5 |
| | | Management capacities | 43 | 42.2 | 29 | 28.4 | 14 | 13.7 | 16 | 15.7 |

Source: survey result, 2019

**Table 7.** Binary logistic result of trade sector

| | Variable | B | S.E. | Wald | Df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | Infras(1) | 1.674 | .735 | 5.187 | 1 | .075 | 1.021 |
| | Finance(1) | 1.411 | .703 | 4.028 | 1 | .029 | 4.100 |
| | Workplc(1) | .522 | .633 | .678 | 1 | .410 | 1.685 |
| | Marklink(1) | 1.398 | .859 | 2.648 | 1 | .033 | 4.047 |
| | Polcy(1) | 1.469 | .757 | 3.765 | 1 | .052 | 4.343 |
| | Age(1) | -.598 | .798 | .561 | 1 | .454 | .550 |
| | Educt | | | 7.936 | 3 | .067 | |
| | Educt(1) | -.250 | 1.635 | .023 | 1 | .879 | .779 |
| | Educt(2) | 2.155 | 1.386 | 2.416 | 1 | .120 | 8.626 |
| | Educt(3) | 2.057 | 1.396 | 2.170 | 1 | .141 | 7.819 |
| | Motv(1) | -1.085 | .722 | 2.256 | 1 | .133 | .338 |
| | Mngmt(1) | 1.048 | .906 | 1.338 | 1 | .044 | 2.851 |
| | Markpl(1) | -.130 | .579 | .050 | 1 | .823 | .879 |
| | Constant | .655 | 1.538 | .182 | 1 | .670 | 1.926 |

a. Variable(S) Entered on Step 1: Infras, Finance, Workplc, Marklink, Polcy, Age, Educt, Motv, Mngmt, Markpl.

Source: survey result, 2019

The finding of this research is supported by WB (2015) Enterprise Survey data, that identifies half of microenterprises, 40% of small firms, and 18.5% of medium firms in Ethiopia have faced finance shortage. Survey result of this study showed that individuals and their relatives are the main source of finance for the majority of MSEs. MSEs had not received finance from finance institutions because of two major reasons. The first and the most important reasons are due to religion factor. Majority of the respondents replied that access to finance by credit is forbidden to Muslim religion followers. The second reason is unwilling to access credit, fear high interest rate of debt, complex procedure, and due to lack of collateral. This indicates that respondents prefer non-banking institutions for funding since the terms are more flexible.

Financial constraints are one of the most significant impediments to MSE expansion in the commerce sector. A lack of capital or financial resources was a significant impediment for MSEs and entrepreneurs, who typically had to mobilize their own capital or financial resources to launch or expand their business. Also, it's hard for MSEs in developing countries to get bank loans because they have a high chance of going bankrupt, their profits are low, and they don't have the collateral that banks want [55].

**Management capacity (mngmt):** It was found that management capacity had a positive and significant influence on the growth of MSEs engaged in trade sector. MSEs who have better managerial skills increases the probability of their employment number is 2.8 times higher comparing to who have less managerial skill.

Managerial abilities are important to the growth of MMSEs. The importance of MSE owner management competence was researched in the study region, and it was discovered that lack of managerial competency is the primary reason why MSEs fail [54].

This research results also agree with the findings of Kenneth [56] who found that lack of collateral, small equity base were the most mentioned challenge.

The finding of the present study indicates that access to finance, management capacity and market linkage are determinant factor affecting the growth of Small and Medium Enterprises operating in trade sector.

### 4.5 Major factors affecting the growth of MSEs in service sector

According to Table 8 the results depicted that 71.2%, 73% and 56% MSEs operating in service sector, infrastructure, government policy and market place are determinant factor affecting the growth of enterprise.

The survey result showed that infrastructure, government policy and market place are very crucial for the growth of the enterprise engaged in service sector.

According to the result of binary logit regression out of 9 independent variables 3 variables were found significant in determining probability of MSEs growth at 5% of significance level. Access to infrastructure, government policy and market place are found significant in determining the probability of MSEs growth engaged in manufacturing sector. The results of the logistic regression model are summarized in Table 9.

Table 9 shows that access to infrastructure (p= 0.042), market place (p=0.047) and government policy (p=.029) were statistically significant results at $p< 0.05$ significance level. A unit increase in government policy would increase growth by 7.113. One unit increase in access to infrastructure would lead to increase growth by 4.472 while one unit increase in access to market place increases growth by 2.762.

Holding other factors constant, probability of having better access to infrastructure is 4.4 times higher than those who do not have access to infrastructure. The odds ratio shows that the probability of MSEs growth for those who are supported by government agency is 7.1 times higher than MSEs who did not obtain any support. Having market place near to the main road increases the probability of growth by 4.4% times higher than the MSEs who have far market place from the main road.

**Table 8.** Factors affecting the growth of MSEs in service sector

| MSEs | | Factor | Growing | | | | Not Growing | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | | No | | Yes | | No | |
| | | | No. | % | No | % | No | % | No | % |
| Service Sector | External Factors | Access To Infrastructure | 57 | 65.5 | 3 | 3.4 | 5 | 5.7 | 22 | 25.3 |
| | | Access To Finance | 26 | 30 | 34 | 39.1 | 20 | 23 | 7 | 8 |
| | | Access To Working Premise | 30 | 34.5 | 30 | 34.5 | 14 | 16.1 | 13 | 15 |
| | | Market Place (Location) | 40 | 46 | 20 | 23 | 9 | 10 | 18 | 21 |
| | | Market Linkage | 26 | 30 | 34 | 39.1 | 15 | 17.2 | 12 | 13.8 |
| | | Government Policy | 42 | 52 | 18 | 11.1 | 17 | 21 | 10 | 16 |
| | Internal Factors | Age Of Mses Owners | 20 | 23 | 40 | 46 | 13 | 15 | 14 | 16.1 |
| | | Education Level | 13 | 15 | 14 | 16.1 | 20 | 23 | 40 | 46 |
| | | Motivation Of Owner | 25 | 28.7 | 35 | 40.2 | 20 | 23 | 7 | 8 |
| | | Management Capacities | 20 | 23 | 7 | 8 | 25 | 28.7 | 35 | 40.2 |

Source: survey result, 2019

**Table 9.** Binary logistic regression result of service sector

| | Variable | B | S.E. | Wald | df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | infras(1) | 1.498 | .858 | 3.048 | 1 | .042 | 4.472 |
| | finance(1) | 2.049 | .909 | 5.078 | 1 | .068 | 7.759 |
| | workplc(1) | 1.492 | .844 | 3.125 | 1 | .051 | 4.448 |
| | marklink(1) | .833 | .832 | 1.002 | 1 | .317 | 2.301 |
| | polcy(1) | 1.962 | .935 | 4.403 | 1 | .029 | 7.113 |
| | age(1) | -.156 | 1.068 | .021 | 1 | .884 | .855 |
| | educt | | | 8.214 | 3 | .055 | |
| | educt(1) | .142 | 1.828 | .006 | 1 | .938 | 1.152 |
| | educt(2) | 2.878 | 1.576 | 3.335 | 1 | .068 | 17.787 |
| | educt(3) | 2.610 | 1.526 | 2.925 | 1 | .087 | 13.593 |
| | motv(1) | -1.422 | .854 | 2.770 | 1 | .096 | .241 |
| | mngmt(1) | .104 | .699 | .022 | 1 | .882 | 1.109 |
| | markpl(1) | 1.016 | .695 | 2.137 | 1 | .047 | 2.762 |
| | Constant | -.156 | 1.689 | .009 | 1 | .926 | .855 |

a. Variable(s) entered on step 1: infras, finance, workplc, marklink, polcy, age, educt, motv, mngmt, markpl.

Source: survey result, 2019

The finding is supported by Siyoum [57] who found that Lack of water supply, reliable power supply, transportation facilities and accessing good market place were determinant factors that hindered MSEs growth. Therefore, the finding of this study found that the growth of MSEs engaged in service sector is hampered by infrastructure, government policy and market place.

### 4.6 Major factors affecting the growth of MSEs in urban agriculture sector

Results of Table 10 indicated that majority of the respondents (62.3%), (52.2%), (65.2%) and (58%) agreed that government policy, working premises, market linkage and motivation are the major issue affects the growth of MSEs in urban agriculture.

The result of binary logit regression Table 11 shows that, from 10 selected explanatory variables four predictor variables produced statistically significant results $p< 0.05$. Access to working premises ($p= 0.047$), market linkage ($p=0.041$) government policy ($p=0.032$) and owner motivation ($p=0.022$). One unit increase in access to working place would lead to increase growth by 3.155 while one unit increases in access to market linkage increase growth by 4.472. A unit increase in government policy and motivation would increase growth by 7.206 and 8.101 respectively.

**Access to sufficient working place (workplc):** The odds ratio shows that the probability of MSEs growing operating at their own working place is 3.1 times higher than the MSEs who obtain working place by renting. Therefore, the study indicates MSEs that have own working premise are more likely to grow faster as compared to the others.

**Table 10.** Prominent factors affecting the growth of MSEs in Urban agriculture sector

| MSEs sector | | Factor | Growing | | | | Not Growing | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | | No | | Yes | | No | |
| | | | No. | % | No | % | No | % | No | % |
| Urban Agriculture | External factors | Access to Infrastructure | 16 | 23.2 | 20 | 29 | 15 | 21.7 | 18 | 26.1 |
| | | Access to finance | 16 | 23.2 | 20 | 29 | 20 | 29 | 13 | 18.8 |
| | | Access to working premise | 18 | 26.1 | 18 | 26.1 | 18 | 26.1 | 15 | 21.7 |
| | | Market place (location) | 20 | 29 | 13 | 18.8 | 16 | 23.2 | 20 | 29 |
| | | Market linkage | 36 | 52.2 | - | - | 9 | 13 | 24 | 35 |
| | | Government policy | 28 | 40.6 | 8 | 12 | 15 | 21.7 | 18 | 26.1 |
| | Internal factors | Age of MSEs owners | 17 | 24.6 | 19 | 27.5 | 15 | 21.7 | 18 | 26.1 |
| | | Education Level | 15 | 21.7 | 18 | 26.1 | 17 | 24.6 | 19 | 27.5 |
| | | Motivation of Owner | 35 | 51 | 1 | 1.4 | 5 | 7 | 22 | 41 |
| | | Management capacities | 22 | 31.9 | 14 | 20.3 | 17 | 24.6 | 16 | 23.2 |

Source: survey result, 2019

**Table 11.** Logistic regression result of urban agriculture sector

| | Variables | B | S.E. | Wald | Df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | Infras(1) | -.387 | .872 | .197 | 1 | .657 | .679 |
| | Finance(1) | 1.469 | .757 | 3.765 | 1 | .052 | 4.343 |
| | Workpl(1) | 1.149 | .987 | 1.355 | 1 | .047 | 3.155 |
| | Markplc(1) | .231 | .979 | .056 | 1 | .813 | 1.260 |
| | Marklin(1) | 1.498 | .856 | 4.462 | 1 | .041 | 4.472 |
| | Policy(1) | 1.975 | .935 | 4.461 | 1 | .032 | 7.206 |
| | Age(1) | -1.482 | 1.076 | 1.896 | 1 | .168 | .227 |
| | Educ | | | 2.296 | 2 | .317 | |
| | Educ(1) | -21.189 | 9104.040 | .000 | 1 | .998 | .000 |
| | Educ(2) | -19.437 | 9104.040 | .000 | 1 | .998 | .000 |
| | Motv(1) | 2.092 | .962 | 4.729 | 1 | .022 | 8.101 |
| | Mang(1) | -2.525 | 1.387 | 3.314 | 1 | .069 | .080 |
| | Constant | 5.362 | 1.910 | 7.881 | 1 | .098 | 213.150 |

A. Variable(S) Entered on Step 1: Infras, Finance, Workplc, Marklink, Polcy, Age, Educt, Motv, Mngmt, Markpl.

Source: survey result, 2019

MSEs with their own premises have a higher rate of growth. Any firm needs sufficient working and marketing space for its products and services. MSE productivity suffers if there is insufficient working and selling space since the product created requires a warehouse to keep it and selling outlets to get it into the hands of ultimate customers, which is a crucial determinant for the enterprises' survival and growth. As a result, businesses with sufficient working space and selling

locations expand faster than businesses without such facilities [57]. The empirical study of Bereket [53] found that MSEs operators who obtain their own working space and buildings are in a better position to plan with greater certainty and have a better probability of gaining access to needed infrastructure, hence enhancing their growth. According to the findings of this study, MSEs with their own working premises are more likely to expand faster than others.

**Market linkage (marklink):** MSEs who have more access to market linkage in manufacturing sector are 4.4% times higher than the growth status of MSEs who do not have. Market linkage should be created for all MSEs.

**Motivation (motv):** MSEs who operate in urban agriculture by their choice are 8.1 times higher than the growth level of MSEs who engaged due to lack of alternative.

**Government policy (polcy):** The odds ratio shows that the probability of MSEs growing who are supported by government body is 7.2% times higher than MSEs who do not obtain support from government agency.

Interviewed zone industry and development experts also pointed out that, while governments have taken steps to promote and support MSEs in order to boost their development and reduce poverty, there are still gaps in the law and genuine administrative procedures, such as access to government assistance [52]. Government policy is hampered by complex tax systems, a lack of trust in MSE products, and the inability to relate MSE products to the market. According to Solomon [52], government policies that encourage MSEs include regulations that allow them to run more efficiently and regulations that lower administrative costs. Thus, from the above result one can conclude that government policy, working premises, market linkage and motivation are the major issue affects the growth of MSEs in urban agriculture.

## 5. CONCLUSION

MSE is one of the institutions given recognition for sustainable job opportunities in Ethiopia. The purpose of this study was to examine the growth status of MSEs and to identify factors that influence the growth of MSEs in Siltie zone south regional of Ethiopia. The results of this research revealed that out of the total 423 MSEs, 173 (40.9%) were found growing and the remaining 250 (59.1%) MSEs were found not growing in terms of employment growth which is creating a problem to the economy of the country.

In general access to finance, access to infrastructure, government policy, working premises, management capacity, motivation, market linkage and market place are the major barriers for MSEs growth in Siltie zone. However, the significance level of these variables for varies among MSEs operating in different sector is quite different.

Based on the findings of the study the researchers conclude that at $p< 0.05$ significance level access to infrastructure ($p= 0.032$), access to finance ($p=0.036$) and government policy ($p=.030$) are the major factor affecting MSEs engaged in construction sector. The major independent variables affecting growth of MSEs engaged in manufacturing sector at $p< 0.05$ significance level are access to infrastructure ($p= 0.031$), working premises ($p=.030$), government policy ($p=.037$) and market linkage ($p= 0.024$). At 5% significance level access to finance ($p= 0.029$), market linkage ($p=0.033$) and business management capacity ($p=.044$) are the determinant factor hindering the growth of MSEs operating trade sector. Access to infrastructure ($p= 0.042$), market place ($p=0.047$) and government policy ($p=.029$) were statistically significant results at $p< 0.05$ significance level are the determinant factor affecting the growth of MSEs operating service sector. At $p< 0.05$ significance level, access to working premises ($p= 0.047$), market linkage ($p=0.041$) government policy ($p=0.032$) and owner motivation ($p=.022$) produced statistically significant results affecting the growth of MSEs operating urban agriculture sector.

It is advised for policy makers to revise policy and strategy of Ethiopia so that MSEs at any stage need to get support indiscriminately. Government policies should pay more attention not only at the starting time of the project but even for the existed enterprises. Since access to finance is very crucial in growth of MSEs. Even though most MSEs have access to finance they are not using this opportunity due to religious factor. This also needs serious attention.

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