

Assessing the Contribution of Micro and Small Enterprises to Local Economic Development: A Case Study of Gambella Town

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Abstract: Micro and Small Enterprises (MSEs) play a vital role in local economic development by creating employment opportunities, mobilizing resources, and improving household incomes. This study examines the performance of MSEs in Gambella Town, Ethiopia, focusing on their contribution to economic development, the challenges they face, and the factors influencing their growth. Data was collected from 196 MSE operators through structured surveys and interviews, analyzed using descriptive statistics and logistic regression models. Findings indicate that MSEs contribute significantly to employment creation, with 61% of respondents reporting permanent employment after joining an MSE, compared to 34% before. Capital growth was also observed, as 100% of enterprises reported an increase in capital from their initial investment, with a majority now operating with over ETB 25,000 in assets. However, challenges such as limited access to finance (reported by 48% of respondents), inadequate infrastructure (cited by 40%), and lack of business training (experienced by 51%) hinder MSE growth. Logistic regression analysis reveals that access to infrastructure (odds ratio = 4.32, $p < 0.01$), business information (odds ratio = 2.66, $p < 0.05$), and managerial skills (odds ratio = 18.06, $p < 0.01$) significantly enhance MSE growth. Conversely, access to credit was found to negatively impact performance (odds ratio = 0.25, $p < 0.05$), indicating potential mismanagement of borrowed funds. The study concludes that while MSEs are instrumental in local economic development, targeted interventions such as financial literacy programs, improved access to infrastructure, and managerial training are necessary to maximize their impact.

Keywords: Micro and Small Enterprises, Local Economic Development, Gambella Town

I. INTRODUCTION

Micro and Small Enterprises (MSEs) are widely recognized as key drivers of economic development, employment creation, and poverty reduction in both developing and developed economies. These enterprises contribute to local economic development by fostering entrepreneurship, stimulating innovation, and enhancing income generation for low- and middle-income populations (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2014). In many countries, including Ethiopia, MSEs form the backbone of the economy, accounting for a significant share of employment and Gross Domestic Product (GDP) (Tegegne & Meheret, 2010).

The Ethiopian government has prioritized the development of MSEs as part of its broader economic growth and poverty alleviation strategies. The Micro and Small Enterprise Development Strategy, introduced in 1997 and revised in subsequent years, aims to promote entrepreneurship, improve access to finance, enhance technical skills, and create market linkages for MSEs (Gebreeyesus, 2019). Despite these efforts, the sector continues to face multiple challenges, including

financial constraints, inadequate infrastructure, low productivity, and weak institutional support, which hinder their sustainability and expansion (Woldehanna, 2020).

Gambella Town, as an emerging urban center in Ethiopia, has witnessed an increasing number of MSEs operating across various sectors, including trade, manufacturing, construction, and service industries. However, the extent to which these enterprises contribute to local economic development remains unclear due to a lack of empirical research. Many MSEs in Gambella Town struggle with financial limitations, poor business management practices, and limited market access, which restrict their growth potential and impact on the local economy. Furthermore, the region's unique socio-economic and geographic characteristics pose additional challenges to business development.

Given these factors, it is essential to assess the performance of MSEs in Gambella Town and examine their role in enhancing local economic development. Understanding the opportunities and constraints faced by these enterprises will provide valuable insights for policymakers, business owners, and development practitioners to design effective interventions

that promote a more vibrant and sustainable MSE sector. This study aims to bridge the knowledge gap by analyzing the performance, challenges, and contributions of MSEs to local economic growth in Gambella Town.

1.2 Statement of the Problem

Micro and Small Enterprises (MSEs) play a crucial role in fostering economic development by generating employment, reducing poverty, and contributing to local economic growth. In many developing countries, including Ethiopia, MSEs are considered a key driver for economic transformation and sustainable development. Despite various policy interventions and support mechanisms, the performance of MSEs remains a significant concern, particularly in regions like Gambella Town, where economic activities are relatively underdeveloped (Gebreyesus, 2019).

Studies have shown that MSEs face multiple challenges that hinder their growth and sustainability. These challenges include limited access to finance, inadequate infrastructure, low levels of managerial and technical skills, weak market linkages, and regulatory constraints (Gebreyesus, 2019; Tegegne & Meheret, 2010). Additionally, the role of MSEs in enhancing local economic development is often undermined due to a lack of effective policy implementation and institutional support.

In the context of Gambella Town, there is limited empirical research on the actual performance of MSEs and their contribution to local economic development. Although government initiatives and development programs aim to promote MSEs, the extent to which they have positively impacted the local economy remains unclear. This study seeks to bridge this gap by examining the performance of MSEs in Gambella Town and their role in enhancing local economic development. The findings will provide insights into the challenges and opportunities faced by MSEs and suggest policy measures to improve their contribution to sustainable economic growth. This study answers the following research questions:

1. What is the performance of MSEs in terms of capital growth and employment creation?
2. What are the challenges and opportunities for MSEs in Gambella Town?
3. What are the factors influencing the success and sustainability of MSEs?

II. LITERATURE REVIEW

Micro and Small Enterprises (MSEs) play a crucial role in fostering economic growth, job creation, and poverty alleviation, particularly in developing countries (Beck & Demirguc-Kunt, 2005). According to Schumpeter's (1934) theory of economic development, small enterprises act as catalysts for innovation, competition, and economic transformation. Similarly, the endogenous growth theory highlights the role of entrepreneurship and knowledge spillovers in driving economic development at the local level (Romer, 1994).

Local Economic Development (LED) emphasizes bottom-up approaches to economic growth by utilizing local resources, labor, and business networks (Helmsing, 2001). MSEs contribute to LED by creating employment opportunities, fostering innovation, and promoting linkages between different sectors of the economy (Mead & Liedholm, 1998). Studies indicate that MSEs enhance economic diversification and resilience, particularly in regions with limited industrialization (Agyapong, 2010).

In Ethiopia, MSEs are recognized as key drivers of economic transformation and inclusive growth. The Ethiopian government has implemented policies such as the Micro and Small Enterprises Development Strategy to enhance entrepreneurship and job creation (MoUDH, 2016). These policies focus on capacity building, access to finance, and market linkages to support MSEs in contributing effectively to the local economy (Gebreyesus, 2019).

Despite their significant contribution, MSEs in developing economies, including Ethiopia, face numerous challenges. These include limited access to finance, inadequate infrastructure, regulatory barriers, and skill gaps (Tefera, Berge, & Kumie, 2016). Lack of financial resources is a major constraint, as many MSEs struggle to obtain credit due to stringent lending policies and collateral requirements (Bekele & Worku, 2008). Additionally, weak institutional support and bureaucratic inefficiencies hinder the growth and sustainability of small enterprises (Amha & Ageba, 2006).

Several empirical studies highlight the positive relationship between MSEs and local economic development. A study by Liedholm and Mead (1999) found that small enterprises generate more employment opportunities compared to large firms in Africa and contribute significantly to household incomes. In Ethiopia, research by Gebreyesus and Mohnen (2013) reveals that MSEs play a critical role in poverty reduction and income distribution, particularly in urban areas. A study conducted in Gambella town by Alemayehu (2020) indicates that MSEs contribute to economic activities, but their growth is hampered by financial constraints and market access issues. This suggests that targeted policies and support mechanisms are necessary to maximize the potential of MSEs in promoting local economic development.

Although various studies have examined the role of MSEs in economic development, limited research has been conducted on their specific contribution to local economic development in Gambella town. Most existing studies focus on national or regional perspectives, with little emphasis on localized economic dynamics. This study aims to bridge this gap by assessing the impact of MSEs on employment, income generation, and overall economic growth in Gambella town.

III. METHODOLOGY

3.1 Research Design

A mixed-methods approach was employed, combining quantitative surveys with qualitative interviews. Data was collected from MSE operators, government officials, and financial institutions.

3.2 Sampling and Data Collection

A stratified random sampling method was used to select 196 MSE operators from various sectors, including business, construction, manufacturing, and services. Data was collected using structured questionnaires and analyzed using statistical tools such as SPSS and STATA.

3.3 Data Analysis

Descriptive statistics, correlation analysis, and binary logistic regression were used to assess the impact of financial access, business information, managerial skills, and government policies on MSE performance.

The questionnaire was checked for completion. (Mugenda, 2003) assert that data obtained from the field in raw form is difficult to interpret unless it is cleaned, coded and analyzed. Qualitative analysis consisted of examining, categorizing, tabulating and recombining evidences to address the research questions. Qualitative data was grouped into meaningful patterns and themes that are observed to help in the summarizing and organization of the data. Data entry can be done on Statistical Package for Social Sciences (SPSS) versions 23 while analysis was done on STATA 14 software. The tabulated data was used to come up with themes. Coded data were analyzed using statistical tools of data analysis which include; measures of central tendency (mean, median and mode), measure of dispersion (variance, standard deviation, coefficient of variation and range), measure of relation and association (correlation, regression). Moreover, the binary logistic regression model on STATA 14 was used to evaluate the determinants of the performance of MSEs. The dependent variable in this case is binary logistic, which take

the value of 1 for growing and 0 for not growing or survival status of business performance. Binary logistics regression analyzes the odd of success defined as to be the ratio of the probability of success to the probability of failure.

$$\text{Logit} \left(P_i \right) = \text{Log} \left(\frac{P_i}{1 - P_i} \right) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 +$$

$$\beta_4 x_4 + \beta_5 x_5 + \varepsilon_i \dots\dots\dots (1)$$

Where;

Y = Performance of MSEs (Dependent Variable)

X₁ – X₄ – Independent Variables

X₅ – Moderating Variable

X₁ = Business Information Services

X₂ = Access to Finance

X₃ = Availability of Management Experience

X₄ = Access to Infrastructure

X₅ = Government Policy and Regulations (Moderating Variable)

β₀ = Co-efficient of the model

β₁ – β₅ = Beta Coefficients of Determination

ε_i = Stochastic Error Term

IV. 4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of Respondents

The study found that 71% of MSE operators were male, while 29% were female. The majority (85%) were aged between 15-45 years, indicating that MSEs provide employment opportunities for young and economically active individuals.

Table 1 Gender and age of respondent

Gender	Age					Total	Percent
	Below 15	15-24	25-45	46-65	Above 65		
Female	0	22	27	8	0	57	29
Male	0	68	49	22	0	139	71
Total	0	90	76	30	0	196	100

Source: - Field survey (2024)

4.2 Performance of MSEs

4.2.1 Capital Growth

The initial capital of most MSEs was below 25,000 ETB, but over time, 100% of enterprises reported capital increases.

Table 2. Initial capital and type of enterprise

Initial Capital	Type of enterprise								Total	
	Constructi on		Business		Manufacturing		Service			
	F	%	F	%	F	%	F	%	F	%
<25,000	0	0	11	41	9	28	5	33	25	27
25,000-50,500	8	45	6	22	13	41	9	60	36	39
50,501-75,500	4	22	10	37	2	6	1	7	17	18
75,501-100,500	6	33	0	0	8	25	0	0	14	16
100,501-125,500	0	0	0	0	0	0	0	0	0	0
>125,500	0	0	0	0	0	0	0	0	0	0
Total	18	100	27	100	32	100	15	100	92	100

Source: - Field survey (2024)

Business and manufacturing sectors showed the highest growth, with capital exceeding 100,000 ETB in some cases.

Table 3 current capital and type of enterprise

Current Capital	Type of enterprise								Total	
	Construction		Business		Manufacturing		Service			
	F	%	F	%	F	%	F	%	F	%
<25,000	0	0	0	0	0	0	0	0	0	0
25,000-50,500	0	0	0	0	0	0	0	0	0	0
50,501-75,500	0	0	0	0	0	0	0	0	0	0
75,501-100,500	4	33	7	21	1	4	7	32	19	21
100,501-125,500	5	42	20	58	15	63	10	45	50	54
>125,500	3	25	7	21	8	33	5	23	23	25
Total	12	100	34	100	24	100	22	100	92	100

Source: - Field survey (2024)

4.2.2 Employment Creation

MSEs significantly contributed to employment generation. Before joining MSEs, only 34% of operators had permanent

employment; after joining, 61% reported having permanent employment, highlighting MSEs' role in reducing unemployment.

Table 4. Role of MSEs on self-employment of the operators

Out of 196 operators	Frequency	Percent
Respondents who had permanent employment before MSEs	66	34
Respondents who have permanent employment after MSEs	120	61
Gross increase after operation	87	44
Amount of increase attributable to MSEs operation	79	40
Amount of increase not attributable to MSEs operation	9	5

Source: - Field survey (2024)

4.3 Challenges Facing MSEs

- Limited Access to Finance:** Many operators struggled to secure loans, with some misallocating credit.
- Lack of Infrastructure:** Poor road networks and unreliable electricity supply hindered business operations.
- Limited Managerial Skills:** Many operators lacked business management training, affecting operational efficiency.

- Regulatory Barriers:** Bureaucratic hurdles and inconsistent government policies created operational difficulties.

4.4 Regression Analysis Results

The logistic regression model found significant positive relationships between MSE growth and factors such as access to infrastructure, managerial skills, and government policy support. However, access to credit showed a negative relationship with growth, indicating possible mismanagement of financial resources.

Table 5 Logistic regression estimation result

MSEs growth status	Odd ratio	P> z	Marginal effects (dy/dx)
Access to infrastructure	4.319954	0.000 *	.2097517
Access to finance or credit	.2542172	0.003**	-.1963232
Access to business information	2.662189	0.017**	.140358
Access to managerial skill	18.05848	0.000*	.4147911
Government policy	2.314021	0.031**	.1202662

Source: - Field survey (2024)

* indicated 1 percent level of significant

** indicates 5 percent level of significant

V. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

MSEs in Gambella Town play a crucial role in local economic development through employment creation and capital growth. However, challenges such as financial constraints, infrastructure deficiencies, and managerial skill gaps limit their full potential. Policy interventions focusing on capacity building, financial literacy, and improved infrastructure are necessary to enhance the effectiveness of MSEs in fostering sustainable economic development.

5.2 Recommendations

- Financial institutions should develop tailored credit schemes for MSEs, accompanied by financial literacy programs.
- Government and private sector partnerships should prioritize infrastructure development in business hubs.
- Regular training programs should be implemented to enhance operators' managerial skills.
- Simplifying business registration and tax policies will encourage MSE growth.
- Special incentives and training should be provided to increase female participation in the MSE sector.

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