

## Practice, challenges and opportunities of social enterprises in Ethiopia: A case study of member organizations of Social Enterprise Ethiopia Association

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### Abstract

This qualitative study examines the operational practices, issues, and prospects of social enterprises (SEs) in Ethiopia, with particular emphasis on the member organizations of the Social Enterprise Ethiopia Association (SEE). Findings indicate the existence of a vibrant and heterogeneous sector that uses innovative and sustainable business models to meet core social needs in education, healthcare, agriculture, environmental conservation, and financial services. Social enterprises (SEs) face a myriad of challenges, including a complicated regulatory gap, lack of funding options, bureaucratic barriers, and lack of expertise and awareness. The recent recognition of social enterprises (SEs) by the government, coupled with recent opportunities in technology, public procurement, and alignment with national development strategies, offer promising avenues for growth. The study suggests that to enable the sector's possibility of spearheading Ethiopia's inclusive economic growth, sustainable development, and social integration, there is a dire need to strengthen regulatory policies, improve funding availability, build public-private collaborations, and enhance capacity building.

**Key words:** Social Enterprises, Ethiopia, Regulatory Environment, Access to Finance, Qualitative Research, Sustainable Development, Hybrid Organizations

### Introduction

Social enterprises (SEs) represent a transformative model at the intersection of market dynamics and social purpose, blending entrepreneurial principles with a core mission to address societal challenges (Battilana & Lee, 2014; Mair & Martí, 2006). Globally, their prevalence has surged, driven by heightened awareness of social and environmental issues, shifts in ethical consumption, and recognition of traditional models' limitations in tackling complex problems. (Battilana & Dorado, 2010). In Africa, SEs play a particularly vital role, operating within

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contexts characterized by poverty, inequality, and service gaps, acting as catalysts for community development, employment creation, and essential service delivery where traditional systems falter (Nyssens, 2006; Chao & Murray, 2018).

Ethiopia presents a compelling context for SE research. Its unique socio-economic landscape, marked by rapid development ambitions juxtaposed with persistent challenges like poverty, limited access to essential services, and environmental pressures, creates both fertile ground and significant hurdles for SEs (Tekola & Morrissey, 2021). While government policies increasingly acknowledge the potential of SEs for inclusive growth and poverty reduction, the sector operates within an ambiguous legal and institutional environment. SEs often navigate a liminal space, categorized either as conventional businesses or charities, lacking specific recognition and tailored support (British Council, 2016; Tajebe Getaneh Eniyew, 2018). This ambiguity hinders their access to finance, markets, and legitimacy. Despite their emergence across diverse sectors—agriculture, renewable energy, healthcare, and education—research on Ethiopian SEs remains scarce, often limited in scope and failing to capture the sector's evolution post-key developments like the formation of the SEE Association and the Global Social Enterprise Forum hosted in Ethiopia (Megnote Degefa, 2017; Desalegn Deresso, 2020).

This study addresses critical gaps in understanding the Ethiopian SE landscape. It focuses specifically on SEE member organizations, leveraging their affiliation as a marker of engagement within the evolving ecosystem. The primary objectives are threefold: (1) to comprehensively assess the current operational practices and models adopted by Ethiopian SEs; (2) to identify and analyze the multifaceted challenges impeding their growth and sustainability; and (3) to evaluate the emerging opportunities arising from regulatory shifts, technological advancements, market dynamics, and alignment with national goals. By employing qualitative methods to delve deeply into the lived experiences of SE practitioners, this research aims to provide nuanced insights crucial for policymakers, support organizations, investors, and the SEs themselves. Ultimately, it seeks to contribute to building a robust enabling ecosystem that empowers Ethiopian SEs to maximize their contribution to sustainable and inclusive development.

The research is structured across five sections. Section two presents a comprehensive review of related literature, encompassing both published and unpublished works by various authors, focusing on global and Ethiopian perspectives of social entrepreneurship. In section three, the research methodologies are expounded upon, outlining the study's description, research paradigm, design, approach, population, sampling frame, sampling units, sampling technique, data collection instruments, as well as considerations for data validity and reliability. Additionally, the section elaborates on methods for data analysis, encompassing qualitative data analysis and ethical considerations. Section four presents and analyzes the data gathered, providing an in-depth exploration of the identified results. Lastly, section five synthesizes the study's findings, draws conclusions based on the results, and presents viable recommendations stemming from the research.

## Literature Review

The conceptualization of social enterprise (SE) remains fluid, reflecting its hybrid nature and contextual diversity. Business scholars often define SEs as ventures strategically balancing social mission and financial sustainability, navigating the tension between profit generation and social/environmental impact (Austin et al., 2006; Battilana & Lee, 2014). Social science perspectives, however, emphasize the primacy of social aims, positioning SEs primarily as vehicles for addressing community or environmental needs, thus redefining business purpose towards greater sustainability (Borzaga & Defourny, 2004; Mair & Marti, 2006). This inherent hybridity—blending profit motives with social missions—distinguishes SEs from purely for-profit or non-profit entities and fuels ongoing scholarly debate about their defining characteristics (Nicholls, 2006).

Core characteristics consistently identified include a primary focus on social/environmental impact driving strategy and resource allocation (Dacin et al., 2010); the use of innovative, entrepreneurial approaches to solve social problems and achieve financial viability (Peredo & McLean, 2006); and a strong stakeholder orientation, actively engaging communities, beneficiaries, employees, and investors (Murray et al., 2010). SEs emerge fundamentally to address market and institutional failures where traditional business (prioritizing profit) or charity (often donor-dependent and limited in scale) fall short (Dart, 2004; Brouard & Larivet, 2010). They offer alternative models aligning with evolving expectations for ethical and responsible business (Battilana et al., 2009).

Several theoretical lenses illuminate SE operations. *Institutional Theory* (DiMaggio & Powell, 1983) helps understand how SEs navigate and are shaped by external norms, regulations, and legitimacy pressures within their socio-political environment, particularly relevant in developing contexts like Ethiopia. The *Triple Bottom Line (TBL)* framework (Elkington, 1997) provides a holistic view for evaluating SE performance across economic, social, and environmental dimensions, though tensions between these goals and measurement challenges persist. *Social Entrepreneurship Theory* (Dees, 1998) focuses on the innovative agency of individuals/organizations in tackling social challenges. *Stakeholder Theory* (Freeman, 1984) underscores the importance of managing diverse stakeholder interests for SE legitimacy and impact, though prioritization conflicts can arise. The *Resource-Based View (RBV)* (Barney, 1991) analyzes how internal resources and capabilities contribute to competitive advantage, though it may underplay contextual constraints.

Empirical research on Ethiopian SEs is nascent but growing. Studies highlight significant challenges, predominantly categorized as legal/institutional (lack of specific recognition, ambiguous status) and financial (limited access to capital, collateral requirements) (Abdulnasir Abdulmelike, 2017; Megnote Degefa, 2017; Tajebe Getaneh Eniyew, 2017; Taddele et al., 2022). Opportunities identified include donor support, government SME policies, economic growth, and emerging networks (Megnote Degefa, 2017). The critical need for dedicated policy frameworks is emphasized, citing both the potential of SEs to address Ethiopia's multifaceted challenges and the practical operational hurdles they face without tailored support (TajebeGetaneh Eniyew, 2017). This study builds upon this foundation, exploring practices, challenges, and opportunities within a more mature segment of the sector (SEE members) post-recent ecosystem developments.

## Study Methods

This study employed a qualitative research approach, underpinned by an interpretivist paradigm, to gain an in-depth, and contextualized understanding (Creswell & Poth, 2018) of the practices, challenges, and opportunities experienced by social enterprises (SEs) within the SEE network in Ethiopia.

An exploratory case study design was utilized, focusing intensely on SEE member organizations. This design is optimal for investigating complex phenomena within their real-life contexts, particularly when boundaries between phenomenon and context are not clearly evident (Yin, 2018). Qualitative methods were essential to capture the realities, motivations, and contextual factors shaping SEs, which quantitative metrics might overlook (Denzin & Lincoln, 2018).

A non-probability, purposive sampling technique (Palinkas et al., 2015) was employed to select information-rich participants with deep expertise and experience relevant to the research objectives. To this end, 5 Board members who actively engaged in policy dialogue and global exchange initiatives and recognized as pioneers within the Ethiopian SE landscape were interviewed. Additionally, interviews were conducted with 8 SEE staff members and 12 owners of member SEs not on the board which adds up to the total of 25 interviews.

Data were collected and triangulated using various qualitative methods including in-depth interviews, Focus Group Discussion (FGDs), Participant Observation, and documentary analysis. Semi-structured interviews (approx. 45-60 minutes each) were the primary tool, allowing for deep exploration while maintaining flexibility. An interview guide covered practices, challenges (regulatory, financial, operational), opportunities, and impact. Two FGDs (6-8 participants each) were conducted with SEE members to gather collective perspectives and identify common themes regarding challenges and opportunities. The researcher observed selected SEE board and management meetings and attended monthly "MeetUp Addis" events, providing contextual insights into strategic positioning and community interactions. Relevant documents (SEE annual reports, policy drafts, individual SE materials, government reports, academic literature) were analyzed to provide background, context, and triangulation.

Data analysis was iterative, occurring concurrently with data collection. Primary methods employed were content analysis and narrative analysis. Systematic coding and categorization of textual data (interview transcripts, documents) to identify recurring themes, patterns, and key concepts related to practices, challenges, and opportunities (Krippendorff, 2019). In addition, narrative analysis was employed. To this end, interpretation of the stories and experiences shared by participants during interviews to understand the lived realities, journeys, obstacles, and strategies of social entrepreneurs (Riessman, 2008).

Audio recordings from interviews and FGDs were transcribed verbatim. Amharic recordings were transcribed primarily by the bilingual researcher, supplemented by the Goodtape.io speech recognition service for Amharic when necessary. Transcripts were managed and coded using qualitative data analysis software (e.g., NVivo).

With regard to ethical considerations, ethical principles were rigorously upheld. Informed consent was obtained from all participants, clearly explaining the study's purpose, procedures, and their right to withdraw without consequence. Privacy and confidentiality were paramount; all identifying information was anonymized in transcripts and reporting (pseudonyms like SEE001, SEE002 used). Data storage complied with secure protocols. The researcher maintained cultural sensitivity and reflexivity throughout, acknowledging positionality arising from prior work on an EU-funded project in the sector. Transparency and integrity guided all research interactions and reporting.

This research, focusing on Social Enterprise Ethiopia Association member companies, utilized in-depth interviews and focus group discussions with key informants. Findings are presented below, integrating insights from the studied social enterprises and linking them to broader literature and theories.

## **Current Practices of Social Enterprises in Ethiopia**

### ***Legal Structures and Operational Models***

Ethiopian social enterprises utilize various legal forms, commonly sole proprietorships or private limited companies (PLCs), offering flexibility based on size and governance. A key distinction is their tradition of reinvesting profits into operations or community projects, rather than distributing them. This practice is crucial for sustainability and expanding social impact. Many embody a "business with no owner" concept, focusing on societal needs over shareholder returns, aligning with social entrepreneurship. Some operate as cooperatives or community-driven projects, others resemble traditional businesses with strong social missions (SEE002). Grassl (2012) notes many adopt a hybrid model, combining non-profit and for-profit strategies for revenue generation and grant funding, supporting sustainability. This holistic approach prioritizes social value creation, catalyzing community development and exemplifying empathetic, sustainable economic engagement. Many also operate as NGOs, regulated by the Charities and Societies Agency (Disassa, 2020), allowing them to prioritize social missions and access specific funding.

### ***Types of Social Enterprises***

Ethiopia's social enterprise landscape features various organizational types: a) Non-Owner-Based which focuses on reinvesting profits into the business or community (e.g., Ethiopian Commodity Exchange), b) Community Interest Companies (CICs) which is similar to UK models, prioritize community benefit over profit; c) Social Businesses which generate over 75% revenue from business activities while addressing social issues (e.g., Beautiful Minds Ethiopia, Adey); and d) Hybrid Models which combines non-profit and for-profit elements, using commercial revenue to support non-profit programs. This diversity highlights the sector's growth potential and its role in fostering an inclusive, sustainable future for Ethiopia by applying entrepreneurial solutions to complex social challenges.

### ***Sectoral Involvement***

Ethiopian social enterprises operate across diverse sectors, addressing varied national needs. Key areas include education, healthcare, agriculture, environmental conservation, and financial services.

*Social entrepreneurs operate across various sectors, offering a wide range of services. You'll find them in consultancy, education, fashion, manufacturing, nutrition, and health-related fields, among others. Essentially, they're present in nearly every industry, providing diverse services depending on their specific sector.*

In education, they develop innovative tools and provide quality education to underprivileged communities, focusing on early childhood, vocational training, and adult literacy (Tessema & Abebe, 2019). In healthcare, they offer affordable medical services, operating clinics and mobile units, especially in rural areas (Robertson, 2021). Tebita Ambulance is an example, providing pre-hospital emergency services (SEE001). Agricultural social enterprises promote sustainable farming and market access for smallholders, enhancing food security (Adula & Kant, 2022). Seed Bomb Ethiopia exemplifies this, manufacturing seed balls for reforestation (SEE002). For environmental protection, they tackle deforestation, waste, and renewable energy, promoting afforestation, recycling, and sustainable energy solutions (SEE002; Munro et al., 2016). In financial services, fintech social enterprises increase financial inclusion through mobile banking and digital payments. Rohobot Home Based Health Care Service addresses market gaps by employing skilled nurses (SEE003). Adey manufactures reusable sanitary pads, tackling menstrual poverty and creating jobs for women (SEE004). Concentration in certain sectors often reflects regulatory leniency, greater need, and easier access to capital from international donors and development organizations.

### ***Collaboration and Strategic Partnerships***

Collaboration is vital for Ethiopian social enterprises. Beautiful Minds Ethiopia exemplifies this through partnerships with PLAN International, Finland Embassy, Reach for Change (R4C), and Samaritan, amplifying their impact by leveraging diverse resources and networks.

*Plan International has been very helpful in giving us important programmatic support and child-centered approaches... Finland Embassy's generous financial support and strategy advice... Reach for Change has also been great at providing us with mentorship... Working together with Samaritan has been very helpful because it has helped us reach vulnerable groups directly and provide targeted interventions right where they're needed most (SEE 001).*

Such partnerships strengthen operational capabilities, increase visibility, and enhance credibility. Social enterprises also collaborate with government agencies for policy reforms (Disassa, 2020) and with NGOs/CSOs for shared resources (Mulugeta & Berhanu, 2018). Ethiopian social enterprises increasingly engage in global networks (e.g., Global Social Enterprise World Forum,

AACOSE) and local platforms like MeetUp Addis. These connections facilitate knowledge sharing, support, and expansion.

*MeetUp Addis has really turned into a lively place where local social entrepreneurs can meet people who share our interests... You can share ideas and work together on projects that can really make a difference, not just network. These kinds of platforms help social businesses in Ethiopia get ready to lead the way in sustainable growth and make a difference in our communities.*

Studies confirm strategic partnerships significantly contribute to social enterprise success and sustainability (Smith & Jones, 2019).

### ***Addressing Gaps Left by NGOs***

Ethiopian social enterprises fill gaps left by NGOs, particularly in sustainability and donor dependency. Unlike many NGOs, social enterprises generate significant revenue through business activities, ensuring greater financial autonomy.

*Running commercial ventures like retail shops, service centers, or production units is a strategy many social enterprises in Ethiopia adopt. By doing so, they reduce their reliance on donors and ensure the sustainability of their operations. The profits generated from these ventures are then reinvested to further their social missions," (SEE 004).*

This business viability promotes efficiency and innovation. Mair and Marti (2006) found social enterprises complement NGOs by operating where resources or expertise are lacking. Defourny and Nyssens (2010) highlighted their agility in responding to community needs, often developing more sustainable, context-specific solutions than aid-dependent models.

### ***Sustainability of Social Enterprises***

Ethiopian social enterprises exhibit remarkable self-reliance, moving away from heavy grant dependence towards profitable, sustainable business models. Profits are reinvested, fostering growth and amplifying their capacity to address social and environmental challenges. Their ethos centers on addressing societal needs for positive change, not mere financial gain, positioning them as pivotal actors in Ethiopia's socio-economic landscape. Their resilience stems from adaptability and innovation in response to evolving needs, ensuring relevance and catalyzing transformative change.

*The interdependent connection between financial profitability and social effect highlights the inherent congruence of economic prosperity with the welfare of society... This comprehensive strategy not only promotes the ability to recover quickly from difficulties but also promotes a feeling of mutual prosperity within the communities they assist.*

While capitalism emphasizes profit maximization (Jensen, 2002), Ethiopian social enterprises integrate social value creation directly into their models. They represent a vibrant blend of business acumen and social concern, committed to both revenue generation and community contribution, vital for sustainable and inclusive growth in Ethiopia and globally (SEE003). Their practices demonstrate a dynamic sector adept at addressing critical social needs through innovative, sustainable business models, playing a pivotal role in national development by adopting flexible structures, reinvesting profits, and collaborating strategically.

### **Challenges Faced by Social Enterprises in Ethiopia**

Ethiopian social enterprises face significant growth barriers: regulatory hurdles, limited finance, operational inefficiencies, and lack of awareness. These necessitate efforts to streamline regulations, enhance financial inclusion, and provide targeted capacity building.

#### ***Lack of Regulatory Framework Recognition***

Regulatory frameworks are crucial for legitimacy, compliance, and fostering market trust (World Bank, 2020). They enhance social entrepreneurs' legitimacy, aiding capital acquisition and partnerships (Huybrechts & Nicholls, 2013). Without clear legal standing, social enterprises face validity challenges, deterring investors. Supportive legislative frameworks are vital for operational and financial viability, especially in African contexts (Littlewood & Holt, 2018), offering tax advantages and streamlined procedures. They also standardize processes and ensure accountability (Roy et al., 2017).

Ethiopia's lack of a specialized legal framework challenges social enterprises' hybrid nature (SEE001). Current regulations treat them as profit-maximizing entities, hindering access to support, licenses, and clear tax obligations. This uncertainty deters investors, donors, and stakeholders (SEE002).

*The lack of a clear regulatory framework heightens challenges related to accountability, transparency, and governance within the sector. In the absence of standardized guidelines and oversight mechanisms tailored to social enterprises, there is an increased risk of mission drift, where organizations may prioritize profit over their social or environmental goals.*

Addressing these regulatory gaps is crucial for fostering social entrepreneurship and sustainable development in Ethiopia.

#### ***Taxation Issues***

Taxation significantly impacts social enterprises' financial sustainability and social missions. Unlike traditional businesses, social enterprises often reinvest profits for social/environmental issues, necessitating unique tax approaches. Lack of specific tax policies can create burdens, as they may not qualify for non-profit exemptions, limiting scalability (Haugh & Talwar, 2016).



Ethiopian social enterprises face a dilemma balancing social objectives with fiscal responsibilities (SEE001). Favorable tax policies (e.g., income tax exemptions, reduced corporate rates, VAT exemptions) can enhance financial sustainability and encourage new ventures (Nicholls, 2010). However, current frameworks, designed for traditional businesses, impose undue financial strain, diverting resources from social missions (SEE004). As seen with a social enterprise closure due to tax, lack of clarity leads to uncertainty. Without tailored incentives, scaling impact is limited. Policymakers must reform tax policies to support social enterprises' growth and sustainability, aligning fiscal measures with their dual objectives.

*Capacity-building programs and awareness campaigns are crucial to ensure that social Enterprises comprehend their tax responsibilities, avail themselves of applicable exemptions or incentives, and embrace honest financial procedures. The collaboration between government agencies, civil society organizations, and the corporate sector promotes communication, knowledge-sharing, and lobbying to tackle taxation concerns and create a more supportive climate for social entrepreneurship in Ethiopia. By acknowledging the significant contributions made by social entrepreneurs and offering them the required financial assistance, Ethiopia unleashes their complete potential as catalysts for inclusive economic growth and sustainable development.*

### **Limited Access to Finance**

Access to finance is critical for social enterprises, yet many face significant barriers: limited collateral, risk perception from traditional financial institutions, and lack of tailored products. Traditional lenders often require tangible assets, excluding early-stage or asset-light ventures (SEE002). Misunderstanding of their hybrid nature by lenders leads to higher interest rates or rejection, creating a financing gap.

Taddele et al. (2022) and Ghebreyesus (2013) highlight these barriers globally and in Ethiopia, compounded by limited rural financial services and informal systems. Customized financial products for social entrepreneurs are scarce, and external funding like grants may not offer long-term solutions (SEE002). Addressing this requires multi-stakeholder efforts.

*Policy reforms, like dedicated financing mechanisms or incentives for social enterprises, create a more enabling environment for investment and lending. Capacity-building initiatives to enhance financial literacy and management skills among social entrepreneurs improve their ability to access and utilize financial resources effectively.*

Collaboration among impact investors, community organizations, and technical assistance providers can unlock new opportunities, mobilizing capital for inclusive growth and addressing social/environmental challenges.

### ***Challenges in Doing Business***

Ethiopia's business environment presents myriad challenges for social enterprises, impacting efficiency. Bureaucratic hurdles and regulatory complexities are daunting.

*Getting the required licenses and permits to legally operate, this forms a fundamental challenge. You must wade through a sea of administrative red tape and bureaucracy. Have you thought about the entities of the government you need to be dealing with? Their protocols and stipulations — these piles up and eventually lead to confusion, frustrations and inefficiencies, especially for social entrepreneurs. An instance; suppose a social enterprise's products or services mostly involve digital or tech? Then, why does it have to secure a license tied to physical premises — for instance, paying rent for a business location? Quite an obstacle this becomes, unnecessarily standing in the way of getting in and getting started (SEE001).*

Lack of clear and consistent regulations leads to legal uncertainty and complex regulations for registration, tax, and labor laws are burdensome for SMEs (SEE002). Accessing essential services like utilities, infrastructure, and logistics is challenging, especially in remote areas, hindering operations, market reach, and growth (FGD).

### ***Preference for Locally Produced Goods***

Consumer sentiment research (Smith & Ng, 2021; Brown et al., 2020) examines preferences for local goods based on perceived quality, environmental concerns, and national identity. However, negative preferences exist; Chen et al. (2020) found consumers perceive local goods as inferior, and Johnson and Smith (2019) noted concerns about pricing.

In Ethiopia, demand for local items is low due to inadequate consumer knowledge, imported alternatives, and perceived superiority of foreign goods (SEE001). Imported products are often cheaper or higher quality, and international marketing overshadows local offerings (SEE004). Despite this, social enterprises can emphasize sustainable and ethical practices to appeal to conscious consumers, differentiating their products and building trust.

### ***Lack of Expertise and Awareness***

Lack of expertise and awareness significantly challenges Ethiopian social enterprises, affecting their ability to address issues and achieve impact. Many social entrepreneurs lack business acumen, technical skills, and best practices in planning, finance, marketing, and impact measurement. Without training and mentorship, they struggle to develop viable models (SEE003). Limited understanding of social entrepreneurship and available support hinders sector growth and talent pool.

Broader awareness is needed among policymakers, CSOs, and the public about social enterprise value. Advocacy for favorable policies and integrating social entrepreneurship into curricula are crucial.

*Raising knowledge regarding the societal, ecological, and financial advantages of backing social enterprises aids in creating a demand for their goods and services among consumers, investors, and other interested parties. This encompasses several strategies such as communication campaigns, storytelling, and experiential learning opportunities. These strategies are employed to highlight the influence and creativity of social enterprises, with the aim of motivating individuals to act and get involved (SEE002).*

Fostering collaboration and knowledge exchange connects entrepreneurs with mentors and partners, facilitating learning and innovation. Building a vibrant ecosystem unlocks Ethiopia's potential for inclusive growth and a sustainable future.

### ***Fast Forward Moving of Capitalism***

Ethiopia's transition to capitalism has profound implications for social enterprises. While offering growth opportunities, it poses risks, especially for vulnerable populations. Capitalist systems often prioritize profit maximization over social impact (Smith et al., 2018; Johnson & Brown, 2019), leading to increased inequality and social exclusion. Competition may marginalize social enterprises focused on non-market objectives (SEE002). Policy changes during this transition can either facilitate or hinder social enterprise growth. Cultural norms of individualism and consumerism may conflict with Ethiopian community-based values.

Navigating this requires a balanced approach: harnessing market benefits while mitigating negative impacts. This includes policies supporting inclusive growth, social equity, and environmental sustainability, and fostering a conducive social entrepreneurship ecosystem. Dialogue and partnerships among government, civil society, and the private sector are vital for an inclusive, equitable, and sustainable transition, leveraging social entrepreneurship for growth and justice.

### ***Political and Economic Factors***

Political and economic factors significantly shape the landscape for social enterprises in Ethiopia. Political instability and governance issues hinder growth, leading to decreased investor confidence and unfavorable business climates (SEE002; Smith & Darko, 2014). Weak governance, corruption, and lack of transparency create barriers for ethical operations. Policy shifts due to changing government priorities also impact social enterprises' access to support and future planning.

Economically, macroeconomic stability, market dynamics, and resource availability are critical. Inflation, currency depreciation, and fiscal deficits affect costs and purchasing power. Structural challenges like limited finance and infrastructure constrain growth, especially in rural areas. Economic policies promoting FDI or exports can create opportunities but also competition.

*To navigate the complex interplay of political and economic factors, social enterprises in Ethiopia must adopt a holistic approach that combines business acumen with social and political awareness. This includes engaging with policymakers, civil society*

*organizations, and community stakeholders to advocate for supportive policies, build coalitions, and address systemic barriers to social entrepreneurship.*

Cultivating openness, responsibility, and principled guidance within social enterprises reduces risks from political/economic uncertainty, bolstering stakeholder confidence and resilience. Ethiopian social businesses leverage their understanding of these elements to maximize impact for sustainable development (SEE002).

### ***Poor Impact Measurement***

Poor impact measurement challenges Ethiopian social enterprises' ability to assess, communicate, and improve social/environmental outcomes. Factors include limited resources/expertise for robust frameworks, lack of standardized metrics, and inconsistent reporting. A shortage of skilled personnel and weak data infrastructure exacerbate the problem. Challenges in engaging stakeholders lead to incomplete data. Donor-driven reporting can divert focus from comprehensive impact. Underutilization of technology further complicates efforts, leading to inefficiencies. These collectively undermine their ability to demonstrate value, attract funding, and scale impact. Improving measurement practices is crucial for enhancing contributions and achieving SDGs, requiring capacity building, standardization, and technology leverage.

### **Opportunities for Social Enterprises in Ethiopia**

Despite challenges, Ethiopia offers significant opportunities for social enterprise growth.

### ***Regulatory Support and Investment***

Ongoing legislative review to support social enterprises is a crucial advancement, validating their activities and boosting investor confidence.

*The Minister of Labor and Skill's adoption of the final draft indicates government support for social entrepreneurs, paving the way for legislative actions and programs that emphasize their progress. By formalizing the status of social enterprises and offering incentives such as tax breaks or subsidies, the government aims to stimulate investment and innovation within this sector.*

The opening of the capital market provides new financing avenues (public offerings, impact investment, and venture capital), enabling R&D, scaling, and diversification. Social enterprise associations advocate for supportive frameworks. Global support from organizations like MasterCard and UNDP offers financial aid, technical advice, and international connections (SEE002). This combination of regulatory endorsement and investment creates an enabling environment, allowing Ethiopia to leverage social entrepreneurship for equitable economic growth and sustainable development (SEE002).

### ***Alignment with National Development Goals***

Ethiopian social enterprises strategically align with national development goals, prioritizing social impact and sustainable development.

*A pivotal aspect of agreement centers around poverty alleviation and fostering inclusive economic advancement. Through the generation of job prospects, especially for marginalized communities and young individuals, social enterprises significantly contribute to enhancing economic empowerment and diminishing poverty rates nationwide. Moreover, their dedication to inclusive business structures guarantees the fair distribution of economic progress among all sectors of society.*

They contribute to universal access to essential services (education, healthcare, clean water) through innovative, community-led approaches, filling service delivery gaps. They also actively promote environmental sustainability and climate resilience (e.g., Green Legacy Initiative), mitigating degradation and building resilience (SEE002). Additionally, they address gender disparities and promote women's empowerment, with many women-led enterprises creating economic pathways. This correlation highlights their significance as catalysts for inclusive economic expansion and societal transformation, driving Ethiopia towards a more affluent, equitable, and resilient future (SEE002; Portales & Portales, 2019).

### ***Addressing Social Challenges as Opportunities***

Global social challenges in economic, social, and environmental spheres present opportunities for social entrepreneurship. In Ethiopia, problems like inadequate sanitation, healthcare, education, and sustainable livelihoods are fertile ground for innovation.

A critical challenge is insufficient sanitation, particularly in rural areas. Social enterprises can devise inventive solutions for affordable, sustainable sanitation, improving health and reducing environmental degradation (SEE002). They also play a crucial role in environmental initiatives like the Green Legacy Initiative, engaging communities in tree planting and sustainable land use (SEE002).

FGDs noted social enterprises address diverse needs, including healthcare, education, clean energy, and economic opportunities, by developing tailored solutions. For instance, healthcare-focused enterprises provide affordable services to remote areas and education-focused ones offer quality education and vocational training. The multitude of societal challenges in Ethiopia offers vast opportunities for social enterprises to make meaningful impact, contributing to a more resilient, inclusive, and sustainable future through collaboration and innovation.

### ***Gender Agenda and Emerging Trends in Social Entrepreneurship***

The rising global significance of entrepreneurship highlights its gendered nature, increasing interest in gender and entrepreneurship research across commercial, social, and nonprofit sectors (Lewis & Henry, 2019). An encouraging trend in Ethiopia is the predominance of women-led

social enterprises, reflecting their entrepreneurial spirit and offering opportunities to address gender disparities. In healthcare, social entrepreneurship can address gender-related barriers (Khalid et al., 2022).

Women-led social enterprises are uniquely positioned to tackle gender-specific challenges (education, healthcare, finance, and economic opportunities), promoting gender equality and inclusive growth. Government discussions on supporting startups and entrepreneurship create an enabling environment. The shift from aid dependency to a business-oriented model signals a broader paradigm shift, with growing momentum for collaboration and investment. This convergence of gender agenda, government support, and evolving trends bodes well for Ethiopian social enterprises as key drivers of positive social change.

### ***Technological Advancements and Digitalization***

Fintech social enterprises in Ethiopia herald a new era of digital innovation and financial inclusion, driven by mobile phone adoption and internet connectivity. There's a growing demand for digital solutions addressing access to financial services, healthcare, education, and agriculture. Fintech social enterprises leverage technology (mobile banking, digital payments, micro-insurance) to empower underserved communities, overcoming traditional barriers like distance and cost.

Ethiopia's growing digital payment ecosystem offers collaboration opportunities among fintech social enterprises, financial institutions, and government, streamlining transactions and enhancing transparency. Technological advancements in other sectors (agriculture, healthcare, education) also create opportunities for innovative solutions for marginalized communities (e.g., agri-tech startups using data analytics). These advancements present myriad opportunities for Ethiopia's social enterprise sector, driving inclusive growth and building a resilient future.

### ***Market Opportunities and Public Procurement***

Alignment of national development goals with social enterprise objectives creates market penetration opportunities. Ethiopia's vision for a middle-income country by 2035 emphasizes inclusive growth, positioning social enterprises well. The opening of the capital market provides new financing avenues (equity/debt instruments), attracting institutional investors and impact funds.

Public procurement preferences for social enterprises create partnership opportunities with government, allowing them to secure contracts for goods and services (Muñoz, 2009). While supply chain measures for social entrepreneurship are partially implemented (Aitken, 2022), the sector has yet to fully utilize these possibilities. Entrepreneurs can leverage these to foster innovation, create employment, and address social/environmental issues, contributing significantly to inclusive and sustainable development (SEE001).

### ***Shift in Development Paradigm***

Ethiopia's shift from aid dependency to sustainable business models is a pivotal development, with social enterprises as key actors. Historically, aid addressed issues but perpetuated dependency and undermined local agency. Social enterprises offer innovative, sustainable solutions, harnessing entrepreneurship and market mechanisms for financial viability and social inclusion. They operate on "doing well by doing good," creating a resilient, self-sustaining development model.

Social enterprises leverage market forces and private sector efficiencies, unlocking capital, innovation, and expertise beyond traditional aid. They promote local ownership, participation, and economic growth from within, strengthening human capital and supply chains. They foster cross-sector partnerships, bridging government, civil society, and private sectors to tackle systemic challenges. This move towards sustainable business models represents a transformative stage for Ethiopia, paving a path towards prosperity, resilience, and inclusivity through innovation and self-reliance.

### **Conclusion**

This study provides a comprehensive examination of the practices, challenges, and opportunities of social enterprises (SEs) in Ethiopia, focusing on members of the Social Enterprise Ethiopia Association (SEE). The findings underscore that while Ethiopian SEs play a critical role in addressing societal gaps in areas such as education, healthcare, agriculture, and environmental protection, their potential is constrained by regulatory ambiguity, limited access to finance, and operational hurdles. Despite these obstacles, SEs demonstrate resilience through hybrid business models, strategic partnerships, reinvestment strategies, and grassroots innovations that foster sustainability and community impact.

Encouragingly, there are emerging opportunities that, if effectively harnessed, can catalyze the growth of the sector. These include government recognition, ongoing legal reforms, digitalization, capital market liberalization, public procurement possibilities, and alignment with Ethiopia's national development goals. Women-led enterprises, in particular, represent a promising trend in advancing both gender equality and economic inclusion.

To unlock the full potential of social enterprises in Ethiopia, key stakeholders must prioritize the establishment of a supportive legal framework, tailored financial instruments, capacity-building programs, and greater public awareness. With strategic investment and policy alignment, SEs can become transformative drivers of inclusive and sustainable development in Ethiopia.

Robust quantitative research is essential to evaluate Ethiopia's social enterprise landscape and the effectiveness of the new regulatory framework. A comprehensive survey of emerging SEs should assess their operations, demographics, business models, and impact. This should be complemented by qualitative methods to capture entrepreneurs' experiences. Together, these approaches will inform policy, improve support systems, and enhance the sector's contribution to inclusive growth and sustainable development.

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