

**FACTORS THAT INFLUENCE THE GROWTH OF MICRO AND SMALL
BUSINESS ENTERPRISES IN GURAGHE ZONE (IN CASE OF WOLKITE
TOWN BUSINESS ORGANIZATION)**

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ABSTRACT

Identifying the factors that affect the growth of micro and small business enterprise was essential for their objective attainment; minimize the major factor that affect the growth of micro and small enterprise and finical problems faced micro and small enterprise in the wolkite town. This study would be useful for the owner of micro and small business as well as trade and also provide useful information for researcher. The study would be conducted by using both primary and secondary source of data. Primary data would be collected by using questionnaire for interviewing owners of micro and small business enterprise. Again secondary data would be collected from written materials and records concerning micro and small business. There was used to both quantities and qualitative research method it can use. The researcher has taken a sample of 133 respondents out of 1441 total populations. Finally the collected data would be processed, analyzed and interpreted by using differ.

Key Word: *micro and small enterprise, Influence,*

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CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Business undertakings can be organized as public or private form of ownership. From the point view of private organizations or ownership, there are four forms of organizations for a business unit. It may be organized by an individual as sole proprietorship, by mutual agreement of two or more persons as partnership or by an association of persons who form a corporative society for specific purpose or else it may be organized by a number of persons as corporation. Ministry of Trade and Industry of Ethiopia adopted official definition of Micro and Small enterprise. Small business enterprise is a business that employs a small number of workers and have no a high volume of sales such enterprises are generally privately owned and operated sole proprietorships corporations or partnerships. The legal definition of small scale enterprise varies by industry and country. Such Setting up business needs business ideas. The ideas have to meet the need of a clearly identified group of customer. It also have to be sufficiently different from products or services offered by competitors to have some chance of survival in the market place it is that uniqueness that make people buy your product or service. Most people base their business up to skill, experience or qualification they have, perhaps gained in previous import through a Leisure time. (Flora Richard)Setting up business needs business ideas the idea does not have to be original but it does have met the needs of a clearly identified group of customers. It also have to be sufficiently different from products or services offered by competitors to have some chance of survival in the market place it is that uniqueness that will make people buy your product or service. Most people base their business up to skill, experience or qualification they have, perhaps gained in previous import through a leisure-time. Small business enjoys tradition of infinite variety and solid achievement. It played a role in history since practically the beginning of recorded time. It flourished in almost all ancient customers. Their product and service however were frequently shoddy and slipshod customers were often created and defrauded. There result was that small business become object scorn (Siroplis Nicholas-1997(2) with respect to manage rail skill of the owner. Finance, taxation system imposed on small business and owner's awareness about products modification. Small businesses are sensitive and responsive to market changes. They often perceive a market opportunity with the owner's managerial new work of contacts and information's. Because of their small size are better able to form personal relationships with customers. An important

service element particularly selling relatively UN differentiated product the number of small firms it likely to increase not only because of the push factors of social change such as increasing unemployment and early retirement. Small business can respond more quickly and at least cost than big business to the quickness rate change in product and service, processed and markets. It has become more attractive to flinted, individualistic men and women. Small business has the potential to create or capture on entries on industry. The incentives to innovate are greater the motivation to innovate is

Greater. Small business supply products and services more cheaply whose sales volume is small, those products close personal contact with customers and those that must meet each customer unique the needs they are major creators of new jobs. Small firms less concerned with formal system and its decision making process would be more judgment, involve fewer individuals and can therefore quicker. It can much more responsive to changes in the market place. But conversely is much less able to affect such developments small business likely to adjust more quickly. It come to existence only because their owners in correctly observe market signals. Small business the decision made by owners would be implemented more quickly and less likely to be diluted by subordinated. Growth small business operate at strategic than tactical level. They have a good knowledge of their markets and industry, close contact with customers and a commitment to quality, particularly of service they seek out creating for themselves a market machinery and innovation (often in market sense) and flexible they focus on cash flow and rather than turn over not all small business are presented with opportunities because of uniqueness of very firms. Small business have its own strengths and weakness, its strength include financial performance (small manufactured on the average, earn a high return on their investment than do large business manufacture) innovation (small business people tend to be more risk whose ideas are their stocking trade) its weakness includes failure, chiefly due to ease of entry and lack of material propertied (Sirpplis Nicholas 1997(8).

1.2 STATEMENT OF THE PROBLEM

Technological advancement and growing need of mankind has been the prime cause for today's dynamic business environment. Micro and small business enterprise are considered as one of the principal driving force in the economic development of a given country. They stimulate ownership entrepreneurial skill. They also flexible and can adapt quickly to changing market demand and supply situation. Further they are the main ground for generation of employment opportunity .besides their growth contribute in threat are so many problems that affect their growth and expansion which include lack of initial capital ;lack of business development services ;lack access to market ;lack of raw material credit and etc. some of them. So with

the presence of the above problems were it was very difficult for sector to archive their primary goal of including poverty and employment. Finance was the base point for any business activities lack of adequate finance has always been major problem of Ethiopia small business, since small business do not have easily access to the capital market because of the organized delay on proprietary basis and very small in size and their supplies which can be utilized to loan are negligee small forms are not public company's his means they often have problem of rising. Before starting small business the owner of the business should consider with the product lines well adequate on the new culture. Would be they sell in quantities large enough and at price high enough to be profit tables as well the owner should analyze the components of product to determine what features need to be adopted to ensure that the product meet both perceived quality and perform quantities. Large number of small firms they did6 not think for making modification. But what is gaining good profit for them were doing things product from better though differentiating their competitors. If not they adopt product and service already present in the market their selling volume and attracting new customer become less. Most small business characterized by of awareness for product modification (Jim Dewhurst and hure (1993, p).

Based on the above classification the researcher raised following basic question to be answer in this course of study.

1.3 OBJECTIVES OF THE STUDY

1.3.1 General Objective

The overall objective of the study was to assessed analyzed the factors that affect the growth of micro and small business enterprise in wolkite town

1.3.2 SPECIFIC OBJECTIVE

- ✓ To investigated problems that affects the growth of micro and small business enterprise in the wolkite town.
- ✓ To identified factors that affects the growth of micro and small business enterprise in the wolkite town.
- ✓ To analyze financial problem that affect business activities to taken place an effective manner in wolkite town.

1.4 RESEARCH QUESTIONS

This study answers the following questions:

1. What are the major factors that affect growth of micro and small business enterprise?
2. How to minimize the factor that affects the micro and small business enterprise?
3. What is the final problem faced by micro and small business enterprise in wolkite town?

1.5 SIGNIFICANCE OF THE STUDY

Primarily the study should to be significant in the various problems of micro and small business enterprise that delay their growth. The investigator expect that suggestion and suggestion of the study would be help to the concerned body by providing high light the information about the sector .given important information for government and their interested body to take some corrective actions .The judgment of the study would be important to the academic and researchers who can used it as aspiring board for other researcher's studies.

1.6. SCOPE OF THE STUDY

Because of time and cost limitation the researcher enforced to limit the study area in factors that influencing the growth of micro and small business enterprise in Guraghe zone in the wolkite town.

This study mainly focused to identified the influence factor of growth of micro and small business enterprise, the challenges, and the strategies uses to ease the problems in the growth of micro and small business enterprise

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

The most frequent argument for small firms is that they are a source job creation (Storey, 1994). On the average Small business enterprise represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries..Aside from providing opportunities for employment generation, Small business enterprises help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large scale companies, Small business enterprises contribute to the strengthening of industrial inter linkages and integration A vibrant, efficient and effective Small business enterprises sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy's benefits. The particular presence or qualities Small and medium scale enterprises (Small business enterprises) are lifeblood of most economies. Small business enterprises are described as efficient of small firms makes them a chosen vehicle in a number of policy fields. For example, their flexibility has placed them at the centre of labor market and employment policy. They also make a major contribution to regional development and particularly, at local level, they may play a significant role in service provision enabling others to participate in the workforce

2.1.2 Factors influencing growth of Micro and Small business enterprise.

Access to credit Limited access to finance faced by Small business enterprise has drawn considerable attention from both academics and practitioners for many decades. Literature on this subject suggests that better financial access for Small business enterprise contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008; Levine2005; Rajan and Zingales 1998; Townsend and Ueda, 2003. Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants and develop a list of business angels to assist small businesses. Gaps in access to finance: The financing gap, often defined as the difference between the demand for funds by Small business enterprise and the supply of funds, occurs because of various reasons. Some argue that the fundamental reasons behind small business enterprise lack of access to funds can be found in their peculiar characteristics, while others argue that small business enterprise suffer from financing gaps because of market imperfections on the supply side (Park et al., 2008). Park et al. (2008) further argued that small business enterprise face financing gaps probably because of a combination of reasons originating from both

the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of small business enterprises who require financing from financial institutions and other providers of finance. The financing gap for Small business enterprise is most prominent in capital market financing.. Several authors and researchers have alluded to the financial gap, but a few of them attempt to find solutions to closing that gap. One of the most important theories that focused on financing gap analysis is the credit rationing theory by Stiglitz and Weiss (1981). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interests between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reasons why small business enterprises have constrained access to finance. They argued that only Small business enterprises know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk. Therefore, government subsidies can be used by financial institutions as collateral against some projects. Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo and Trovato, 2006).Constrained access to finance derived from financial institutions' credit rationing behavior might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information can explain asymmetric distribution of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost. The firm accepts to invest only in riskier projects which can produce higher income levels, which are needed to cover debts. The result is that the lender cannot avoid selecting the riskier project and therefore must accept the risk of the firm. In the presence of excess demand, the lender has different maxima corresponding to the rates with the lower adverse selection likelihood for credit rationing (Stiglitz and Weiss, 1981). Furthermore, rationing conditions reduce access to financial resources not only for new investment, but also for employment creation and poverty alleviation. Another facet of credit rationing is that financial institutions personnel/managers may have to bear personal responsibilities for nonperforming loans if the loans are given to

Small business enterprises without government guarantees, hence agency problems exist. Managers have the responsibility to protect the depositors' interest hence will operate under credit rationing conditions. Start-up Small business enterprises are more likely to be affected by information asymmetry problems. Deakins et al. (2008) argued that information asymmetries are more acute in new and technology-based propositions. They argued that at an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur. Furthermore, from an analysis of the financial markets' behavior we can review the following bases for credit rationing behaviors which restrict access to finance for Small business enterprises. Bases for credit rationing behaviors: Quite a substantial number of authors attempted to draw conclusions on various issues relating to credit rationing behaviors of financial institutions. One of the notable contributions is by Green (2003). In his study, Green (2003) argued that limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the financial system, the lack of liquidity, and inexperience in small-scale lending in many of these countries. Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas disproportionately disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications. Banks advance four main reasons for their reluctance to extend credit to small enterprises viz, high administrative costs of small-scale lending, asymmetric information, high risk perception and lack of collateral. Although the reasons apply to industrial as well as developing and emerging economies, they tend to be more significant in the latter. Small business enterprises typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and banks often find that processing small business loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs (Malhotra et al., 2007). Since most of the administrative costs of lending are fixed, that is, they are independent of the size of the administered loan, economies of scale arise; the larger the loan, the lower the per unit costs of extending credit. Furthermore, administrative costs also include information gathering costs, for example visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them. In the case of developing and emerging economies, these difficulties, and therefore the costs involved, are multiplied (Green,2003). However in a study by Cziraky et al. (2005) it was concluded that, among all Small business loan requests, banks

preferred smaller firms that requested smaller loans. The results suggest that individual banks differ in their criteria and in their loan-size preferences and that there is no positive correlation between the bank's size and its loan size preference. Another basis for credit rationing is asymmetric information. A prerequisite for the efficient allocation of resources by market forces is that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders. The lenders are thus faced with uncertainty both with respect to the expected rates of return of the project they are financing and with respect to the integrity of the borrower. This uncertainty increases with the length of the loan. Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure. The problem of asymmetric information will be more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk; small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Green, 2003). Bridging gaps in access to finance: Malhotra et al.(2007) contends that, experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include; according to Holtmann et al.(2000) the following: a Loan analysis that focuses on the prospective client's ability to pay (cash flow). Less emphasis should be placed on collateral. The analysis should be highly standardized, and loan processing times kept to minimal; entitle repeat borrowers to increasingly larger loans; loan officers should bear full responsibility throughout the entire life of the loan and should be paid performance based salaries. If payment problems occur, there should be a powerful incentive structure in place for immediate follow-up; appropriate decision-making and control mechanisms should be in place and supported by a strong Management Information System (MIS) and information technology (IT) to assist in the management and administration of the loan portfolio (Holtmann et al., 2000). In another study, Park et al. (2008) argued that many banks have developed tools, such as credit scoring models and other sophisticated techniques, to discriminate between high-risk and low-risk borrowers, thus reducing the risk of lending to SMEs. Despite, the potential for the above mentioned methodologies of being effective in addressing the access to finance challenge for SMEs, applying these approaches fail to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources. Therefore, there is a need to find effective ways to ensure that the information gap between financial institutions and SMEs is closed. It is also paramount to ascertain whether an actual gap really exists or not. According to Brierley (2001) it is essential to distinguish between actual gaps or imperfections, and

perceptions of gaps. The issue of gaps in the financial markets is therefore complicated because in financial markets it is an accepted industry practice for suppliers of capital to refuse to sell to some potential buyers. Furthermore, a potential buyer of a loan must not only be willing to pay the going price of the loan (for example, interest rates), but must also satisfy the bank that the principal (capital loaned) will be returned (Brierley, 2001). For example, one can think of suppliers of capital as the purchasers of risky promises to pay. This argument suggests that some firms will be, and should be, denied financing based on their failure to furnish sufficient information or if the information supplied is evident that they are a risky investment. The observation that some firms cannot obtain capital is therefore not prima facie evidence of a gap. A gap or imperfection may however be implied if particular categories of firms that ought to receive financing are systematically unable to obtain it. Therefore, it should be borne in mind whether an actual gap or a perceived gap is in question to ensure that policy makers do not channel resources towards addressing a perceived gap which might not be of any relevance. Public sector initiatives to support the financing of small firms are best justified if market imperfections result in the private sector not providing finance to deserving firms adequately (Brierley,2001). Conversely, in the absence of market failure, such initiatives may themselves cause distortions. Nonviable firms may be subsidized, at public expense, and may compete with other viable firms. It is therefore essential to determine the extent to which, if any, particular categories of small firms are systematically disadvantaged, rationed, with respect to access to capital. For policy issues on this matter to be most effective, it is necessary to develop a widely accepted and empirically supported framework around the notion of capital market imperfections. Otherwise, unfounded perceptions of specific types of financial market “gaps” may inappropriately drive public policy (Equinox Management Consultants Ltd., 2002). For instance, in South Africa, policy debates for the past have failed to close the financial gap between SMEs and providers of financial resources. This is evident in a widespread outcry by SMEs because of their lack of access to finance and unacceptably low levels of entrepreneurial activities in the country. Various authors have revealed that access to finance challenges is the main reasons for low entrepreneurial growth and small business enterprise survival in the country (Herrington et al., 2008). Quiet substantial factors are a major reason why small business enterprises are denied access to finance. Although these factors centre much on the asymmetric information problem, it is paramount to discuss them separately at this juncture in order to gain a clear picture of the access to finance challenges facing SMEs.

2.1.3 Education level of the entrepreneur

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of Small business enterprises (Bokea, Dondo & Mutiso, 1999). When the state of the macro economy is less favorable, by contrast, the opportunities for profitable expansion in Small business enterprises are limited. This is true especially for those Small business enterprises that have linkages to larger enterprises and the economy at large. Given that Small business enterprise managers are more able to create and manage viable firms with increased human capital, it is reasonable to include human capital indicators in the following analysis. The human capital is seen in the light of a stock of individual knowledge, capability, and skills that are economically usable and all those skills acquired through education and talents, (OECD, 2001). Human capital is an important input for organizations, especially for the owners' continuous improvement mainly concerning knowledge, skills, and abilities. Furthermore, the Owner - manager relationship is one of the most common characteristics of Small business enterprises, and to elaborate on this, the majority of Small business enterprises are in most cases owned and managed by the same individuals. On the other hand, large firms are normally managed by a team of professionals appointed by the shareholders of the firms. Therefore, the characteristics of owner – managers such as the level of education and experience do have impacts on the access that they have (or otherwise) to the external finance. Following this, Storey, (1994) mentions that the better the human capital, the greater the firm viability of the start-up; consequentially, access to debt capital should be greater for these firms. Besides, Coleman (2000) who has examined education, gender and years of experience and access to external finance has found some evidence of education being positively related to external loan access. In the same context, Irwin and Scott (2010) have explored into some of the barriers to the aspect of raised bank finance faced by Small business enterprises, the barriers of which specifically include the impact of personal characteristics. They have found that the educational level has made little difference to sources of finance, except for those educated with A-level who has been found to have frequently turned to friends and family for financial assistance and remortgaged their homes as another method of financial resource. Unlike the results of these studies, the negative relationship between the use of bank financing and years of experience is found by Cassar, (2004). Also, similarly, Ed Vos et al., (2007) have found that less educated Small business enterprise owners tend to use the external

financing more, while higher educated Small business enterprise owners are less likely to resort to the external financing. Astebro and Bernhardt (2003) also find out that a significant negative correlation exists between having a bank loan and the level of education of the Small business enterprise owners. Based on the human capital theory, the education and experience of the owner- manager are likely to influence firms to access bank loan.

2.1.4 In Ethiopian context

Starting a business is not an event but a process which may take many years to evolved and come to fruition. Small scale business as well as small scale industries in Ethiopia has not been able to contribute substantially as needed to the economic development particularly because of technical knowledge, financial, production and marketing problems. These problems are still major hand japer to be development. Lack of adequate, finance and credit has always been a majority problem of Ethiopian small business. An entrepreneur is an individual who established and manages a business for the principal purposes of profit and growth. But small scale enterprises find it difficult to get raw material of food quality at cheaper rates in the field of production, then they do not in time. (Haile get raw material G/Tinse 2003:p.4). Dallago (2003) suggests fostering modernization and competitiveness of individual Small business enterprise by stimulating investment activity, promoting Small business enterprise vertical integration with domestic and foreign companies as well as horizontal integration among the Small business enterprise. He also concludes that neutral government policy that consists of building a more favorable Small business enterprise context with macroeconomic stabilization, development of financial markets and flexibility of labor markets is necessary. Investment projects and upgrade of the capabilities of the sector are limited with insufficient financial capacities, especially in a period of financial crisis. Interest rate sensitivity of the Small business enterprises sector is coherent with increased credit risk and enlarged fragility potential. Institutional support can be visible in direct microloans from state-owned financial institutions, subsidy in interest and grace period in relation to commercial banks, guarantee funds and special fund lines from worldwide specialized financial institutions. The experience of the Republic of Croatia may serve as a warning that institutional support is not properly validated and measured in fund allocation and client selection with high social costs connected with inefficient use of public funds. Government support to the Small business enterprise sector should take various forms apart from financial availability. Implementing law and order, building up Small business enterprise capacities with professional human resource assistance, offering advisory and overall infrastructure support are some of

them. One more reason for development of these support mechanism is that a considerable number of small firms starts as the last resort of households in the need of income that invest in business or guarantee with their personal assets. If not educated and properly supported, entrepreneurship may become a poverty trap for them. Therefore, the skeptical views on Small business enterprise' prevalent role and performance should be welcomed, at least in academic sphere. However, most of the large and successful enterprises once started as small ones. They overcame their financial constraints because of specific product innovation, whose development was probably not a capital intensive one or was supported with some grant schemes. Significant number of Small business enterprise still suffers from market failure in finance, technology transfer and learning.

2.1.5 In town context

As mention above context problem of Ethiopia almost the same problem of our wolkite town these problem are lack of adequate knowledge, fanatical problem lack of production and not creation of market for entrepreneur, special in road and transport.

2.1.6 Ethiopian Small Business

Starting a business is not an event but a process which may take many years to evolved and come to fruition. Small scale business as well as small scale industries in Ethiopia has not been able to contribute substantially as needed to the economic development particularly because of technical knowledge, financial, production and marketing problems. There problems are still major hand japer to be development. Lake of adequate, finance and credit has always been a majority problem of Ethiopian small business .An entrepreneur is an individual who established and manages a business for the principal purposes of profit and growth. But small scale enterprises find it difficult to get raw material of food quality at cheaper rates in the field of production, and then they do not get raw material in time. (Haile G/Tinse 2003:p.4).

2.1.7 Existence of illegal business

Illegal businesses do not pay tax to the government that means they have the advantage of providing goods (service) at lower price. Because their cost is lower by the amount (if tax that should have been imposed on them and they affect those legal business. The competition among legal and business are unfair competition (Proclamation No, 166,)

2.1.8 Feature of small business is different from large some of its characteristics are:

The owner-manager has, views and values would be influenced all aspects of its activities. This means that business decisions would be often become personal decisions and the logic of the balance sheet will not always apply. There is also the risk of over dependence upon one individual for the well-being of the firm. Most small businesses are unlikely to be able to exert much influence on their market. They are price takers in the c/Elastic economic sense and are likely to face significant competition. Employees are low level of education and without appropriate and specific training. Based on imported technology with high proportion of vehicles machinery and imported tools and fixtures in the composition of capital. Mainly concentrated in retail and also formed in significant numbers in manufacturing and service. It is independent in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control in its principal decisions. The main financial source is the informal credit rotating saving schemes like savings clubs, individual lenders etc

2.1.9 Micro and small business enterprise

Micro and small industries (enterprise) are major features of the economic landscape in all developing countries to the creation of jobs and to all alleviations of poverty has been recognized by many third world governments that have been given prominence in many development plans as well as in the strategies of many bodies. (Credendum and Donald, 1998, p. 194)

2.2. The owner-manager

In economic terms a small business is one that has relatively little share of its market and is managed by its owner or part of owner in a personalized way and not through the medium of formalized management structure more over it is independent of a large enterprise and the owner should be free from outside control in taking other principal decisions (Paul Burns and Jimnurst 1996; p.18).

CHAPTER THREE

3.1 RESEARCH METHODOLOGY

In this chapter which study about the studied have been a research design including the sample size method of data collection, the sampling techniques, data analysis and presentation were described .The discussion of section to provide description of the research methodology used in the study.

3.2 Study Area

The studied have been conducted on a micro and small business enterprise of guraghe zone in wolkite town located of the Southern Nations, Nationalities and Peoples' Region, found in the Gurage Zone in the east kebona wereda in the west Abeshiga wereda in the north oromia region in the south cheha wereda. It is the administrative center of gurage zone, which is 155kms far from Addis Ababa, the capital city of Ethiopia.

3.3 Research Design

The studied focused on the factors that influence the growth of micro and small business enterprises in guraghe zone in case of wolkite town business organization. Since the primary objective of the studied have been assessed to analyze the factors that affect the growth of micro and small business enterprise the studied had required the data from both the secondary and primary sources. Based on this, the research was a descriptive research design.

3.4 source of data

To study this research it was both primary and secondary data were used

3.4.1 Primary data

Primary data has been views and opinion of people that own the business. The target population for this studied were the business owners.

3.4.2 Secondary data

Through secondary data the researcher have been source such as official document like, reference book and other research materials related to the course under study

3.4.3 Methods of Data Collection

In the data collection process different types of data collection method has been used in the study. These methods were varying according to the sources of data that would be collected. To collect primary data the researcher would use unstructured personal interview and structured questionnaires. The questionnaire has two parts like open ended question and closed ended question. Secondary data has collected from a certain written material of micro and small business enterprise.

Table1 distribution of target population and sample technique

No	Respondent	Total population	Sample size	Percent (%)	Sample technique
	Service	459	46	10	Simple random method
	Merchandise	633	63	10	Simple random method
	Small scale industries	239	24	10	Simple random method

3.5 The Sampling Techniques

In this study the researchers used stratified sampling when the number of subjects selected from each stratum were based on the percentage of subjects in the population that have characteristic from stratum .That was each stratum have represented in the sampling in the same proportion as represented in the population.

3.6 Sample size

An appropriate sample size has been taken from the total population to distribute questionnaires. The target groups for this research are 1441 population mainly the owners of small business enterprise. From total population, 459 service, 633merchandise and 239 small scale industries. The researcher has used stratify sampling technique to select 10% respondents from each owners of small business enterprise. This indicates that, 1441 of total population the researcher take 133 respondents as sample size.

3.7 Methods of data analysis and presentation

In the study process different types of raw data would be collected. This raw data would be processed and analyzed. The collected data would be edited, classified and error omitted, examined and collected. By using descriptive methods of data analysis, this gathered information would be further processes and analyze. Finally, the data would be effectively process analyze and interpret by using different tables and charts and lastly it have been presented accordingly.

CHAPTER FOUR

4.1 Presentation, analysis and interpretation data

This chapter has the main part of the study in which small business enterprise practice in wolkite town is made together with problems prevailing in it. The presentation, analysis and interpretation of the data are made depending up on the information gathered mainly through questionnaire and interview information the factor that affect the growth of micro and small business enterprise practice in wolkite town gathered from people small who own business

Table 4.1 personal character of respondents

No	Item1	Respondent	
		In number	In percent
1	Sex		
	A. Male	102	76.69%
	B. Female	31	23.31%
	Total	133	100%
2	Age		
	A. 15-20	10	7.52%
	B. 21-25	62	46.61%
	C. 26-30	41	30.83%
	D. Above-35	20	15.04%
	Total	133	100%
3	Back ground of education		
3.1	Literate		-
	A. 1-4		
	B. 5-8	20	15.04%
	C. 9-10	93	69.92%
	D. 11-12	20	15.04%
	E. Above-12	-	-
	Total	133	100%
3.2	Illiterate		-

As indicated that above table 4.1 item1 shows 102(76.69%) owner of small business enterprises sex in the words is male and 31(23.31%) owner of small business enterprises are female. From this the researcher concluded that males are more participate than female. This may be having not absolute equally. As indicated the above table 4.1 item 2 show 10(7.52%) of respondent ages are 15-20 years.

Show that majority of the respondent 62(46.61%) are age between 21-25 year, about 41(30.83%) of the respondents are age between 26-30 year, about 20(15.04%) of the respondents are age over 35 years. From this the researcher concluded that most owners of small business enterprises were age 21-25 year. This may be which an active growth. The above table 4.1 item 3 shows that majority 93(69.92%) of the respondents qualified for secondary education, about grade 5-8 20(15.04%) of the respondents qualified up to primary education, about 20(15.04%) of the respondents qualified preparatory education and none of respondents for 1-4 grade and above 12 grade are not present. From this the researcher concluded that the back ground of Education the highest percentage show that whose education level qualified for secondary school. Generally show that under table 4.1 there is no illiterate member to participate micro and small enterprise.

Table4.2 small business enterprise where get starting business and how money starting business.

No	Item	Respondent	
		In number	In percent
	Where you getting starting business?		
	A. Government	102	76.69%
	B. Family	31	23.31%
	C. NGO	-	-
	D. Religious	-	-
	Total	133	100%

As indicated the above table 4.2 in item 1 shows that 102(76.69%) of owners of small business enterprise respond the starting business from government, 31(23.31%) of owner of small business enterprise respond from family, NGO and Religious of owners none of small business enterprise not participate for starting business. From this the researcher concluded that most of owners of small business enterprise the stating business from government.

Table 4.3 starting business

No	Item	Respondent	
		In number	In percent
5	How many starting business?		
	A. 10,000 -15,000	20	15.04%
	B. 16,000- 25,000	20	15.04%
	C. 26,000 -35,000	73	54.88%
	D .above 36,000	20	15.04%
	Total	133	100%

As indicated the above table 4.3 in item1 shows that 20(15.04%) owners of small business enterprise of starting business is between 10000-15,000, 20(15.38%) owners of small business starting business is between 16,000-25,000, 73(54.88%) owners of starting business between is 26,000-35,0000 and 20(15.04%) Owners of starting business above 36,000.From this the researcher concluded that most of owners of small business enterprise starting business b/n 26000-35000.

Table 4.4 were you getting working place for business enterprise

No	Item	Respondent	
		In number	In percent
6	Where you getting working place?		
	A. From government	72	54.14%
	B. From family	10	7.52%
	C. From private	51	38.35%
Total		133	100%

Above table 4.4 shows, 72(54.14 %) owners of small business in the wolkite town response as the working place get from government, 51(38.35%) owners of small business in the wolkite town respond as the working place get from private, and 10(7.52) owners of small business in the wolkite town response as the working place get from family. Generally the table 4.4 show that high percent of working place to get compares to private and family working place respectively.

Table 4.5 show that profitability of small business enterprise

No	Item	Respondent	
		In number	In percent
7	Is there your business is profitable?		
	A. yes	102	76.69%
	B. no	31	23.31%
Total		133	100%

As indicated that above table 4.5 of 102(76.69%) owners of small business in the wolkite town respondents as their business are profitable and 31(23.31%) of them respond as their business activities has no profit. From this researcher concluded that more than 3/4 or 76.69% of small business activities are lead to profit.

Table 4.6 factor that affect business growth

No	Item	Respondent	
		In number	In percent
8	What factors that affect your business?		
	A. lack of budget	51	38.35%
	B. lack of knowledge	31	23.31%
	C. lack of working place	51	38.35%
Total		133	100%

The above table 4.6 shows that, 31(23.31%) owners of small business in the wolkite town response as the growth to run business are lack of knowledge, 51(38.35%) owners of small business in the wolkite town respond as the growth to run business are lack of budget, and 51(38.35%) owners of small business in the wolkite town response as the growth to run business are lack of working place. From this the researcher concluded that the more business growth problems are lack of working place and lack of budget for small business owners. This may be they cannot get working place and budget opportunities to relate of business from government and other organization.

Table 4.7 relation of customer

NO	Item	Respondent	
		In number	In percent
9	Is there good relation with your customer?		
	A. yes	133	100%
	B. no	-	-
	Total	133	100%

As indicated that above table 4.7 show that 133(100%) all of owners of small business in the wolkite town have good relationship with their customer. It can be concluded those that all owners of small business enterprise agreed with their customer in buying and selling.

Table 4.8 saving and rate of interest

No	Item	Respondent	
		In number	In percent
10	Culture of saving?		
	A. very low	-	-
	B. low	31	23.31%
	C. medium	102	76.69%
	D. high	-	-
	Total	133	100%

Table 4.8 shows that 102(76.69%) owners of small business responds that as they have the culture of saving medium and 31(23.31%) owners of small business respond as they have low culture of saving. From this the researcher concluded that most of small business owners have medium saving to growth business. This may be the respondents have aware of about the business saves.

Table 4.9 Rate of interest for governmental budget

No	Item	Respondent	
		In number	In percent
11	How about interest for governmental budget?		
	A. fair	51	38.35%
	B. unfair	82	61.65%
	Total	133	100%

In table 4.9 shows that 82(61.65%) owners of small business respond as the rate of interest for governmental budget they did not fair, unfair due to high interest rate, and 51(38.35%) owners of small business respond as the rate of interest for governmental budget fair. From this researcher concluded that most of owners of small business have the rate of interest for governmental budget unfair. This may be increase interest rate on the business man to expand infrastructure on the wolkite town

Table 4.10 current finical budget

No	Item	Respondent	
		In number	In percent
12	How money current finical budget		
	A. 50,000-100,000	31	23.31%
	b.101,000-150,000	51	38.35%
	C.151,000-200,000	31	23.31%
	D. Above 201,000	20	15.4%
	Total	133	100%

As indicated the above table 4.10 shows that 31(23.31%) owners of small business current financial budget is between 50,000-100,000, 51(38.35%) owners of small business current financial budget is between 101,000-150,000, 31(23.31%) owners of small business current financial budge between is151,000-200,0000 and 20(15.04%) owners of small business current financial budge is above

201,000. From this the researcher concluded that most of owners of small business growth in the wolkite town their activities with medium capital. This may be having not enough infrastructures on the wolkite town

Table 4.11 Pay tax for government

No	Item	Respondent	
		In number	In percent
13	Pay tax for government		
	A. fair	20	15.04%
	B. unfair	112	84.21%
	Total	133	100%

Indicated the above table 4.11 shows that 112(84.21%) owners of small business respond as the tax imposed by government not fair and 20(15.38%) of them respond as the tax imposed by government is fair. From this researcher concluded that the tax imposed government a small business growth the activities in the wolkite town. This may be the respondent capital not really determined known, improper guess of capital of the respondent and the like.

Open ended question

1) How much do you get per diem?

According the question the respondent in different in numbers fifty one respondents say that tow hundred fifty birr ,sixty one of respondents say three hundred birr and the twenty one of respondents say that three fifty hundred hander end fifty birr respectively. As this result the average per diem was three hundred got.

2) How much you do get profit per year’s capital profit? As a respondent their average per year’s capital of the respondents to get two thousand birr to get in year`s capital.

3). what are the factors that affect your business profitable or not? There are different factors that affect our business such as resources like supply of raw material inflation; infrastructures such as constriction of road, water access, lack of suitable work area and electricity are the main factor of our business profitable. Now a day there are much challenges off to get water to get daily and twenty hour to get electric city and there is not equivalents of member of people which found in that association and finance to get the government. As

this result our business depends on such factors. Result of unstructured interview from the wolkite town promotes market relation for customer to give transport access for entrepreneur. The association plans of decided that when the infrastructure problem is solving in short period of time it transfer from micro and small business enterprise to medium enterprise.

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1 Summary

The summaries founded on this research were depending on result analyzed and discussion. Small business operators are categorized under three groups they are merchandise which include retailer shop and small scale industries which include ,metal work, wood work, etc. As the result discussed in this research paper indicated that most owners of small business in the wolkite town engaged in service secondly merchandise and thirdly small scale industry. When everyone engaged in any activities there is business which the activity started. As the result discussed indicate that few of owners of small business that the business get family and most of them started business get government. It was already known that when everybody start to growth every business activities. As indicated in the result discussed above the initiation of most owners of small business in the wolkite town to start growing the activities and gain profit is the base point for starting business activities. To do so the owners of small business and skill play an important role. As the result discussed indicate that most owners of small business in the wolkite town they have no and skill to growth him business. There for the growth activities without having good idea how to growth the activities. The factor that affect the growth of micro and small business enterprises are unexpended infrastructure the shortage of knowledge, shortage of budget and the shortage of working place about enterprise. As the main aim of growing every business activities to gain profit most owners of small business in the wolkite town respond that the activities they leads to profit and some of them respondent how their activities does not leads to profit. The factor that causes to unprofitably of the activity was shortage of managerial skill system. As the result discussed in this research paper indicated that all of owners of small business have good relationship with customers. Financial problems are the most problem that hidens the growth and development of small business in our country. As the result discussed in the paper show most small business in the wolkite town have problem of finance and the capital they have no enough for running the activities. As taxation is the main source of revenue for government, the tax imposed on small business by government is not equipped with the activities they run. As the result have discussed in this paper show most owners of small business in the wolkite town respond how the government imposed on their business unfair 82(61.5%) of them. As culture of saving most owners of small business in the wolkite town respond that the activities medium and some of them respondent have law. As indicated are 102(76.92%) owners of

small business enterprise in the wolkite town are males, 31(23.31%) of owners of small business enterprise in the wolkite town are females. From this the researcher concluded that male is more associated than female. This may be having not absolute equality.

5.2. CONCLUSION

The studied were emphasis to assess the factors that influence growth of small business in wolkite town it aims at identified problems of small business in the wolkite town such as, financial, tax and awareness wolkite town out product modification. Financial problem is the most problem that influence growth of micro and small business enterprise in the wolkite town. Most owners have problem of enough capital to run the activities so smoothly manner. It there is no enough capital to producing quality product (service) and competing with competitors and impossible becoming the winner. Again most owners of small business enterprise in the wolkite town have shortage of ability and skill to manage their micro and small business in the wolkite town raise. The government issues of tax on small business firms not balance to their capital, because the owner's not tell specific capital, at that time the staff to became guess improperly then the tax pay does not equipped with the activities them running. So, this also affects the growth micro and small business enterprise

5.3. RECOMMENDATION

Those recommendations are forwarded by researcher to solve problem that appear in small business in wolkite town

The government should be give emphasis as minimize unemployment prepare working place good atmosphere to motivate the micro and small business Enterprise association profitability.

To minimize problems of infrastructure, government raise fund and improve the quality of the existing and new infrastructure.

Since the tax imposed on the micro and small business enterprise in the wolkite town influence their running activities, the government should put their tax consideration balance it with the activities of association in micro and small business enterprise.

The government and financial institution should be give opportunity of enough credit access for micro and small business enterprise

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Appendix

Wolkite University

Faculty of Business and Economics

Department of Accounting and Finance

Questionnaires to be filed by micro and *small business enterprises in wolkite town*

Dear Respondents;

I am a graduate student at Wolkite University. Currently, I am doing a research on “*Factors that influence the growth of micro and small business enterprise in Gurage zone in case Wolkite town business organization*” as a reference. The research is purely for academic purpose and your response is completely anonymous, but your views, in combination with those of others, are extremely important.

Thus the following questions are for analytic purposes only. It will not be used to try to identify any individual and/ or to attack the dignity and reputation of *small business enterprises in wolkite town*.

“Thank you for devoting your precious time to complete this questionnaire”.

- *Part one*

Personal character

1. Sex A. Male B. Female
2. Age A. 15-20 B. 21-25 C. 26—30 D. above-
35

3. *Back ground of Education*

- a. *Literate* A. 1-4 B. 5-8 C. 9- 10 D.11- 12
 E. Above 12

- 3.2. *Illiterate* A. male B. Female

- *Part two*

About Business

4. *Where you get starting business?*

- A. Government B. Family
 C. NGO D. Religious fund

5. How many starting business?

- A. 10000-15000 B. 16000 -25000 C. 26000-35000

6. Were you getting working place? A. From government B. From family

7. Is there your businesses are profitable? A. yes B. No

8. What factor that affect your business? A. lack of budgets B. lack of knowledge
 C. lack of working place

9. Is their good relation with your customer? A. Yes B. No

10. culture of saving? A. very low B. low c. medium D. high

11. How about interest for governmental budget? A. fair B. unfair

12. How money current finical budget? A. 50000-100000 B. 101000-150000 C. 151000-200000
 D. Above 201000

13. Pay tax for government? A. fair B. unfair

• *Part three*

Open end questioner

1. How much do you get per diem peredaium? _____

2. How money per year capital profit? _____

3. *what are factor that affect your business profitable or not*_____

- *Part four*

Questioner for interviews--=

1. *How to do you relate of your production and market*
2. *Is their plan to transfer small enterprise to medium enterprise?*