

**ASSESSMENT OF FACTORS AFFECTING THE GROWTH OF  
MICRO AND SMALL ENTERPRISES IN WOLKITE TOWN  
(A CASE STUDY IN GUBRE)**



**COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

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**Assessment of Factors Affecting the Growth of Micro and Small  
Enterprises in Wolkite  
(a case study in gubre sub-city)**

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## Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the thesis have been duly acknowledged.

Declared by:

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Date \_\_\_\_\_

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## Abstract

*In developing countries, micro and small enterprises (MSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. The MSE sector has been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology. However environmental factors, personal factors and social factors remain to be a major problem hampering MSEs from playing their constructive role in the economy. The main objective of this study was to assess the factors affecting the growth of micro and small enterprises (MSEs) in Gubre sub-city. . In the study, both qualitative and quantitative research methods were used in order to achieve the objective of the study. Primary data was obtained using semi-structured questionnaires. The information gathered through questionnaire from a sample of 198 operators.. Secondary data was also collected from books, journals and official document. The respondents of MSEs operators were selected by using of simple random sampling techniques. The data was analyzed by using both qualitative and quantitative data analysis particularly descriptive types of design and analysis was used in the study was percentage. The findings of the study reveal that MSEs affected by environmental, personal and social factors. The environmental factor includes; market access, training, and infrastructure; from the personal and social factors age, gender, education background and social network, social attitude, and social responsibility respectively has significant effect on the growth of MSEs. Thus it is important that the government should undertake the immediately problem of infrastructure growth and maintenance, found significant well accepted and appropriately organized institutions to make support for micro and small enterprises in such esteem as; procurement, deliver and distribution of inputs, donate of domestic/imported machines for utilize on concessional terms, training in many mechanical positions and generate constructive market situations.*

**Key words: Micro and small business enterprises, Growth**

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## ACRONYM

CSA- Central Statistics Agency

EEA- European Economic Assosiation

FDRE- Federal Democratic and Republic of Ethiopia

FMSEDP- Federal Micro and Small Enterprise Development

MoFED- Ministry of finance and Economic development

MoTI- Ministry of Trade and Industry

MSE- Micro and Small Enterprises

UNDP- United Nation Development Program

WBES-World Bank Enterprise Survey

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Growth in micro- and small enterprises (MSEs) has been linked to economic growth and poverty alleviation (Gebrehiwot and Wolday, 2008). Micro- and small businesses promote indigenous entrepreneurship, which is essential for long-term industrialization. As a result, they are essential components of developing economies. For these reasons, experts and international bodies have largely recommended that due attention be paid to promoting the expansion of MSEs in order to reduce poverty and unemployment rates in developing economies. Ethiopia's Federal Micro and Small Enterprise Development Package (FMSEDP) of 2015, as well as the European Economic Association (EEA) Conference in 2015, revealed that Ethiopia is facing a massive unemployment problem.

Another study conducted by the Ministry of Finance and Economic Development (MOFED) found that 37% of the urban population is poor. In line with this, the urban unemployment rate is 25%, according to the 2010 census results. Because of this, the country considered promoting the MSE sector as the most important alternative for bringing economic growth, eliminating unemployment, and eradicating poverty. In line with the significant contribution that MSEs can make, the aspiration of transforming the private sector, coupled with the overall vision of achieving middle-income status by 2025 and achieving the goals of poverty alleviation and sustainable development, has encouraged the Ethiopian government to promote MSEs throughout the country.

It is not uncommon for micro and small businesses to use what the country has and less of what it lacks, as well as play a role in job creation for the majority of workers. Given the sector's potential for economic development through the creation of markets for local products and the utilization of local raw materials and knowledge, more attention has been paid to it. So far, the growth of micro and small businesses has been slower than expected, and their role in alleviating poverty, creating job opportunities, and fostering innovation has been fraught with difficulties. Taking all

of this into consideration, it is critical to identify the factors that influence the growth of MSEs in a systematic manner.

Ethiopia's micro and small businesses are affected by several factors that have restricted the sector. These factors include the owner's entrepreneurial character and management ability, intellectual capacity and motivation to catch opportunities, and access to technology and capital. The regulatory and institutional environment in developing countries is also notoriously difficult.

Key factors include financial issues, lack of qualified employees, lack of financial records, marketing issues, and lack of work space. Environmental factors also affect business, including social, economic, cultural, political, legal, and technological factors. In addition, there are personal attitudes and internal factors that influence MSE growth related to personal attitudes, education and technical know-how (Woretaw 2010).

## 1.2 Statement of the Problems

Many countries and international development organizations have implicitly or explicitly recognized the importance of MSEs as a tool for poverty alleviation through job creation and the provision of affordable goods. As a result, MSEs are regarded as critical in kicking off initial broad-based economic growth and boosting job creation, particularly in developing countries seeking long-term economic growth. Firm growth is a central focus area in the strategies of many owners or entrepreneurs, governments, and organizations. In many African countries, MSE employment is nearly double that of registered large-scale enterprises and the public sector, confirming that micro- and small-scale enterprises are a major source of revenue for a significant proportion of the population in these areas (Liedholm, 2001).

Aside from the obvious economic benefits, policymakers see micro- and small-business development as a way to increase the incomes of the poor in the economy. MSE owners and workers are disproportionately poor, with the prevalence of poverty in MSEs being higher than in medium and large firms. Growth that is broad-based in terms of both region and industry is more likely to be faster and provide more opportunities for poor societies. Similarly, rapid growth in poor-populated areas and

sectors of the economy where they work is likely to result in poverty reduction (OECD, 2006).

Given the importance of MSEs, why are only a few expanding rapidly while the rest remain stagnant? According to research, in order to achieve the contributions made by MSEs and ensure their growth, MSEs must overcome a number of challenges.

Okpara (2011) numerous internal (firm-specific) and external (business environment) factors have consistently hampered the operation and growth of micro and small businesses. If developing-country entrepreneurs are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources, they must be twice as creative as their counterparts in wealthier nations (Nichter et al., 2005). These factors impeding MSE potential growth are more prevalent in Sub-Saharan African countries, and in Ethiopia specifically, MSEs have been confronted with many of these issues in the past, as existing research shows (Solomon et al., 2016; Arega et al., 2016).

Despite the importance of MSEs in the national economy, studies are insufficient, and no significant research on the sector has been conducted to explain the major factors affecting it. MSE growth is especially important in the economy because it accounts for the majority of net new jobs created in the country. According to some studies, firm growth is a multidimensional phenomenon with significant heterogeneity in a number of factors associated with the growth of micro and small businesses (EEA, 2015; Abiyu, 2011).

Furthermore, research has been conducted on the factors limiting the growth of micro and small enterprises in many specific and diverse regional areas of Ethiopia, but no well-known research has been conducted in the Gubre sub-city. As a result, there are gaps in understanding the problems that MSEs face in the research area. As a result, the goal of this research is to identify the factors influencing the growth of MSEs that are related to environmental factors, personal factors and social factors. Given the importance of MSEs to a nation's development in various ways, this research postulates that identifying the factors affecting the growth of MSEs in the Gubre sub-city is a critical goal of the study.

The researcher tries to address the problem and find answer to the following research questions:

- What are the most significant factors for business growth?
- Can people get credit from micro finance institutions?
- What are the major activities on business activities?
- Does the working condition of the enterprise adequate for workers?

### 1.3 Objective of the study

#### 1.3.1 General objective

The general objective of this study is to evaluate the factors affecting the growth of MSE in Wolkite , Gubre sub-city.

#### 1.3.2 Specific objective

Specific objectives of this survey include:

-Assessing the effect of social factors (social network, social attitude, and social responsibility).

-Investigate the effect of personal factors (age, gender, education background) on enterprise growth.

-Determine the effect of environmental factors (market access, training, and infrastructure) on enterprise growth.

### 1.4 Significant of the Study

**Traders and financial institutions:** The findings of the study are expected to empower the financial institutions in critiquing some of the policies governing credit financing and gauge whether they are generating the intended results. This in the long term will provide such users a base on which to modify these policies to suit the demands of the different stakeholders (entrepreneurs and business owners) hence hastening the credit financing accessibility by SMEs in Wolkite. It will also intend to aid financial institutions in designing and refining their range of products tailored to the needs and demands of small business.

- **Government:** The government can use the findings of this study to assist in policy formulation and development for a framework better access to finance. Moreover, the findings of this study will help the policy makers and financial institutions how to encourage establishment and expansion of small business.

- **Researchers:** The research findings and analysis are of great significance to those who purpose to do further research on this topic. This research is also expected to add to the existing literature on determinants of access to finance of MSEs.

### 1.5 Scope of the Study

The purpose of this study is to examine the factors influencing the growth of micro and small businesses in Wolkite town, Gubre village. Although there are numerous factors that influence the growth of MSEs, the research is limited to company-specific business environment factors. Additionally, the study provides information on micro and small businesses operating in approximately five business sectors: manufacturing, trade, services, agriculture and construction.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Theoretical Literature Review

##### 2.1.1 General Overview of Micro and Small Enterprise

The history of small business has been one of the most controversial stories in economic growth and development in the world. It is not known that when micro and small enterprises start. The role of small business in an economy has frequently been undermined and misinterpreted this is because that many governments emphasize on the attraction and promotion of large enterprises by thinking that most of the economic development or income comes from large industries (Bereket, 2010). In any angle, there is no doubt that MSEs have already become major features of the economic landscapes in most developing countries. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as incubators of labor-intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000).

##### 2.1.2 Definition of Micro and Small Enterprise

Definition of Micro and Small Enterprises (MSEs) is one of the fundamental issues led to diverse definitions with unresolved debates. There is no universally agreed definition of MSE's. Due to this, the meaning of MSE is necessary arbitrary because peoples, countries and organizations adopt different standards for different purposes according to their own working definition. These individuals and organizations have been defining them in a variety of ways using different factors according to their country and organization perspectives (C. Reeg, 2015; Abiyu, 2011; Bereket, 2010).

Although there is no universal definition of Micro and small Enterprise, the most commonly referred criterion is its number of regular or permanent employees. Depending on data availability and the economic character of the country, or any other additional criteria, such as a business turnover or a firm's capital investments, are used in identifying the MSEs. In LMICs, the primary parameters the number of regular employees. 10 Clearly, size categories provide little information on the

ownership profile, type of legal entity or general attribution of the company. Although enterprise size classes are defined in dependence on economic country profiles or based on relative measures of particular distributions within an industry, these thresholds across sectors and industries can generally be quite arbitrary (C. Reeg, 2015).

Enterprises that are identified as micro and small enterprises in many industrialized or developed countries may differ in other developing countries. In developed countries micro enterprises can be labeled as small or medium in developing countries. This is because the amount of capital invested and the number of people employed in operating and implementing MSEs and the level of technology vary from one country to another. In some countries Micro and small enterprises labeled based in the number of employees and others on capital invested. Most definitions of MSEs depend up on the policy makers (financiers, labor officers, traders and service personnel). The common criteria that are used by different countries are number of employees, asset employed, Sales turn over or Combination of the above three factors (Ibid, 2015).

The World Bank Enterprise Survey (WBES) classifies enterprises with 0-5 employees as micro, 5-19 employees as small and those with 20-99 as medium, while The World Bank Group in house definition considers enterprises with 0-9 as micro-enterprises, 10-49 employees as small and 50-299 as medium-sized (Kushnir et al., 2010). The existence of different threshold lines suggests that these should not be understood as strict concepts. Rather, it implies that the qualitative nature of the firm and its operations do not change substantially between the micro and small size segment. While some countries make a distinction between a micro and a small enterprise, in many cases countries include micro enterprises within the small-enterprise definition. This is the case when small enterprises are lumped into wider umbrella terms, for instance in categories of micro and small-sized enterprises on the one side and micro, small and medium-sized enterprises on the other side (C. Reeg, 2015).

#### 2.1.2.1 Definition of Micro and Small Enterprise in Ethiopia

Micro and small Enterprise MSEs in Ethiopian defined by different organization in same and different context at different time. Thus, the Ministry of Trade and Industry (MOTI) in 1998 has been developed for formulating MSE Development Strategy in

1997/2005, defined micro enterprises are those business enterprises in the formal and informal sector, with a paid-up capital of not exceeding birr 20,000 and excluding high tech. consultancy firms and other high technology. And small enterprises are those business with a paid-up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and other high technology establishments.

But this definition is subject to different criticism and has many shortcomings like does not include higher technology and consultancy/advise/ services; it does not include classification between sectors, The transfer from micro to small and from small to middle was on the basis of total asset though the definition underlines a paid up capital( FeMSEDA, 2011)

Central Statistics Authority (CSA, 1995) for the purpose of compiling statistical information categorizes enterprises into different scales of operations on the size of employment and the nature of equipment. Enterprise established with employee of less than ten persons and using motor operated equipment's were considered as small-scale manufacturing enterprises. Enterprises in the micro enterprise category were subdivided into informal sector operations and cottage industries cottage and handicraft industries are those establishments performing their activities by hand and using non-power-driven machines. The informal sector is defined as household type establishments or activities, which are non-registered companies or cooperatives operating with less than 10 persons. This un uniform definition is also the current issue because there is a need to have agreed national definition not only for research purposes but also for consistency of legislation and for focusing discussions of policy makers as well as financial and 12 enterprise promotion agencies to assign appropriate measures to particular sectors (Zelege, 2008 cited by Abiyu, 2011).

### 2.1.3 Factors affecting the Growth of Micro and Small Enterprises

In most developing countries small businesses face a wider range of constraints and they are unable to address the problems they face on their own, even in effectively functioning in market economies. Both the Theoretical framework and empirical findings discussed about some of the factors affecting the growth of micro and small enterprises including personal factors, environmental factors and social factors.

## **Personal factors**

### **● Gender**

In the Ethiopian context, being male and female has a significant effect on the success of the enterprises. Women are overburdened when they became housewives by caring for the children, cooking the meals, and managing the family allotted for her; when they are free from the above cultural problem, they are smart enough to be risk-takers and hard workers, enhancing the saving of the business and increasing welfare of the business (Alemu & Dame, 2017). When business owners are female, sales volume increases, but not profitability (Prijadi & Desiana, 2017). On the contrary, gender has a positive influence on the overall success and growth of micro and small enterprises (Aworemi et al., 2010).

### **● Age**

Previous study results indicate that young entrepreneurs are courageous and risk-takers to start a business than the old people. The old people may be engaged in different responsibilities, and they may reject the activities of their business. As cited by Yonis et al. (2018), there is a negative relationship between the performances of MSEs with the age of the owners. The young owners become successful than the old ones (Nejati et al., 2014). The old owners are unable to cover the mortgage payment of the enterprise (Alemu & Dame, 2017).

### **● Education background**

Education is a means to change the behavior of humankind. The MSE owners are well educated; they can manage the enterprises properly and can predict the risks that will happen. Education matters for the survival of the enterprises (Solomon, 2004; Yonis et al., 2018). As cited by Afande (2015), education is the factor that positively affects the growth of the firms (King & McGrath, 2002). Educated business owners can allocate scarce resources, maximize the profit of the enterprises, and has the trust of the creditors to access a loan (Alemu & Dame, 2017). In general, education has a positive influence on micro and small enterprise growth (Aworemi et al., 2010; Meresa, 2018).

## **Environmental factors**

### **● Market access/Business area/operation location**

The location of the micro and small enterprise can be a major factor for the overall success of the business. When the operation area of MSEs is near the main road, they can display easily the products for the consumers and increase sales volume; the reverse is true for enterprises not near the main road. Location is crucial for the success or survival of the business (Giday, 2017). The enterprise's location, if there is proximity to banks and micro and financial institutions, the credit access may be simple, and if nearby universities, hotels, government offices, and bus stations, the growth of the enterprises will be more effective (Mersha & Ayenew, 2017a, b)

### **● Entrepreneurship training**

Long- and short-term trainings are helpful to enhance the skills of the new entrepreneurs and to manage their future business. To operate new technologies, show business opportunities, know new ways or methods, and identify the treats, entrepreneurship training is compulsory. As far as the training quality is maintained, the marketing skill training is also the best mechanism to communicate with the customers of the product produced by the newly established and existing enterprises (Kebede & Simesh, 2015; Meresa, 2018).

### **● Access to infrastructure**

The inadequacy of the physical infrastructure is a principle cause of low levels of investment and unsatisfactory performance of small and micro enterprises. The economic recovery strategy paper, 2003 has identified poor infrastructure as a critical factor that constrain profitable business in Kenya.

The infrastructure problem includes poor state of roads inaccessibility to land, work space, electricity and utility. Lack of allocation of suitable land to SMEs in most urban and rural areas is a major impediment to growth and development. Inaccessibility to land and lack of property rights hamper access to infrastructure and utilities by line SMEs (Nteere, 2012).

## **Social factors**

### ● **Social networks**

Here the term social networks is used to refer to relationships between individuals, enterprises, owners or operators having an extensive and better relationships is a valuable asset, as it can help an entrepreneur obtain access to information example about profitable business opportunities and resources like credit. While social networks can enhance MSE 22 growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, such as inordinately low levels of information and competition. Better social networks can play in helping entrepreneurs or operators of the enterprises overcome obstacles related to transaction costs, contract enforcement, and regulation. Entrepreneurs often take advantage of opportunities to invest in social networks when there is an apparent payoff in terms of Micro and small-scale enterprises growth (USAID 2005; Portes & Landolt, 1996).

In a certain situation, social networks may be too expensive for or inaccessible to the poorest entrepreneurs, or systematically exclude or provide unequal access to resources for marginalized entrepreneurs such as women. In other cases, social networks are deeply embedded in social traditions that may run counter to free initiative or entrepreneurship. Other potential downsides of social networks include requests for profit distributions, unequal access to resources, and a lack of stability. Last, the sustainability of social networks is also an issue. If a network grows, a greater number of participants offer increased resources, but the network's usefulness may decline as it becomes more inclusive hence the competition may become decline and their growth a little bit depends on it (Nichter & Gold mark 2005).

### ● **Social attitude**

As cited by Maziku et al. (2014), attitudes help to identify whether the situation is favorable or unfavorable, evaluate cognitively, and understand emotional feelings and action tendencies regarding objects, people, or events. They mimic how an individual senses about a bit. To change the mindset of customers, the entrepreneur uses different techniques such as bazaars, exhibitions, and other promotional activities. After creating a good image on the mind of the customers, the owners should take

different care to maintain the legacy of the product on the minds of consumers. As much as possible, creating a good reputation is mandatory to have good attitude from the customers of the enterprises. In general, social attitude towards the enterprise owner has an impact on the performance of MSEs (Giday, 2017).

### ● **Social responsibility**

Corporate social responsibility is a new concept and becomes acceptable by business societies, organizations, and other entities. The organizations are responsible for providing different services for the community such as supporting vulnerable population groups, protecting the environment, and providing different services. The micro and small enterprises are responsible for their respected society during their operation. Social responsibility and small and microenterprises have a positive relationship (Mandl & Dorr, 2007). Corporate social responsibility has its impact on the attractiveness of SMEs; few theoretical and empirical contributions could be found (Turyakira et al., 2014).

#### 2.1.4 Small and Micro Enterprise Development

The development of Micro and Small-Scale Enterprises is the central focus of the industrial development strategy. In 2010/11, one of the primary tasks was to comprehensively overhaul the micro and small enterprises development strategy based on the experience gained so far in Ethiopia and the experiences of other successful countries. Accordingly, a comprehensive micro and small enterprises development strategy was devised and approved by the government in consultation with all relevant actors. In addition, the Federal executive agency responsible for the execution of the strategy was reorganized to strengthen its institutional capacity. A strategy was also devised to ensure that all public programs are executed in such a way that they create productive employment opportunities, nurture skill development and promote the development of competitive micro and small enterprises. These targets of employment generation, skill and business development were in particular planned to be realized through the construction of public universities, sugar factories, integrated housing construction, road development, train network development, power generation schemes, and cobblestone development activities. Accordingly, detail implementation manuals and guidelines have been prepared in relation to these

strategies in 2010/11. In parallel, industrial extension services and supports were accorded to small business in order to create productive jobs during the fiscal year. Training was provided to 453,511 employees on entrepreneurship, business management, handicraft and technology to promote saving. Moreover, 452 hectares of land, 1,463 shades and 71 buildings were delivered to micro and small enterprises in order to ease their capital constraints. In addition, 983 million Birr was provided in credit to various micro and small enterprises throughout the country. By providing such supports to micro and small enterprise, it was planned to create job opportunities for 410,000 people in 2010/11. Accordingly, around 542,000 jobs were created at the end of the fiscal year. Of the total jobs created, 53 % were accounted for women. The survey data from the Central Statistical Agency corroborate these performances that urban unemployment has declined from 20.4 percent in 2008/09, to 18.9% and 18 % in 2009/10 and 2010/11, respectively.

## 2.2 Empirical Literature Reviews

According to (Enock Nkonoki.2010) the main factors/problems limiting small firm's success/growth into two groups; first is the factors that originate from within the firm (in other words they are internal to the firm) and the second group is factors that originate from outside the firm (these are external to the firm).

The Internal factors limiting small firm growth are the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm. These factors are ,Lack of motivation and drive , Lack of background and experience in the business , Capital constraint ,Lack of a proper business plan/vision , Theft/cheating and lack of trust in doing business , Poor management ,Running informal/unregistered businesses , Lack of proper record keeping ,Inadequate education and training ,People factor/lack of needed talent and Improper professional advice and consultation. The External factors limiting small firm growth are the factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm, these are, Corruption,

Competition, Government policy, Technological barrier, in access to finances/funding, Bureaucratic processes and Unfavourable economic factors.

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia faces critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption. Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor. 2006).

According to Wolday and Gebrehiwot (2006), more than 93 % of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.).

The study done by Admasu Abera (2012), the main sources of start-up and expansion finance or funds for most MSEs are personal savings followed by iqub/idir, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases, this problem may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance

systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

According to Minister of Urban Development and Construction, (2013), the study also identified a number of challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cities indicated that shortage of finance (42percent) to expand their business was their principal challenge, followed by lack of working premise (28.3 %); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4percent) in Addis Ababa, problem of finance (25.6%) and access to market (25.1%) were among the strong factors inhibiting the growth of these enterprises in the capital. The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSEs expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

The other major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA. 2006). The product line of MSE activities in Ethiopia is relatively similar (Assegdech Woldelul 2004 and cited in Admasu.Abera. 2012). Accordingly, she states that: lack of product diversity, however, is prevalent and as a result similar product is over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately.

According to Mulugeta (2011 and cited in Admasu.Abera. 2012 ) has identified and categorized the critical problems of MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behaviour, and lack of vision and commitment from the side of the operators; MSE related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

Finally, based upon the literature review as it is clearly indicted there are various factors that influence the performance of micro and small enterprises, which is undertaken by different researchers. But still in Ethiopia the sector needs more researches to be done. The reason for this is most of the studies' conducted several years ago and a lot must have been changed since then it is vital to undertake research in the sector because any good policy and strategies need to rely on timely information.to promote micro and small scale enterprises, with the view to increase their contribution to poverty and unemployment reduction and economic growth. Based on this fact the objective of this study focus on describing factors affecting the growth of micro and small enterprises in Wolkite , Gubre sub-city.

## CHAPTER THREE

### METHODOLOGY OF THE STUDY

Methodology is the way to identify the best and valuable techniques of collecting data for particular study (Dr.sue Greener.2008). Research must be based on various type of relevant information; this information should be gathered from proper sources in order to do correct work. To do so, there must be methods to collect this information.

#### 3.1 Data Source and Type

In this research both qualitative and quantitative types of data are used. Regarding on sources of data, both primary and secondary sources were used in generating valuable and relevant data. Primary data is collected through questionnaire. Information on the demographic characteristics, status of employment and other data was collected from the Micro and Small Enterprise (MSEs) owners, employees and from gubre sub city Micro and small enterprise development office.

Secondary Data is collected from various sources like officially published and unpublished materials. Reports, and other material has been used for other necessary information. In addition researches and international journal articles, papers conduct locally, important international books related to MSEs (Micro and Small Enterprise) newspapers also referred for further reading and to explore constraining factors of MSE.

#### 3.2. Method of Data Collection

Secondary data was collected through reviewing important literature, articles, locally conducted researches, & document from gubre sub-city MSEs office. Semi-structured Questionnaire selected as the tools through which the data was collected from sample micro and small enterprise owner and operator. The Questionnaires collected from MSEs contained mostly close-ended and open-ended questions as the main instruments in assessing the factors affecting the growth of MSEs.

In this study mostly the questionnaires used because of its convenient and appropriate

to get relatively uniform data regarding the research problem with the given resources. The questionnaires includes different variables that enables to identify the challenges.

### 3.3 Target Population

According to Gubre Municipal office job creations and enterprises Development office there are about 198 MSEs operator employing 1032 people engaging in different kinds of MSEs activities. Therefore, the researcher were taken 198 operators who are engaging in different kinds of MSEs activities as a target population.

### 3.4 Sample size determination

There are several approaches which can be used to determine the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables and applying formulas to calculate a sample size. . Thus the formula is given as:

$$n = \frac{N}{1 + N(e)^2}$$
$$n = \frac{198}{1 + 198(0.1)^2}$$
$$= 67$$

Where, N = Total number of MSEs operators n = Desired sample size e = standard error

Thus out of the total population which is 198 MSEs in gubre sub-city the sample selected calculated as **n = 67**

### 3.5 Sampling Techniques

In this study simple random sampling was employed in selecting the sample from the total population of MSEs in gubre sub-city. 67 micro and small enterprises samples were selected as representative of the total population 198 MSEs existed in gube sub-city. Finally questionnaires were distributed for a total selected sample of micro and small enterprises.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

This chapter presents analysis and interpretation of findings from data that were gathered from the MSEs found within Wolkite, in Gubre sub-city. The data was obtained through questionnaires. To obtain more dependable information, diversified groups of respondents which engaged in manufacturing, construction, service, agriculture and trade were involved to give information for the study.

#### 4.1 Respondents' Profile

The data were collected from 67 owners/managers of micro and small sized firms out of a sample size of 67 MSEs which were operating in Gubre sub-city. These owners/managers and their businesses were stratified and selected from the register of Gubre Municipal office job creations and enterprises Development office. Therefore, the demographic characteristics of respondents were discussed in the following ways.

##### 4.1.1 Sex Composition

The table 4.1 below indicates that 22(16.5%) and 111 (83.5%) of the respondents were female and male respectively. From this it was possible to say that the participation of women in small and micro enterprises is lower than men.

Table 4.1 Respondent Sex Profile

No	Sex	Frequency	Percentage (%)
1	Female	18	26.9%
2	Male	49	73.1%
Total		67	100.0

**Source: - Own survey 2015E.C**

##### 4.1.2 Age Profile of Respondents

Table 4.2 respondent age group

No	Age group	Frequency	Percentage (%)
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1	20-30	48	71.6%
2	31-45	13	19.4%
3	46-60	6	9%
4	>60	0	0%
➤ Total		67	100

**Source: - Own survey 2015 E.C**

From the table above 4.2 it can be observed that 48(71.6%) of the respondent are age group 20- 30, 13(19.4%) of the respondent are age group 31-45, 6 (9%) of the respondents are the age group 46-60 and none of the respondents age group  $\geq 60$  years old. Most owners/ managers (71.6%) of sample micro and small enterprises surveyed have aged between 20-30 years and it was shown that majority of MSEs in the village are young group that have been important to growth of the firm.

#### 4.1.3 Educational Level of Respondents

Table 4.3 Respondents level of educations

No	Educational level	Frequency	Percentage (%)
1	Certificate	26	38.8
2	Diploma	15	22.4
3	TVET	22	32.8
4	Bachelor Degree and masters	4	6
Total		67	100.0

**Source: - Own survey 2015 E.C**

Table 4.3 shows most 26(38.8%) of owners were certificate holder, about 15(22.4%) of respondents were diploma holder, 22(32.8%) of respondents were vocational training holder and the rest 4(6%) of respondents are degree holder. The level education influences the growth of the firm positively. Therefore, education is estimated to increase the skill of the enterprises to cope up with problems and utilize opportunities for firm growth.

#### 4.1.4 Work Experience of Respondents

Table 4.4 Work experience of the respondents

No	work experience	Frequency	Percentage (%)
1	1-3	12	17.9
2	3-6	28	41.8

3	6-10	19	28.4
4	>10	8	11.9
Total		67	100.0

**Source: - Own survey 2015 E.C**

Table 4.4 reveals 12 (17.9%) of respondents have 1up to 3 years work experience, 28 (41.8%) of respondents have 3-6 years' work experience between 6 -10year work experience were about 19 (28.4%), and 8 (11.9%) of the respondents have more than 10 years' work experience.

## 4.2 Characteristics of Firms

This section indicated that the survey from micro and small enterprises collected data about the firm's characteristics. It includes form of business, type of business/major economic sector and so on.

### 4.2.1 Form of Business

Table 4.5 Form of business

No	Form of business	Frequency	Percentage (%)
1	Partnership	67	100%
2	Sole proprietorship	0	-
3	Share company	0	-
4	Cooperative	0	-
Total		67	-

**Source: - Own survey 2015 E.C**

Table 4.5 above shows that all the businesses are partnership. It demonstrated that micro and small enterprises especially partnership was target to create job for labour force which seek job opportunity and the back bone economic growth as well as the base for industrial expansion in this village.

### 4.2.2 Type of Business

Table 4.6 the major operating activity of the firm

No	form of business	Frequency	Percentage (%)
1	Manufacturing	8	11.9
2	Construction	13	19.4
3	Service	22	33
4	Agriculture	17	25.3

5	Trade	7	10.4
Total		67	100

**Source: - Own survey 2015 E.C**

Table 4.6 demonstrated that 8(11.9%) the next form of business 13(19.4%) were engaged on Construction activity,22(33%) were involved on service which include café and restaurants, barber and maintenance. agriculture covers 17(25.3 %) and 7 (10.4%) engaged on trading activity. Thus, service, agriculture and construction sector consists of majority enterprise in this village respectively as well as these sector growing faster than the others.

#### 4.2.3 The Most Significant Factor affect the Enterprise Growth

Table 4.7 Significant factor influence on enterprise growth (multiple choices)

No	Significant factor on the growth of enterprise	Frequency	Percent
1	Access to finance, available working area & sufficient inputs	18	26.9
2	Access to finance, sufficient inputs &labour force	21	31.3
3	Access to finance, availability of working area, sufficient inputs, labour force & innovative technology	13	19.4
4	Access to finance, labour force & access to market	15	22.4
Total		67	100

**Source: - Own survey 2015 E.C**

Table 4.7 The analysis results were revealed that majority of respondent of enterprise rated in the above shown that 21 or 31.3% (access to finance, sufficient inputs and labour force), 13 or 19.4% (access to finance, availability of working area, sufficient inputs, labour force & innovative technology), 18 or 26.9% access to finance, availability of working area and sufficient 'inputs), 15 or 22.4% of the respondent choose access to finance, labour force & access to market were the most significance factor affect the growth of enterprise.

### 4.3. Role of Microfinance, TVET and MSE Institutions in the Growth of MSEs

#### 4.3.1 Simplicity of Loan Criteria of Microfinance Institutions

Table 4.8 Simplicity of loan criteria of MFIs

No	Alternative of loan criteria Simplicity	Frequency	Percent
1	Yes	8	11.9
2	No	54	81
3	Don't know	5	7.1

Total	67	100
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**Source: - Own survey 2015 E.C**

The table 4.8 above indicates that about 54(81%) of respondents responded that the loan criteria of MFIs were not simple to receive loan. 8(11.9%) were responded to the loan criteria of MFIs simply to receive loan and the rest 5 (3%) don't know the loan criteria of MFIs of simplicity.

#### 4.3.2 TVETs Training Importance for MSEs

Table 4.9 Importance of type of proper training to improve the growth enterprise

No	Kind of training	Frequency	Percent
1	Entrepreneurship	32	47.76
2	management skills	12	17.92
3	technical skills	23	34.32
Total		67	100

**Source: - Own survey 2015 E.C**

Table- 4.9 shows that training to MSEs provided by TVETs were about 32(47.76%) of respondents were responded as it is important to improve entrepreneurship skills, 23(34.32%) of respondents were responded as it is provided to improve technical skills, and 12(17.92%) of respondents were responded as it is offered to help to improve management skill. It indicates that the importance of TVETs training is to enhance the MSEs entrepreneurship, management and technical skills.

#### 4.3.3 Adequacy of Expert follow ship and support for MSEs

Table 4.10 Adequacy of Expert follow ship and support for the growth of enterprise

No	Degree	Frequency	Percent
1	High adequacy	9	13.4
2	Fair adequacy	36	54
3	Less adequacy	22	32.6
Total		67	100

**Source: - Own survey 2015 E.C**

The analysis in table 4.10 shows that 9(13.4%) and 19(32.6%) of the respondents were the Job Creation and Enterprise Development Office Expert are highly and less adequately involved in follow ship and support of MSEs respectively while 36(54%) of the respondents mentioned that Expert are fairly follow and support.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

The main purpose of this study is to examine the factors that affect the growth of micro and small enterprise in Wolkite town, Gubre sub city. This chapter sums up the main findings of the study. In a core case, the study offered numerous important issues on how the MSEs operate in the Gubre, characteristics of owners/manager, ages of the respondents, number or distributions of MSEs within sectors and challenges they have been facing and many other important variables.

#### 5.1 Overview of the paper and Its Major Findings

The study joined with information gathered from MSEs and semi-structure interviews with Job Creation and Enterprise Development Office expert were together utilized in analysing the role of microfinance institutions and others stakeholders in MSEs growth. Finally, the consequences and investigation reflect the subsequent main findings.

Microfinance institution has confirmed an encouraging growth in its expansion and outreach. The number of borrowers, average credit amount has risen in a notable approach. Though, MSEs have an obstacle in obtaining access to product and service from microfinance institutions .Thus, Microfinance institutions played important function in development procedure. In the context Wolkite town, Gubre, village Omo microfinance institution was founded to enlarge access to financial product to low income level of people and small ventures. It also supplied both term loans and repayment loans. It was illustrated that assisted MSEs, specifically small venture that are not accessed from formal source especially banks, to overcome financing limitations and thus accelerating their growth rate. The mainly often stated causes are low 'lending ability, business size was beyond the target and insufficient funds.

Although, micro and small enterprise growth also examined by internal environment factors; age of respondent, sex, level of education, work experience and economic sector. Therefore, male owned grew relatively high rate growth as compared to the female owned MSEs. The MSEs with education level have higher and higher business experience grew faster. Finally, the economics sector that trade activities grew faster than the rest economics sector.

Finally, loan criteria and market competition were negatively associated, whereas the rest were positively associated to growth.

## 5.2 Conclusions

Micro and small enterprise has previously been observed from the above mentioned discussions that the role MSEs play in the economy has extensive succeed recognitions both in the developed and developing countries. Mainly MSEs contribute towards both job opportunities for labour force and profits generation for the large parts of unqualified and semi-skilled labour force. The developing countries have encouraged important attention between policy makers and practitioners similar. Even though financial factors are imperative to all enterprises, consequences from this survey confirm that both financial and non-financial services acquired from MFI especially Omo microfinance has extremely helped MSEs in Gubre sub city and has assisted the allocation of business skills and innovative ideas, as well as improved the sensitive scarcity of financed amount. The policy suggestion of this survey is that, microfinance supplies extensively to an improved enterprise setting by building the business situation more favourable and constricted the resource gap for tiny venture. Therefore, it is not hard to letter different helpful policies and strategies beside with complicated involvement systems now and present in different part of the country.

## 5.3 Recommendations

The goal of a microfinance institution is to support the town's economic development by assisting initiatives' competitiveness and long-term development. The main driver of MSE growth has been access to financial and non-financial services. These microfinance banks need to offer accessible, affordable loans and credits as well as participant loan conditions for micro and small businesses in the community.

According to the analysis's findings, there is a gender participation gap in several areas of performance and female engagement in different economic activities and sectors is significantly lower than that of MSEs in the area that are controlled by men. Government and the responsible sector should therefore promote female break in the traditionally male-dominated field.

According to the conclusions of the investigation, there is also a shortage of space, so the responsible authority should address this issue in order to promote micro and

small businesses.

The government should take on the issue of infrastructure growth and maintenance right away, find significant, well-respected, and properly organized institutions to provide support for micro and small businesses in such esteem as; procurement, delivery, and distribution of inputs; donation of domestic/imported machines for use at a reduced rate; training in many mechanical positions; and creating favourable market conditions.

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## Appendix

### Dear Respondents!

The purpose of this study is to examine the factors that affect the growth of micro and small enterprises in Wolkite city, particularly in Gubre village. Therefore, you are kindly requested to respond by putting “✓” mark on the box and give additional explanation of required. I would like to thank you in advance for your cooperation in filling this questionnaire.

Participation in this study is totally voluntary. The information you provide was kept confidential and used only for research purpose.

### Part I. Background information of respondents

1. Academic status: Certificate  Diploma  vocational training   
Bachelor  degree& master   
other
2. Sex: Male  Female
3. Age: 20 – 30  31-45  46 – 60  above 60
4. How many years have you been operating in this enterprise?  
1-3 years  3-6 years  6-10 years  above 10 years
5. What is your present position in the enterprise?  
Manager  Owner  sales person  other, please specify-----

### Part II. Questions Related to the Study

6. What is the major operating activity of your enterprise?  
Manufacturing  Agriculture  Construction  Service   
Trade
7. Forms of business: Partnership  sole proprietorship  Cooperative  share  
company  other  specify-----.
8. How do you label the pattern of growth of the firms? Growing  Remain the  
same   
Deteriorating  other , please specify-----.
9. If your answer is 'Growing', to question #8, in what dimensions your business is  
Growing? Growth in terms of enterprise size  Growth in terms of volume of

Assets and wealth  Growth in terms of profitability  Growth with respect to number

Of employees .

10. If your answer is 'Declining', to question #8, in what dimensions your business is declining? Declining in terms of enterprise size  declining in terms of volume of Assets and wealth  declining in terms of profitability  declining with respect to Number of employees

11. Does the working condition of the enterprise adequate for you? Yes  No  Don't Know .

12. Which of the following factors have the most significant impact on your business growth? (Multiple responses possible, arrange in order of importance) Access to finance  Available working area  sufficient input  Lack of skilled labor  Lack of Innovative skills  Access to market  others  (if any), mention it-----  
-----

13. Can you access credit from any micro finance institutions? Yes  No  don't know

15. What are the criteria that microfinance institutions employ to give credits? (Multiple responses possible) Collateral Business plan  Permanent job area  other  (if any)  
Please mention it-----.

16. Loan obtained from microfinance institutions are most usually utilized for, Procurement of inputs/raw materials  Acquire fixed assets (like machinery, business building)  Payment of loans  for family consumption .

17. Did you ever get any type of proper training in your organization related to your working? Yes  No

18. If your answer to #17 is 'yes', what type of proper training important to improve the growth of your enterprise? Education on illiteracy  Management Skills  technical skills  other  (if any) -----.

19. How do you rate the level of market competition in past seasons in the area which your firm engaged in? Very strong  Strong  Fair/ Moderate  Weak  Very Weak .

20. What is the contribution of the microfinance institutions in your enterprise's expansion? -----  
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**Thank you!!!**