WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

ACCOUNTING AND FINANCE DEPARTMENT

FACTORS AFFECTING ACCES TO FORMAL CREDIT BY

MICRO AND SMALL ENTERPERIS

THE CASE OF WOLKITE CITY

A RESEARCH PAPER SIMITED IN PARTIAL FULFILMENT OF THE

REQUIRMENTS FOR THE DEGREE OF BACHELOR ART ACCOUNTING AND FINANCE

PREPARED BY: **ID NO**

SOSINA SEYFU.....319/10

ADVISER:

Mr. TEFERI TADDESSE (MSC)

AUG /2021

WOLKITE, ETHIOPIA

DECLARATION

I hereby declare that this thesis entitled "Factors affect the growth of micro and small enterprises: A study on selected Micro and Small Enterprises (MSEs) in Wolkite Town, SNNPRs", has been carried out by me under the guidance and supervision of Instructor Teferi.

Declared by

Name	**Signature**
Sosina Seyfu	_____

This research has been submitted for examination with our approval as a university advisor.

Name	**signature**
Mr. Teferi Tadese(msc)	_____

ACKNOWLEDGEMENT

First of all I would like to thank GOD for helping me to reach this time and do this research. After that I would like to thank my advisor Instructor Teferi, who was contributed in giving continuous advice and supported me by giving useful information to do the research.

Table of Contents

ACRONYMS VIII
Abstract IX
CHAPTER ONE 1
1. INTRODUCTION 1
1.1 Background of Study 1
1.2 Statement of Problems 3
1.3 Research Questions 4
1.4 Research Objective 5
1.4.1 The General Objective of the Research 5
1.4.2 The Specific Objective of Research 5
1.5 Hypothesis 5
1.6 Significance of the Study 5
1.7 Scope of the Study 6
1.8 Structure of the Study 6
CHAPTER TWO 7
2. LITERATURE REVIEW 7
2.1 Theoretical Underpinnings 7
2.1.1 Overview of Micro Finance Institutions 7
2. 2 Contribution of Microfinance 10
2.3 Meaning of Micro and Small enterprise 10
2.4 National Strategy for the Development of MSEs 10
1.3 Million People (Central Statistical Agency 2002) 11
2.5 Growth Definition and Its Measurements 11
2.5.1 Factors Affecting Growth of MSEs 12
2.6 Relationship between MFIs and MSEs 13
2.7 Empirical Review 13
2.8 Conclusion and Knowledge Gap Emerged from Earlier Literature 14
CHAPTER THREE 16

3. RESEARCH DESIGN AND METHODOLOGY 16
3.1 Description of Study Area 16
3.2 Research Methods 16
3.3 Study Design 17
3.4 Population of the Study 17
3.5 Sample Size 17
3.6 Source of Data and Data Gathering Techniques 19
3.7. Definition of Variables and Conceptual Model 19
3.7.1 Dependent variable 19
3.7.2 Explanatory variables 20
3.8 Method of data analysis 20
3.8.1 Model Specification 21
CHAPTER FOUR 24
4. DATA ANALYSIS AND PRESENTATION 24
4.1Respondents' Profile 24
4.1.1 Sex Composition 24
4.1.2 Age Profile of Respondents 24
4.1.3 Educational Level of Respondents 25
4.1.4 Work Experience of Respondents 26
4.1.5 Owners/ Managers Profile 26
4.2 Characteristics of Firms 27
4.2.1 Form of Business 27
4.2.3 The Growth Pattern of MSEs 28
4.2.4 Growing Dimensions of the Firm 29
4.2.5 Working Condition of Firms 29
4.2.6 The Most Significant Factor Influence the Enterprise Growth 30
4.2.7 Loan Utilization of Enterprises 31
4. 3. Role of Microfinance Institutions in the Growth of MSEs 31
4.3.1 Simplicity of Loan Criteria of Microfinance Institutions 31

4.3.2 MFIs Training Importance for MSEs 32
4.3.3 Loan of MFIs Sufficient and Reasonable to the Growth of Firms 32
4.3.4 Microfinance Institutions Loan Importance 33
4.3.5 Microfinance Programs most liked by Clients 34
4. 3.6 Microfinance Programs Least Liked by Clients 34
4.4 Further Analysis of Relationships of Dependent and Explanatory Variables 35
4.4.1 Chi-Square Test 35
4.4.2 Multi-Co-Linearity test 36
4.4.3 Binary Logistic Regression Analysis 36
4.4.4 Model Goodness of Fit and Model Summary 37
4.5 Interview Results 38
Research questions (RQl) 39
CHAPTER FIVE 44
5. SUMMARY'OF FINDINGS, CONCLUSION AND RECOMMENDATIONS 44
5.1 Overview of the Thesis and Its Major Findings 44
5.2 Conclusions 47
5.3 Recommendations 47
5.4 Limitations and Further Research Directions 48
References 49
Annex 1 50
Annex 4 55

List of Figures

Figure 2. 1 Phase and Crises of growth adopted from (Gupta et al. 2013)..... 12

Figure 2. 2 Stages of an enterprise growth adopted from (Gupta et al. 2013)..... 12

Figure 4. 1 Works conditions of the firm..... 30

Figure 4. 2 Purposes of MFIs loan..... 31

List of Tables

Table 2. 1 Micro and Small Enterprise Development Strategy (adopted from MSEs, 2011) 11

Table 2. 2 Summary of the empirical review 14

Table 3. 1 Summary of variables and their measurements 20

Table 4. 1 Respondent Sex Profile 24

Table 4. 2 respondent age group 24

Table 4. 3 Respondents level of educations 25

Table 4. 4 Work experience of the respondents 26

Table 4. 5 The position of the respondents 26

Table 4. 6 Form of business 27

Table 4. 7 The major operating activity of the firm 27

Table 4. 8 Pattern of growth of the firms 28

Table 4. 9 Dimensions of growing 29

Table 4. 10 Significant factor influence on enterprise growth (multiple choice) 30

Table 4. 11 Simplicity of loan criteria of MFIs 32

Table 4. 12 Importance of type of proper training to improve the growth enterprise 32

Table 4. 13 Microfinance institutions loan sufficient and reasonable in the growth of MSE 33

Table 4. 14 Importance of MFI loan in the enterprise growth (Multiple response possible) 33

Table 4. 15 Microfinance programs most liked by clients 34

Table 4. 16 Microfinance program least liked by clients 35

ACRONYMS

AC ……...Access to Credit

AM ……..Access to Market

ASV…… Average Sale Volume

CSA ……Central Statistical Agency/ Authority

ILO ……..International Labor Organization

LC……Loan Criteria

MFIs……... Microfinance Institutions

MoTI……Ministry of Trade and Industry

MoUDC…….....Ministry of Urban Development and Constructions

MSEs……...Micro and Small Enterprises

MSMEs……..…….Micro, Small and Medium Enterprises

MT……...……Microfinance Training

NISER…….Nigerian Institute of Social and Economic Research

OECD…….….Organization for Economic Co-operation and Development

PT…….……...Proper Training

SMEs……...Small and Medium Enterprises

SNNPR…….…...Southern Nation Nationalities People Region

SPSS ……..…..…Statistical Package for Social Sciences

UN…….…….…….United Nation

UNIDO…….United Nation Industrial Development Organization

Abstract

This research examined the factors affect the growth of Micro and Small Enterprises in Wolkite Town. Also the study assessed how microfinance institutions deliver the services/ products to improve the expansion, endurance, productivity, and performance of MSEs. Micro and Small Enterprises are best known as the structure block of both developed and emerging economy. Recognizing the expansion behaviors of MSEs is quite heterogeneous. The basic aspire to comprise this research is to recognize and examine factors that affect the growth of MSEs. In this survey growth of MSEs was measured with sale and accessibility of external business environment. And major issues were recognized that control growth of MSEs. Firm specific issue control variables and external business environment source as: size, age, education level, credit of microfinance and business environment factor which include access to finance, access to market, and infrastructure are realized as major factors for MSEs working in Wolkite Town. In this study both quantitative and qualitative approach (mixed approach) was used. As well, primary data was collected to achieve the purpose' and Stratified sampling technique was applied to select the sample from a selected inhabitants. Data were analyzed using both descriptive statistics and Binary logistic regression Model with the help of Statistical Packages for Social Science (SPSS). The findings revealed that the loan criteria inversely related with growth of MSEs. Participation of female in enterprise is less than male and manufacturing sector was growing faster than other economic sectors.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of Study

Ethiopia is one of the lowest income countries in the world. Its economy, which is mainly dependent i.e. agriculture, has been hit by several internal and external shocks. Devastating wars, frequent draughts, high population growth, distorted investment environment, volatile primary product prices, etc. have been some of the shocks the economy has been experiencing. These and a lot other factors resulted in the decline of the economy as a whole, while the living condition of the population has been continuously deteriorating. Specifically during the Dergue period (1974-1991) the Ethiopian economy was performing very poorly under a socialist oriented command economy. After the fall of Dergue, however, the government of Ethiopia has taken several measures to reverse the economic decline and worsening poverty situation in the country (lemal, 2003).

The Government of the Federal Democratic Republic of Ethiopia has understood and paid due concentration to the promotion and growth of micro and small enterprise for they are significant vehicles to-address the challenges of unemployment, economic development and fairness in the country, To this effect, the government has prepared a National Micro and Small Enterprise growth and Promotion Strategy that notifies al1organized approach to improve the problems and encourage the expansion of MSEs. Therefore, the Ethiopian government has issued of declaration no.49/96, which orders the business of microfinance and the national MSEs development strategy (MoTI, 1997).

The purpose of the study was often recommended that MSEs play vital roles in the formations of employment chances and generations of profits for fairly a large percentage of the population. Assessment of studies in the area verify that the role of MSEs in this regard have long been recognized all over the globe (Liedholm, 2001; ILO, 2003a).

Micro and small enterprises are the main source of job creation and base to income generation for poor people in a country. As the similar, microfinance institutions are key instrument in the

growth of firm's and thus business effectiveness and economic growth. The same to that it is a kind of sector that provides product and services, which is help to the MSEs improving the growth and performance as well as to poor people who are not contributed by formal financial organizations (NISER, 2004; Ledgerwood.J, 1999) Microfinance has a new idea to eradicate extreme poverty, safe and truthful area to keep money in small amount, and the poor exactly to get financial and other services.

It is the circumstance of credit, other financial and nonfinancial services to the people with low income, and entrepreneurs to encourage them build sustainable micro and small enterprises (Nkamnebe, 2008; Otero, 2000)It is an organization which provides available services in small denominations to the people with low income and enterprises. These services include lending, savings, insurance, training and remittances intended for poor customers that do not have access to financial services from typical formal financial sector (Ledger wood, 1999).

Additional impact of the sector consist of business effect such as enhancements in output, knowledge and employment (Hulme, D. and Mosley, P,1996) and profitability(Karlan, D. and Valdivia, M., 2006).It search for to create financial services accessible on a sustainable base to the 'economically active poor, low-income earners and enterprises through privately owned.

Empirical evidence confirms that a energetic and growing Micro and Small Enterprises sector can contribute to the accomplishment of a broad choice of growth objectives, including: the ability of income generation and poverty eradication and to create job for workers (Daniels and Ngwira, 1993); to mobilization keeping few money/Demirguc-Kunt, 2005); and production of goods and services that meet the essential wants of the people with low per capita income (Cook, P & Nixson, F, 2000).

The Ethiopian micro finance sector IS characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed Microfinance Institutions (MFIs), an emphasis on rural households and Urban, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven (EbisaI would like to thank Deribie et al.,2013).

Although, in Ethiopia the MSEs sectors was neglected for a long period of time, the socio cultural and political problems were the main obstacle for the development of the private

enterprise including MSEs. This is, because of lack of enterprise culture, lack of positive attitude towards MSEs, and the out casting of those groups of people engaging in the sector, and etc. In recognition of the importance role of MSEs in creating employment opportunities and generating -income, hence reducing poverty, the government introduced its first Micro and Small Enterprises Development Strategy in 1997 (MoTI, 1997). To this end, this study was significantly played as its key to examine the factors that affect MSEs growth in Wolkite Town.

1.2 Statement of Problems

The study was mainly focuses on the factors affect the growth of micro and small enterprises. MSEs play dynamic role on the growth of country and were base of medium and large firms. Since the studies focus on the MSEs sector importance and microfinance institutions', role in general. But the pervious study intensively based on the role on the growth of micro, small and medium enterprise and the finance source in various financial institutions (Ageba and Amha, 2006; Gebreeyesus, 2007; Nigussie, 2012;Eshetu and Mammo,2009; MoUDC,2013). Famously, Micro and Small enterprises are a basic issue, which" are the sources of job possibility for labor force and great proportion income creation for society. Analyses of studies confirm that the aid of MSEs in this view have long been acknowledged all over the world (Liedholm, 200i; ILO, '1003a; Mazumdar, 2003).

Although, MSEs great contribution in countries enhancement and economic growth, their enlargement and progress in emerging countries were mainly influenced by right to use of 'finance, poor decision-making ability, and lack of training opportunities and increasing price of inputs (Cook, 2000). Supplementary studies executed recommend that finance is the most imperative requirement for the MSE sector (Green et al., 2002).

The MSEs have extremely narrow right to use financial services from formal financial institutions with jointly their operational and investment desires (Kessy and Temu, 2010). Poor people have no access to get credit or money for self-employment and lack of access to financial support are some of the major problems that prevail in the urban areas of the developing countries. - As a result they cannot take credit from financial sectors like governmental and private banks. This forces them to borrow money from urban money lenders at excessive interest rates. All the above problems are manifestations of poverty In the developing countries including Ethiopia. Concerning these problems, various approaches and many innovative institutional

mechanisms have been developed across the world in reducing poverty by providing credit and related services to enhance the access of house hold to financial service to poor (Gelfeto&Dr B. V. Prasada,2013).

The policy was supply as rule to all enterprises and consequently motivate new enterprises to be launched and accessible ones to grow and become more competitive. In view of this, the Ethiopia government, in order to make available supply of monetary services to different sectors, of the economy, particularly to micro and small businesses, has been encouraging the establishment of formal microfinance institutions both in the rural and urban area as an effective means of alleviate poverty and income disparity. Consequently, it is tremendously essential that the microfinance institutions should provide access to credit for the development of MSEs not only quickly but also at a lower interest rate.

As a matter of fact, relatively little was recognized about the assistance of MSEs to the economy. Consequently, insufficiency of information on uniqueness of MSEs, population, their varied feature of intervention and role in the economy appears to have slowed down stakeholders from pulling property to make possible further expansions of the enterprises. The accessibility of information would improve understanding of the state of the MSE sector and the hindrances which hold the enterprises back.

1.3 Research Questions

RQ1. What function do MFls play in enhancing the growth of MSEs in Wolkite Town?

RQ2. To what extent is the expansion of micro and small enterprises influenced by the financing ability of microfinance institutions?

RQ3. Do MFls supplying sufficient and reasonable financial as well as non-financial services for the growth of MSEs?

RQ4. What makes micro and small enterprises prefer sources of finance from microfinance institutions?

1.4 Research Objective

1.4.1 The General Objective of the Research

The main objective of this study is to assess the factors affect the growth of micro and small enterprises in Wolkite Town.

1.4.2 The Specific Objective of Research

In order to attain the- general objective the research put out to accomplish the following specific objective.

1. To examine the impact of access to finance on the growth enterprises'

2. To test the association between loan criteria and growth of enterprises.

3. To examine the effect of proper training on enterprises' growth.

4. To evaluate the influence of profit on the growth of enterprises.

5. To investigate the contributions of market access on the enterprises' growth.

6. To investigate the impact average sales on the enterprises' growth.

1.5 Hypothesis

H1: There is a positive association between enterprise growth and access to finance.

H2: There is a positive association between the MSEs growth and loan criteria of MFls.

H3: There is a positive' relationship between MSEs growth and proper training.

H4: There is positive relationship between MSEs growth and profit.

H5: There is positive association between MSEs growth and access to market.

H6: There is positive association between MSEs growth and average sale volume.

1.6 Significance of the Study

First, the study was contribute to the body of knowledge on the factors affect the growth of micro and small enterprises taking into consideration in the Wolkite Town. Second, this study was

intended to shed light on the relationship between microfinance services and growth of micro and small enterprise particularly with the focus on their livelihoods for both planners and policy makers in government, agencies and NGOs. Currently, the Ethiopian government mainly focuses to micro, small, and medium enterprises starting and progress. The establishing of these firms would ultimately guide to the transfer of suitable knowledge and its adaption to suit the background.

This need transferring the exact wants of the firms to the core of the strategy providing procedure in Wolkite Town, possibly the mainly imperative challenge facing strategy provider in industrial improvement is the funding and technical improvement of the many of MSEs that created the foundation of industry and make the mass of job and proceeds creation.

1.7 Scope of the Study

This study concern to examine the factors affects the growth micro and small enterprise in Wolkite Town in sub towns (Gofarmeda sub town, Sechduna sub town, and Addis Ketema sub town). Even if there are so many factors that affect the growth of MSEs this research is delimited to firm specific factors and business environment factor. In addition, this study gives more information for MSEs that conduct around five types of business sector that are manufacturing, trade, service, agriculture and construction.

1.8 Structure of the Study

The research has been arranged into five chapters. Chapter one presents the introduction part which consists of background, problem statement, objectives of the research, significance, and scope of the study. Chapter two presents the review of related literature. Both theoretical as well as empirical literatures relevant to the study have been sufficiently reviewed. Chapter three, on the other hand, states the research design and methodology aspect of the study. While chapter four presents the analysis and discussion part, the last chapter presents summary of findings, conclusion and recommendations sections of the study.

CHAPTER TWO

2. LITERATURE REVIEW

The study of literature has contains three part. Part one has there a theoretical considers of factors affect the growth of MSEs microfinance institutions' contributions on MSEs growth. The second appropriate empirical studies on microfinance institutions role in the progress of MSEs. Thirdly, conclusions and knowledge gaps are existed in section three.

2.1 Theoretical Underpinnings

The section opens with an overview of microfinance institutions. This provides the various products and services that explain the theoretical role of MFIs to the development of firms. It provides a plan on how microfinance institutions contribute to the development of MSEs. Lastly, the concern is to explain the character, significance, evaluate the growth and constraints of MSEs.

2.1.1 Overview of Micro Finance Institutions

Microfinance is the stipulations of financial and non-financial services to people with low income, poor-and extremely poor freelance people. Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of small and medium scale enterprise (Otero 2000). Microfinance is considered providing financial services to people with low income groups or poor people, the original center of micro finance was on the stipulation micro-credit little credits. generally for short periods to finance operational assets for small enterprises usually poor people, conversely the subject of microfinance has expand importantly credit ,savings, insurance, remittances and other expenditure all of which have a great impact on the lives of the poor (James, 2005). According to Ngehneu & Nimbo (2010), Microfinance is defined as a 'growth instrument .which contributions or supply financial services such as little loan, investments, insurance and cash transfer to help the very low income group grow or start their businesses.

The thought of micro finance was based on the feeling that people with low income economic development, sustainably life and receiving infrastructure to understand opening new enterprises dreams or develop accessible businesses and thus try to improve their economic condition on

their own (Zeller & Meyer, 2002). Microfinance is the provisions of little level of economic services to low income client parts, which has no right to use financial services, provided by the formal sector (Ledgerwood, 1999).Inside the methods of the structure there are four large types of services that may be provided by microfinance clients:

2.1.1.1 Financial Intermediation

Financial intermediation is type of microfinance institutions that provides the resources such as investments, recognition, indemnity, loan receiving cards, and disbursement systems (Torre and Vento, 2006; Ledger wood, 1999). Each of product/services classified by this category is discuss as below:

Credit - Credit is borrowed-funds through particular periods for reimbursement. since there are inadequate accrued savings to finance an enterprise and as the return on lend funds exceeds the interest rate charged on the credit, it provides logic to borrow quite than postpone the enterprise activity until adequate savings can be accrued, believing the capacity to check the debit exists(Water field and Duval, 1996). Loans are usually prepared for useful purposes which are, to create income inside an enterprise. Some MFIs in addition create loans for expenditure, housing, or particular occasions (Torre and Vento, 2006). In addition several MFIs maintain that merely useful loans be prepared, several loan which enhance the liquidity of the family frees up firms income that can be set back in to the enterprise (Forre and Vento, 2006). Systems of credit delivery can usually classify into two categories that are individual and group approaches, depended on how the MFI brings and. guarantees its loans (WaterfieldandDuvaI1996). Individual loans It is the loan that circulated by microfinance institutions to a person on his /her capacity to perform the objective of duty and guarantees of reimbursement and some phase of protection (Torre and Vento, 2006). Group-based an approach provides loans to a cluster which is, either to persons who are members of a group and assurance each other's loans or to teams which subsequently sub loan to their members (Torre and Vento, 2006).

Savings - Saving mobilization is an important tool in microfinance, both for MFIs and the clients. For MFIs the collection of the savings represents a fundamental instrument in achieving sustainability. Indeed, saving mobilization allows clients to obtain the resources to finance the growth of the loan portfolio and, consequently, to become independent from subsidies or external financing. For the poor and, more generally, for financially excluded people, access to

deposit services allows them to manage emergencies and to meet expected expenses, such as education, marriage ceremonies, old age and death. (Ledger wood 1999).

Micro Insurance MFIs are starting to test with other financial products and services- such as insurance, credit cards, and payment services. Several group lending plans tender insurance or assurance system. A good example is Grameen Bank. Every person is necessary to donate one percent of the credit amount to an insurance fund. Insurance is a result which was probably be available extra widely resource in the coming periods by MFIs, since there is rising demand between their customers for health or loan insurance in case of casualty or loss of property.

Payment Services Alongside savings and- loan products, a limited number of MFIs have begun to offer payment services also. These are included in a category of financial services that the poor request in order to have the possibility of transferring money through secure channels. The demand for 10 such services mainly divers from those categories of clients that have a greater managerial ability (e.g. 'marginal' clients) and those that need to perform transactions through alternative means to cash - often associated with deposit products -such as cheques, bank transfers and credit and debit cards(Ledger wood, 1999).

2.1.1.2 .Social Intermediation

Social intermediation refers to the procedure of making the human and public property fundamental by sustainable pecuniary intermediation for the people" with low income. It may need grant for a longer time than pecuniary intermediation, as ultimately subsides must be eradicated (Ledger wood, 1999).

2.1.1.3 Enterprise Growth Services

Enterprise growth services mean nonfinancial services that assist micro entrepreneurs. Such as business training, marketing and technology services, ability to growth, and subsector analysis. Firm growth services can or cannot need grants, depending on the readiness and capacity of customers to compensate for these services (Ledger wood, 1999). 2.1.1. 4 Social Services Social services are nonfinancial services that focus on enhancing the welfare of micro entrepreneurs. It - contains healthiness, nourishment, learning, and training to uneducated (Ledger wood, 1999).

2. 2 Contribution of Microfinance

Institutions Microfinance institutions refer to expansion tools for MSEs by financing their financial and nonfinancial resources. Resource which make available such as tiny credit, investments, indemnity, training controlling and money relocate to facilitate the very or unusually poor in rising or beginning their firms (Robinson; 2003).

2.3 Meaning of Micro and Small enterprise

MSEs were sector that improves the economy, creating job for the employment and generating income. "In Ethiopia background micro and small enterprises are a particular core of the government issue, which is a sector, acting vital function by generating income and job chances and eradicating poverty, then government sketched first micro and small enterprises development in (MoIT,1997). The meaning' of micro and small enterprise were stated into various balance of exploit on the ability of labor design and the personality of assets by Central Statistic Authority (CSA, 2003). Small enterprise was employing dynamic influence tools and they have official identity and better than micro consist employment above ten people whereas micro enterprise was a cluster that subdivided' into casual firms operates and small house business that is use their power to operate done in the cluster and no have legitimately character.

2.4 National Strategy for the Development of MSEs

The Government understands the role of the informal sector. It has accepted and paid due concentration to the promotion and growth of MSEs for they are significant vehicles to address the challenges '~f unemployment, economic development and fairness in the country. To this effect, it has formulated a National MSE Development and Promotion Strategy in 1997 that enlightens a methodical approach to alleviate the problems and encourage the expansion of MSEs. The overall purpose of the strategy is to make an enabling situation for MSEs, with definite intentions to assist economic progress; bring reasonable growth; provide long-term jobs; build up cooperation between MSEs; provide the basis for medium and large scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises. Hence, as specified in the national Micro and Small enterprises Development Strategy, Published by Ministry of Trade and Industry (MoTI, 1997) short comings in the drafting of the detail may have meant that some capital concentrated founding that" should belong to medium or-large

.scale firms can perhaps have come within the scope of the definition for the MSE sector. Therefore, in order to eliminate the capital intensive firms the MSE Development strategy accepted a definition which is based on capital and that takes the level of scientific and technological capable into consideration. The following table was concluded the totally limit among MSE recently in use in our country, Ethiopia.

Table 2. 1 Micro and Small Enterprise Development Strategy (adopted from MSEs, 2011)

Level of the enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	≤ 5	≤ 100000 birr
	Service	≤ 5	≤ 50,000 birr
Small enterprise	Industry	6-30	≤ birr 1.5 million
	Service	6-30	≤ birr 500,000

In Ethiopia, 'according to a survey conducted by the country's Central Statistical Agency (CSA) in 2902 revealed that there were about 974,679 micro enterprises, generating a means of livelihood for about

1.3 Million People (Central Statistical Agency 2002)

In Ethiopia the private sector is restricted and it was the worst state and depressed in the prior government time. Even now they are at the lowest peaks as compared to other continental countries (Zuzana and Emerta, 2010). Particularly the sector of manufacturing is fairly limited with some exceptional sectors are (flower, leather). Though, as specified in the national Micro and Small Enterprises Development Strategy, published by the Ministry of Trade and Industry (MoTI 1997) short comings in the drafting of these definitions may have meant that some capital intensive establishments which should belong to medium or large scale enterprises, may possibly have come within the scope of the definition for the MSE sector. Therefore, in order to exclude those capital-intensive enterprises "the MSE Development Strategy adopted a definition that is based on capital and which takes the level of technical and technological capacities into consideration.

2.5 Growth Definition and Its Measurements

A current study investigated by Gupta etal, (2013) cooperatively revised aspects of growth definition. Growth can be defined in provisions of income generation, value addition, and expansion in terms of volume of the business. As well this, it can also be evaluated with qualitative features like market share, product quality, and customer satisfaction. Gupta etal. '(2013), on his academic study of rising firms, he has done that business move through five distinguishable stages of growth. All stage contains a comparatively quiet period of expansion that ends with a management crisis (Masurel and Montfort 2006). These five phases and crises of expansion are creativity, direction, delegation, coordination, and collaboration (Figure 2.1).



Figure 2. 1 Phase and Crises of growth adopted from (Gupta et al. 2013)

Churchill and Lewis (1983) have developed five stage of an enterprise growth. There are existence, survival, success, and take-off and resource maturity as depicted below (Figure 2).



Figure 2. 2 Stages of an enterprise growth adopted from (Gupta et al. 2013)

2.5.1 Factors Affecting Growth of MSEs

The growth" function 'In small and micro was affected by -a number of factors. Most MSEs face critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, lack of access to premise, lack of sufficient resource, size and age of the firm, lack of training and management skills, lack of information on business opportunities, social and cultural facts, in particular deficient entrepreneurial character and business environment.

2.6 Relationship between MFls and MSEs

Economic examinations of MSEs growth have basically focused upon infrastructure endowments such-as financial services, human capital, and innovative technology. Little or some attention has been paid to the role of micro and small enterprises and the capacity of microfinance institutions to finance and promote the growth of micro and small enterprises (Harper 2003; Vanpraag 2005).

2.7 Empirical Review

The purpose of this section is assume the empirical evidence of microfinance institutions and it effects to the enlargement of MSEs, there appear to be thin convenient facts accessible and mainstream of them habitually stress on hindrance of MSEs in right to use finance and on the role of microfinance institutions in the enterprise. For that reason, slight survey has been prepared on the impact of microfinance institutions in the progress of MSEs.

Moreover, the observed confirmations of this thesis match up to varied investigators assessing the factors that influence the growth of micro and small enterprises and well success of small business in the country as well as in Wolkite town administration. The empirical evidence confirms to microfinance involvement has certainly the ability to overcome poor economic weakness and transform public affairs for the improved. An affirmative effect has been noticed at the firms as well as family stage and it resources are promote to expanding their returns basis, maintaining up physical, person, and public resources, center on well control, reconstruct the household's stand of returns and resource later fiscal distress has happened and to flat utilization (Cohen, 1999; Sebstad and Chen,1996).

Meanwhile, to Brenna (2008) &United Nations,(2005) Microfinance institution is an institution which make available service and resource proffer pecuniary products to unearned, indigent societies and these resources includes investment financial credit, indemnity, wellbeing concern and individual prosperity Although as to Wanambisi (2013), the empirical evidence shows that the relationships of Is and ~SEs from. His argument the resource of MFIs is one of prosperity instrument to small business sector more effectively employed this resource in target area. Additionally, argue that the good achievement and produce more assets by utilizing the credits of

MFIs those who workers of MSEs and impoverished citizens in the Bangladesh and Zimbabwe correspondingly.

According to Gebreyesus(2007) the practical results confirm micro and small enterprises has the largest work force covering sector which is follow by the overall citizens engaged sector means agriculture sector contains majority of them in country. Consequently to generalized this evidence MSEs is one of the nucleus to economic increment those indigent people participate in cluster. Mead et al. (1998) suggested that both age of the owner/ manager that the control variables have a negative link with enterprise growth screening that young firms and MSEs owned by young people develop more than its equivalents. But some investigators like Tiruneh (2011) gets there is no relation among firm expansion and age of both the owner/manager.

2.8 Conclusion and Knowledge Gap Emerged from Earlier Literature

The purpose of this section was being stress on the research gap which from pervious different studies related to this research. Therefore, the gap of pervious were be taken from various author argue the current issue of micro finance institutions and micro, small and medium enterprises outreach and improving the world economy as well as Ethiopian economy. The gaps of various previous studies were shown below.

Table 2. 2 Summary of the empirical review

Authors and study	Context	Growth parameters	Research method
Effects of microfinance on micro and small enterprises(Babajide,A. A. 2011)	(MSEs) southwest Nigeria	Financial/non-financial services	Quantitative as well as qualitative methods
Survey on Micro and Small Enterprises (MSEs) in Selected cities (MUDC,2013)	Selected cities of Ethiopia	Firms internal control variables	Quantitative method
Growth of micro and small enterprises	SMEs in southern	Firm owner age,	Quantitative - method

(McPherson;I992)			
Micro and Small Enterprise (MSEs) Finance in Ethiopia: Empirical Evidence (Ageba, and Amha, 2006)	Six Major cities In Ethiopia	Finance and trade credits	Quantitative method
Effects of Microfinance on Micro and Small Enterprises (MSEs) Growth in Nigeria(Babajide, 2012)	MSEs in Nigeria	Financial constraints (loan size and access of finance)	panel data and multiple regression analysis
Promoting micro, small and medium Enterprises (MSMEs) for sustainable rural Livelihood(Eshetu Bekele & Mammo Muchie, 2009)	MSMEs In five major cities of Ethiopia	Access to credits and innovation	Quantitative method
Nigussie, D. W. (2012).Role of Financial Institutions in the Growth of Small and Medium Enterprises	SMEs in Addis Ababa in Ethiopia	Access to finance	Quantitative and qualitative methods

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

The aim of this section is to express the procedural structure used in attaining the declared purpose of the survey and also it clarifies the study hypotheses assumed. The main points discussed in this section were study plan, type and basis of information, population explanation, sample size, nature of sampling, sampling methods and explanation of the alternative information gathering tools, and technique of facts evaluate.

3.1 Description of Study Area

The study was conducted in southern Ethiopia, Hadiya Zone, Wolkite town. Topographically the zone lies within an elevation range of 1500 t03000 meters above sea level. The zone has three agro-ecological zones. Located on the Dega agro-ecological zones. The annual average temperature of the zone is 22.020C and the mean annual rainfall is 1260 mm. Wolkite town is the administrative and trading center of the zone. The town is located at a distance of 149.6 km south of Addis Ababa. Wolkite has a latitude and longitude8.2897° N, 37.7822° E, with an altitude of 2000 meters above sea level. The average annual temperature ranges from 14 to 24°C, and the annual rainfall is 1294 mm.

3.2 Research Methods

This section of the study explains the type of research methods employed in this research. These were both research methods, such as quantitative and qualitative methods. Quantitative research is a methods in which researcher investigated a sample from a larger study population which was used to produced information that can be completed to a wider society and the information was offered in statistical numbers and tables. In additions: this type of research methods helps the researcher to receive first hand data that allege for building knowledge. Qualitative research method was an approach which the researcher utilized this type of research method as it was require cooperate with loan user as well as to ensure so as to definite information" was" collected from exactly responsible respondents especially collaborative .sector manager/officials. In this method of research the researcher gather accurate facts by using interviews.

3.3 Study Design

To obtain data at one point in time from a sample selected relevant for the investigation of factors affect MSEs growth, used by descriptive analysis methods. This study with structured questionnaires, which administered through distributing to sample of MSEs in Wolkite Town. The questionnaire was prepared and distributed to ensure fair and equitable distribution and response from the respondents which was expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis.

3.4 Population of the Study

The study population was micro and small enterprises in the Wolkite Town. The population participated in the survey has been selected by using stratified sampling methods. The total, inhabitants of 875 enterprises with the member of 2000 people from different site in Wolkite Town who have the number of each enterprise in their age and sex, with the proportion ,if microenterprises with member of 920, and 471small enterprises with member of 1080 people were taken as target population for the study (Wolkite town trade and industry office, 2015): According to Ruane (2005) the study inhabitants deals with many clusters of citizens or society that was included in the specific study area.

3.5 Sample Size

From the information of Wolkite town trade and industry office the total number of micro and small enterprises in Wolkite town were 875 which contain 2000 members. This compresses 404 microenterprises with the member of 920, and 471 small enterprises with the member of 1080. Based on this information, samples were taken from micro and small enterprises. So, sample size determination was done using the finite population correction factor formula as follows:

$$n_0 = \frac{Z^2_{\alpha/2} pq}{e^2}$$ (To determine the sample size in estimating the mean or the proportion

(Kothari, 1999 and Cochran, W.G., 1997)

$$n = \frac{n_o}{1+\frac{n_0}{N}}$$ (To determine sample size of finite population correction factor formula

(Kothari, 1999 and Cochran .W.G., 1997).

$n_1 = \frac{n(N_1)}{N} \& n_2 = \frac{n(N_2)}{N}$ (Sample size determination of two strata proportion of Kothari, 1999, Cochran, W.G., 1977)

$n_0 =$ is the sample size without considering the finite population correction factor (when population> 10,000).

$n =$ sample size with-considering the finite population correction factor (with population < 10,000) because of this n would be preferred.

$Z\alpha/_2 =$ Value of the standard normal distribution

$e^2 =$ margin 0 error

$N =$ total number of micro and small enterprises

$P =$ proportion of growth of the micro and small enterprises, a = level of significance, q = I-p.

$n_1 =$ sample size from strata one (micro enterprise) and n-= sample size from strata two (small enterprise).

$N_1 =$ total. population size in strata one and N2= total population size in strata two Where d= 0.05, a= 0.05, p = O.5, & q= 0.5

$$n_0 = \frac{(1.96)^2 * 0.5 * 0.5}{0.05^2} = 384$$

Since the population was heterogeneous, to address each respondent and to collect real information the researcher taken participants who have know-how on the area and this reduces

time and cost. The researcher used the correction method as the best sample size determination. Considering the population correction factor, the sample size was as follows:

$$n = \frac{n_o}{1+\frac{n_0}{N}} = \frac{384}{1+\frac{384}{875}} = 267$$

Sample size determination was taken as for enterprises proportional allocation of micro and small enterprises.

$$n_1 = \frac{n(N_1)}{N},\ n_1 = \frac{267*404}{875} = 123$$

$$n_2 = \frac{267*471}{875} = 144$$

From 267 micro and small enterprises 333 members were taken; and 123 micro enterprises with the member of 153 people and 144 small enterprises with the member of 180 people considered by proportional allocation. Generally as to Salant and Dillman (1994) in deciding sample, they were determined three various reasons that should be included i.e. character of inhabitants, kind of sampling plan and extent of accuracy preferred.

3.6 Source of Data and Data Gathering Techniques

In this section the descriptive research design was able to use all ways of data collection methods. Along some of the ways of collecting data were questionnaires and interviews and the source of data were primary source of data. The primary data were collected through open ended and structured questionnaires and structured interview. The data were collected through techniques of structure questionnaire and interview which were distributed to respondents and interview were asking the Omo microfinance institution manager/officials.

3.7. Definition of Variables and Conceptual Model

3.7.1 Dependent variable

The response variable is the growth of MSEs peroxide by Sales turnover and it is measured by both the controlling variables and external business environments such as age, level of education,

experience of owner/ manager or other member of the enterprise and external business environment such as access to finance, market competition, proper training and loan criteria of MFIs (Babajide, 2011; McPherson, 1992 and Eshetu and Mammo, 2009).

3.7.2 Explanatory variables

The explanatory variables those predictors the growths of MSEs were discussed on the following table 3.1:

Table 3. 1 Summary of variables and their measurements

Variables	Definition	Clarifications	Source	Expected sign
Access to finance	Amount of loan size	Dummy variables	Babaj ide,20 11	+
Access to market		Dummy variables	Blankson, 2006	+
Loan Criteria		Dummy variables	Eshetu & Mammo, 2009	+
Profit		Dummy variables	Babajide, 2011	+
Average sale volume		Dummy variables	Negussie,(20 12)	+
Training		Dummy variables	AbduL(2012)	

3.8 Method of data analysis

In order to assess the contribution of microfinance institutions in the growth of MSEs, the data analyzed by using the statistic like descriptive analysis, logistic regression model and model goodness of fitted. Lastly the present survey to employs development as a maker of enterprises development and it was evaluated by development rate in proportion terms and variables considerably influence the development of revenue/sales such as outside loan/credit, enterprises size, period of enterprises, enterprises level of education and supply product domestically (Esra, 2003). Possibly the main famous constraint of enterprises development was pecuniary resources.

3.8.1 Model Specification

The model employed in this thesis was binary logistic regression model that has been dichotomous of growth dimension.

Hypothesis Testing Test Procedure

Ho: there is no association between the dependent and the explanatory variable

Ha: there is association between the dependent and the explanatory variable

The statistical test

$$X^2_{cal} = \sum \sum_{i=1}^{n} \frac{(o_{ij} - e_{ij})^2}{e_{ij}}$$

e_{ij}- expected frequency. j-nurnber of row variable and c-number of columns variable

Decision rule:

If x^2_{cal} is greater than tabulation value then we reject Ho else, we fail Or when p-value less than the significant level Ho is rejected.

Data Analysis and Estimation Techniques

The data analysis was done after all the relevant data have been gathered from the respondents. Quantitative data was collected, entered and coded into a computer and analyzed using SPSS Version 20.0 statistical software. Errors related to inconsistency of data checked and corrected during data cleaning. The empirical analysis of the study was conducted using both descriptive statistics and econometric regression model. Discussion based on descriptive statistics was made by using measures like percentages, tables; chi-square, binary logistic regression and maps were used for comparing growth of MSEs with in various explanatory variables.

The econometric regression model was applied for analyzing the data based on binary logit model that deal with growth of MSEs predicted by explanatory variables included-in this study. Growth was a dependent variable, while different owner characteristic, firms characteristic and

external business environments were considered as independent variables. The status of growth of firms has been treated as a dichotomous response variable by taking 1 for the growth of enterprise and 0 otherwise. Therefore, growth treated as dichotomous dependent variable. Accordingly, t-test and chi-square test have been used to compare the growth of the firms with independent variables. The chi-square (χ^2) test is the only significance test that can be used with nominal data.

As the response variable was dichotomous, Logit Model has been employed as recommended by numerous studies for its manageability, cleanness and suitability (Field, A., 2009). In this study MSEs are assumed to be either growing or declining. Hence the binary choice logistic regression model that assumes dichotomous dependent variable which takes either 1or 0 value depending on Y" is used. Therefore, indicates for growing and 0 indicate for declining.

While specifying the allocation of the model, the steps followed by Gujarati (1992) were considered and the joint effects of all explanatory variables put together on the odds is (gubire and wolkite. 2008) which is provided below:

$$odds = \frac{P}{1-p} = e^{a+B_1X_1+B_2X_2+.....+B_pX_p} \quad \text{……..1}$$

Taking the logarithms of both sides

$$Log\frac{P}{1-P} = Log^{a+\beta_1X_1+\beta_2X_2+.....\beta_pX_p} \quad \text{…….2}$$

$$Y = LogitP = a+\beta_1X_1+\beta_2X_2.....\beta_pX_p. \quad \text{…….3}$$

The coefficients $\beta_1,\ \beta_2,\ \beta_p$ are such that the sums of the squared distance between the observed and predicted values (i.e. regression line) are smallest.

If the error term (ε) is taken in to account, the logistic regression model becomes

$$Y = a + \sum_{i=1}^{K} \beta_i X_i + \varepsilon_i$$ ……..4

The unknown parameters β are estimated by growth function (equation 4)

The determinants of the growth problem model were analyzed by using logistic regression model.

Growth of MSEs = f (Owner characteristics, firms characteristics external business character)

In specific form, equations 4 into equation5

$$LogGRi=\alpha_o+\beta_1AC_1+\beta_2LC_2+\beta_3PT_3+\beta_4AM_4+\beta_5ASV_5+\beta_6FP_6+\varepsilon_i.$$ ……..5

Where: $GR_{i=}$ growth respondent response of firms dependent variables

αo is a constant, total expansion when every explanatory variables are zero

$\beta 1\text{-}6$ is the coefficient to be estimated, the role every marginal alter in explanatory variables on MSEs expansion correspondingly

ε_i is the error term

From the binary logistic regression model analysis above the core forecaster of micro and small enterprises expansions are shown as below:

GR= Micro ~!ld small enterprises expansion or growth substituted by respondent rate.

ACj=access to credit from MFI, LC2= loan criteria, PT3=proper training, AMs= access to

market, ASVs = "average sale, and FP6=profitability of firms.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

This chapter clarifies the socioeconomic and demographic characteristics of MSEs, kinds of supports and linked regulatory surroundings, employment created & their sectorial distributions, beside confronts and potential predictions of MSE growth would be examined.

4.1Respondents' Profile

The data were collected from 231 owners/managers of micro and small sized firms out of a sample size of 267 MSEs which were operating in Wolkite town. These owners/managers and their businesses were stratified and selected from the register of Wolkite Town Investment Agency and Wolkite Town Trade and Industry office. A response rate of 85.6 percent was attained and all of the study respondents were found in Wolkite town. Therefore, the demographic characteristics of respondents were discussed in the following ways.

4.1.1 Sex Composition

The table 4.1 below indicates that 28(12.1 %) and 203(87.9%) 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 insignificant.

Table 4. 1 Respondent Sex Profile

Sex	Frequency	Percent
Female	28	12.1
Male	203	87.9
Total	231	100.0

4.1.2 Age Profile of Respondents

Table 4. 2 respondent age group

Age group	Frequency	Percent
<20	43	18.6

21-30	108	46.8
31-40	52	22.5
>41	28	12.1
Total	231	100.0

From the table above 4.2 it can be deduced that 18.7% of the respondent age group j; 20, 108(46.8%) of the age group 21-30,52 (22.5%) of the respondents are the age group between 31-40 and 28(12.1 %) of the respondents are age group above 41 year old respectively. Most owners/ managers (46.8%), of sample micro and small enterprises surveyed have aged between 21-30 years and it was shown that majority of MSEs in the town 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	Alternatives	Frequency	Percent
1	Certificate	60	26
2	Diploma	81	35.1
3	Vocational Training	59	25.5
4	Bachelor Degree and masters	31	13.4
Total		231	100.0

Table 4.3 shows most 60(26%) of owners/ managers/sale person were certificate holder, about 81(35.1%) of respondents were diploma holder, 59(25.5%) of respondents were vocational training holder the rest two respectively 31(13.4%) and ~2(9.5%) of respondents are degree/master holder and other. 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 confiscate opportunities for firm growth and innovation.

4.1.4 Work Experience of Respondents

Table 4. 4 Work experience of the respondents

No	Alternatives of work experience	Frequency	Percent
1	1-3	29	12.6
2	3-6	84	36.4
3	6-10	61	26.4
4	10+	57	24.7
Total		231	100.0

Table 4.4 reveals the work experience of respondents from 1up to 3year experience have 29(12.6%), work experience year between 3 to 6 year were about 84(36.4%), work experience from- 6 to 10 year employees rated about 61(26.4 %), and the work experience group above ten year rated 57 (24.7%). Thus, the more experienced employees help to the enterprises success and expansions in the town as well as in the country.

4.1.5 Owners/ Managers Profile

Table 4. 5 The position of the respondents

No	Position	Frequency,	Percent
1	Manager	106	45.9
2	Owner	18	7.8
3	Sales person	78	33.8
4	Other	29	12.6
Total		231	100.0

The table 4.5 above shows that the respondents about106 (45.9%) were manager, 18(7.8%) were owners 78(33.8%) respondents were sales person and the remains 29(12.6%) of the respondents were combinations of others). Hence, the enterprise in the town administration leads by manager.

4.2 Characteristics of Firms

This section indicated that the survey from micro and small enterprises collected data revealed that the firms characteristics. The level of frequency which was evaluated by response variables (growth pattern) involved two labeling like growing and declining of the micro and small enterprises and various firms characteristics variables included form of business, type of business/major economic sector, work conditions, access to market competition, maximum sale volume of the year and average sale volume of pervious year reported of micro and small enterprise. Thus, variables from descriptive results were described details below.

4.2.1 Form of Business

Table 4. 6 Form of business

No	Alternatives of form of business	Frequency	Percent
1	Partnership	14	6.1
2	Sole proprietorship	139	60.2
3	Share company	71	30.7
4	Cooperative organized by government	7	3.0
Total		231	100.0

Table 4.6 above shows that most of the businesses were sole proprietorship 139 (60.2%), followed by share company 71(30.7%), partnership 14(6.1%) and cooperative organized by government 7(3%). The 60.1 % forms of business in the area were the sole proprietorship within micro and small enterprise growth. It demonstrated that micro and small enterprises especially sole proprietorship were target to create job for labor force which seek job opportunity and the back bone economic growth as well as the base for industrial expansion in the country.

4.2.2 Type of Business

Table 4. 7 The major operating activity of the firm

No	Alternatives of major operating activity	Frequency	Percent
1	Manufacturing	111	48.1
2	Trade	57	24.7
3	Agriculture	4	1.7
4	Service	32	13.9
5	Construction	27	11.7
Total		231	100.0

Table 4.7 demonstrated that 111(48.1%) involved in manufacturing, especially wood and metal work, waving and candle, the next form of business 43(18.6%) were engaged on trading activity, particular retail trading, the third activity 32(13.9%) were involved on service that were the recent action which include hotel truism, restraints and hairs leaning/barber. At the end of construction special coble stone way contained 27 (11.7%) in the Wolkite town engaged in different types of business. Thus, the manufacturing sector has been consists of majority enterprise in the town administration. as well as these sector growing faster than another.

4.2.3 The Growth Pattern of MSEs

Table 4. 8 Pattern of growth of the firms

Growth dimension	Frequency	Percent
Declining	64	27.7
Growing	167	72.3
Total	231	100.0

As indicated in the table 4.8 above the growth of micro and small enterprise in to two dimensions about 64(27.7%) respond to declining and 167(72.3%) respond the enterprise were growing in the town. These indicate that the micro and small enterprise in Wolkite town were growing from time to time.

4.2.4 Growing Dimensions of the Firm

Table 4.9 below indicates that the growth dimension of the enterprise from the respondents response portrayed that about 33(14.3%) said to growing in terms of firms size, 34(14.7%t) growing in terms of volume of assets and wealth, 131(56.7%) were respond to growing in terms of profitability, and the rest growing in terms number of employees 14.3%. It was shown that the MSEs were growing in profitability followed by volume of assets and wealth and size of enterprise in the town.

Table 4. 9 Dimensions of growing

No	Alternatives	Frequency	Percent
1	Size	33	14.3
2	Volume of assets and wealth	34	14.7
3	Profitability	131	56.7
4	Number of employees	33	14.3
Total		231	100.0

4.2.5 Working Condition of Firms

As indicated in the figure 4.1 below the working condition adequacy the firms were those respondents Responded about 86.15% yes we are adequate in the present work condition of the enterprise, the remaining about 13.85% of respondents reveals that inversely adequate in the work condition. Therefore, the several participants in the town who were the member of enterprise that were manager, owner, sale person and other interested in the work condition which was hopeful for the future survival and continue of MSEs growth.

Does the working condition of the enterprise adequate for you

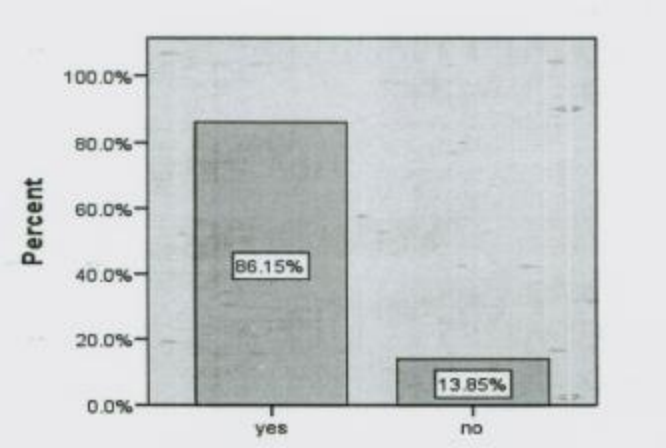


Figure 4. 1 Works conditions of the firm

4.2.6 The Most Significant Factor Influence the Enterprise Growth

Table 4. 10 Significant factor influence on enterprise growth (multiple choice)

Significant factor on the growth of enterprise	Frequency	Percent
Access to finance, available working area & sufficient inputs	59	25.5
Access to finance, sufficient inputs &labor force	72	31.2
Access to finance, availability of working area, sufficient inputs, labor force & innovative technology	60	26.0
Access to finance, labor force & access to market	40	17.3
Total	231	100.0

Table 4.10 indicates the significant factors which were the key parameter from the growth of MSEs field survey. The analysis results were revealed that majority of respondent of enterprise rated in the table 4.10 above shown that 72/31.2% (access to finance, sufficient inputs and labor

force), 60/26% (access to finance, availability of working area, sufficient inputs, labor force & innovative technology), 59/25.5% (access to finance, availability of working area and sufficient 'inputs), 40/17.3% (access to finance, labor force & access to market count and percentage were response shown in the table 4.10.With respect to this idea World Bank (2008) confirmed that response from firms' owner and manager to access to and - external finance represents barrier to their action and expansion and as stated by Yoshino (2011) clustering trend is a factor.

4.2.7 Loan Utilization of Enterprises

In this study, as shown in figure 4.2 the respondents responded that loan obtained from microfinance institutions were utilized about 138(59.74%) procurements of inputs, this followed by 84(36.4%) acquired fixed assets and the rest 9(3.9%) for family consumption. It can be inferred that the majority enterprises in town utilized the loan for target area about 96.14% total employed in purchase raw materials and fixed assets.

Loan obtained from microfinance institutions are most usually utilized for

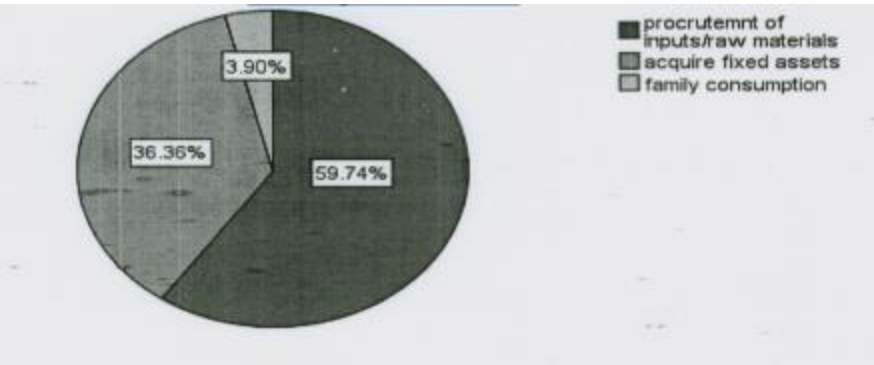


Figure 4. 2 Purposes of MFIs loan

4. 3. Role of Microfinance Institutions in the Growth of MSEs

4.3.1 Simplicity of Loan Criteria of Microfinance Institutions

The table 4.11 below indicates that about 66(28.6%) of respondents responded that the loan criteria of MFIs were not simple to receive loan. This idea supported by the respondents who were about 158 (68.4 %). They were responded to the loan criteria of MFIs simply to receive loan and the rest 7 (3%) don't know the loan criteria of MFIs of simplicity. It was explained that the loan criteria of MFIs simple to receive the loan from the institutions.

Table 4. 11 Simplicity of loan criteria of MFIs

No	Alternative of loan criteria Simplicity	Frequency	Percent
1	No	66	28.6
2	Yes	158	68.4
3	Don't know	7	3.0
Total		231	100.0

4.3.2 MFIs Training Importance for MSEs

Table- 4.12 shows that training to MSEs provided by MFIs year about 74(32%) of respondents were responded as it is important to improve production skills, 54(23.8%) of respondents were responded as it is provided to improve financial management skills, 2 (l2.1 %) (Respondents were responded as it is proffered to capacitate management skills and 8(3.5%) of respondents were responded as it is offered to help to reduce illiteracy. It indicates that the importance of MFIs training is to enhance the MSEs Production skills, financial skills and management skills.

Table 4. 12 Importance of type of proper training to improve the growth enterprise

Kind of training	Frequency	Percent
reduce illiteracy	8	3.5
production skills	74	32.0
management skills	28	12.1
financial skills	54	23.8
Total	165	71.4

4.3.3 Loan of MFIs Sufficient and Reasonable to the Growth of Firms

The table 4.13 below demonstrated that about 61% of respondents were responded as the loan size or amount provided was not sufficient and reasonable to the growth of enterprise. Correspondingly, about 30.7% of respondents responded as they believe the loan size is enough and sufficient to work and the rest 8.1 % couldn't know about the issue. Therefore, the loan or

financial/ non-financial services provided by MFls were not sufficient/reasonable to MSEs that hinder the growth of their in the town administration.

Table 4. 13 Microfinance institutions loan sufficient and reasonable in the growth of MSE

Loan of MFls Sufficient & reasonable	Frequency	Percent
Yes	71	30.7
No	141	61.0
Don't know	19	8.1
Total	231	100.0

4.3.4 Microfinance Institutions Loan Importance

The table 4.14 below illustrated that the significant level of microfinance loan as data revealed by 83(35.9 %)of respondents responded as loan users were building family assets, improving group property and enhancing enterprise profit. Moreover, 45(19.5%) respondents responded as of loan users replied that building family assets, improving group property, enhancing the enterprise profits and developing saving habits. Furthermore, 39(16.9%) were building assets, improving group property and developing saving habits. Besides 38 (16%) respondents responded as improving group properties, enhancing enterprise profit and develop saving habits. The loan of MFls significance rated by 204 users from total of 231 ranging the use of loan create saving habits, enhance firms profitability, increase group property and build family asset.

Table 4. 14 Importance of MFI loan in the enterprise growth (Multiple response possible)

MFIs importance	Frequency	Percent
Assets, property and profit	83	35.9
Assets, property, profit and saving	45	19.5
Assets, property and saving	39	16.9
Property, profit and saving	37	16.0
Total	204	88.3

4.3.5 Microfinance Programs most liked by Clients

The table 4.15 shows below that the participant in the study selected most likely three things rated in the' following way. About 84(36.40%) rated to most likely three thing like interest rate, rearranging amount loan size and training, 52(22.5%) ranged to three things rearranging the amount of loan size, training and family consumption, 48(20.8%) rated rearrange loan size, low interest rate and individual loan supply, 47(20.3%) rated to low interest rate and training. Therefore, from response of respondents it can be generalized that this low interest rate, rearrange amount of loan and training before provide loan and after work serve as the best program of microfinance institution.

Table 4. 15 Microfinance programs most liked by clients

Microfinance programs most liked by clients	Frequency	Percent
low interest rate, rearranging loan size & training	84	36.4
low interest rate, rearranging loan size & individual loan	48	20.8
Low interest rate and training	47	20.3
rearranging loan size, training and family consumption	55	22.5
Total	231	100.0

4. 3.6 Microfinance Programs Least Liked by Clients

It is clearly indicated in the table 4.17 below that the respondents were rated least likely three things as 128(55.4 %) of respondents responded three least likely things are long process of loan supply, high interest rate and low amount of loan size, 59(25.5%) are choosing long process of loan supply and high interest rate, 44(19.1 %) are replied high interest rate, loan supply by individual and loan low amount of credit size. Accordingly the least likely three things of microfinance analysis results interpreted under and on the table 4.17 below are to generalize as

least likely three programs are long process of loan supply, low amount of loan size and high interest rate.

Table 4. 16 Microfinance program least liked by clients

Least likely Microfinance program	Frequency	Percent
Long process of loan supply, high interest rate & low amount of credit size	128	55.4
Long process of loan supply & high interest rate	5	21.6
High interest rate, loan supply by group and low amount of credit size	12	5.2
Total	231	100.0

4.4 Further Analysis of Relationships of Dependent and Explanatory Variables

4.4.1 Chi-Square Test

The relationship between the business characteristics and loan repayment default is examined by testing the stated hypotheses using X^2 test at 95% confidence interval There was - a significant relationship between the access to credit ($p=0.000<0.05$), loan criteria of microfinance ($p=0.000<0.05$), proper training ($p=0.011 <0.05$, access to market ($p=0.015< 0.05$); average sale volume of firms ($p=0.0<0.05$) and firms profits ($p=0.000<0.05$) and the growth of MSEs. Therefore, accept the null hypotheses that the access to credit, loan criteria, proper training, access to market, average sale volume and firms profits influence the growth of micro and small enterprise Annex 3). However, strength of the association between predictor variables and the response variable were equally strong.

4.4.2 Multi-Co-Linearity test

The term Multi co-linearity indicates the existence of association between two or more of explanatory variables, this association level might be nil that can be ignored or high that significantly affects the estimation of the parameters. If Multi co-linearity is perfect, the regression coefficients of the independent variables are undetermined and their standard errors are immeasurable. If Multi co-linearity is less than perfect, the regression coefficients, although determinate, possess large standard errors, which mean the coefficients cannot be estimated with great precision or accuracy (Gujarati 2003) In this study, as shown in (Appendix 4) the correlation Matrix which is made among the independent variables reveal that the slight existence of Multi co-linearity problem. Multi co-linearity problem is occurred when the explanatory variables are highly correlated with each other. In the -correlation matrix it is indicated that there is a little evidence for Multi co-linearity problem.

A serious problem for Multi co-linearity is occurred if the correlation is about 0.8 or larger (Gujarati 2003). The Multi-co-linearity of the explanatory variable are below 0.50 and it can be confident to say there is significant Multi co-linearity since any of them are not above the conventional 80 percent (Annex 4).

4.4.3 Binary Logistic Regression Analysis

The binary logistic regression is as the growth of MSEs is most strongly influenced by 6 predictor variables used for the growth analysis. These six significant variables are the credit, criteria of loan, training; access to market, average sale and profit (Annex 5). In the regression, as shown in (Annex 5) the variable that credit received from MFIs were about 7.450 times likely to respond the MSEs growth as growing as compared declining pattern, the respondents with proper training of MFls were about 9.943 times likely respond to the pattern of growth of MSEs as growing as compared to declining the pattern of growth. Furthermore, access to market about 1.542 times likely respond to the pattern of growth of MSEs as growing as compared to declining of growth, average sale volume of the firms about 3.764 times likely respond to the growth pattern of MSEs as growing as compared to declining the growth of MSEs and profit of firms about 56.927 time likely respond to pattern of growth as growing as compared to declining the growth of MSEs (Annex 5). Meanwhile, respondents with loan criteria of MFIs collaterals were about 0.470 times un likely respond to the pattern of growth of MSEs as growing to

declining the pattern of growth (as criteria increase by one unit the growth of MSEs growing was decreased by 0.47 unit) in this case the relationship of both were inversely(Annex 5).

The final model looks like the following:

$$\log(Odds) = -9.070 + 2.008 * credit - .594 * criteria + 2.297 * training + .433 * access\ to\ market + 1.325 * average\ sale + 4.042 * profit.$$

4.4.4 Model Goodness of Fit and Model Summary

The key objective of this aspect of the study IS to test the contribution of microfinance institutions in the MSEs growth. When the goodness of fitted test exposed to each of the ,~ix predictor variables are highly significant at the 5% level of significance (annex 6). In this study, as shown in (Annex 6) wolkite and Lemeshow (1989) test summarized the results .9btained for the expected to goodness of fitted equation. The exponential of MSEs growth chi-square 11.189 is high and significant at 5%. When compared with the critical Chi square at 5%, p-value is 0.191 is greater than 0.05. In this case model of goodness of fit is good model 'then to reject the null hypothesis and accept the alternative hypothesis. Because the Chi-Square computed is higher than the critical Chi- square, to conclude that the predictor six variables are significantly associated to the growth of ~SEs (FIELD, 2009).

Under Model Summary, as shown in (Annex 7) that the -2 Log likelihood statistics IS 122.204. This statistic measures how better the model predicts the decisions. i.e. the smaller the statistic the better the model. The Cox & Snell R^2 can be interpreted like R^2 in a multiple regression, but cannot reach a maximum value of 1. But, the Nagelkerke-R^2 can reach a maximum of l. So, looking the Nagelkerke R Square =.691, about 69.1% of the variation in response variable is explained by the explanatory variables. The rest about 28.7% is left for random variation or error. This supported by Nagelkerke (1991) suggested the subsequent adjustment (Nagelkerkes R_N^2) all of the measures differ in their computation conceptually they are somewhat the same. As a result, in terms of explanation they can be seen as similar to the R^2 in linear regression in that they provide a test of the substantive significance of the model(Field, 2009).

4.5 Interview Results

In this part the analysis were carried out through narration in paragraph form based on the ideas themes through their similarities. These were the data obtained from eight respondents interviewed in Omo microfinance institutions.

1. The results of the interviews regarding the especially with Omo microfinance institutions products and services show that MFls also supply financial as well as non-financial services. Therefore, the interviews results discuss in the following ways below:- The product/services that supplied by Omo microfinance institutions were financial services such as loans, savings, and payment facilities and non-financial services like enterprise growth services and social services (training and counseling).

2. The criteria sums to finance MSEs from interviewed results based on response of microfinance institutions especially Omo microfinance institutions office. The response from the Omo microfinance institutions revealed that our institutions utilized two types of criteria which were to finance micro and small enterprise in the town administration. These were collateral and compulsory/20percent pre-loan saving methods. Collateral criteria were used by the institutions to finance micro and small enterprises first the firms formed by the group and provided business plan after that each firm member make his /her collateral then the MFls bring the loan. Compulsory (20% pre-loan) saving method is the latest way which was MFls supplied loan for MSEs that need loan from microfinance institutions. The micro and small enterprises members before getting loan to save 20% pre-loan amount in microfinance institutions and provide the business plan then the MFls bring the loan to the enterprise.

3. The response from the microfinance institutions revealed that the' institutions were finance the MSEs depended on the various situation of the firms like compulsory (20% pre-loan saving), business plan and capacity of each enterprise. Generally the products/ services of MFls were not sufficient and as effective for working conditions of MSEs on recent time.

4.The challenges that met by MSEs based on these modalities the institutions were provide the way they address to solve the challenge of access to finance the MSEs by making each enterprise used in MFls products/services linkage with government MFIs, addressed some of the constraints that MSEs face in accessing funds. The modalities to resolution of the challenges met

by MSEs to accessing microfinance institutions products/services. First, MFls attempted to overcome these two constraints in many ways: cluster lending, cooperative, and individual based lending systems. These were enhancing reimbursement incentives and transactional costs, and also build support networks and educate borrowers.). Second, to mitigate financial distress that comes from the mismatching of cash inflows and .out flows (loan. maturity period), microfinance institutions were contracting loan conditions and situation/requirements and delay the payment date. The more time a firms get, the less likely the firm is to experience problems of meeting short-term obligations. Thus, the probability that a firm will avoid financial distress can be enhanced through flexing and postpone payment date (Water field and Duval, 19

4.6 Discussions

Research questions (RQl)

What function do microfinance institutions play in enhancing the growth MSEs?

Since noted in chapter two, an organized financial institution permit the enterprise to have right to use to financial products as well as non-financial services, which they are often denied (Amina, 2009). The competence of the procedure during which resources are directed into industrious activities is vital for growth. Microfinance institutions are one part of this procedure.

Ethiopia's industrial growth plan issued in 2003 also singled out the encouragement of MSEs growth as one of the significant tools to create productive and energetic private sector. The promotion of this sector is acceptable on the bases that improving expansion with equity, creating long-term jobs, providing the basis for medium and large. Enterprise and promoting exports etc.

The response from the microfinance institutions reveals MFls utilized two type of criteria employed to finance micro and small enterprises. These are collateral and compulsory (20% pre - loan saving) methods. The plan places a means to support the MSEs such as, infrastructure, financial facilities, supply of raw materials, and training (Ageba and Ameha, 2004). The usefulness of such interventions, however, based on identifying the key problems and targeting the potentially successful firms. Therefore, Microfinance institutions were established efficient in supplying services to MSEs. Securing financial services is the key objective for the founding

MFls. MFls do not simply contribute financial services but also offered them with some non-financial services.

These non-financial services are intended to support the MSE with the essential business abilities to improved run the venture (Ledger wood, 1999). Microfinance institutions are assets to the emerging and transition countries (Ledger wood, 1999). The services they provide are modified to address the needs and goals of the local population and stress are towards the poor. The products and services put onwards to the society are not solutions by themselves to the several problems influencing the poor. That is never supplied by formal institutions especially and. so that microfinance institutions are towards linking the gap. Microfinance is merely a segment of what is wanted to increase firms which are unable of receiving the needed contribute from commercial banks. They expand new markets, raises income, generate and collect assets and encourage a customs of entrepreneurship (Albaladejo, 2012).

Microfinance institutions/Omo microfinance in the growth of MSEs in Wolkite town confirmed the subsequent outcomes. Firstly, 88.7 percent of MSEs had access to and received financial services from MFIs (Annex 6). It is supposed that access to loan facilitates MSEs to overcome their liquidity limitations and accept some investments such as the. Enhancement of technological inputs thus chief to a boost in production (Robinson, 2003).The financial services distributed by microfinance institutions/Omo microfinance were lending and savings. The kinds of credit supplied by Omo microfinance take two forms such as term loans and repayment loans. Loan term or maturity period and size was depending on the purpose of the loan, the ability of the borrower to pay the loan, and the lending capability of the institution. It is consideration that credit enhances growth of MSEs. Omo microfinance also brings voluntary and compulsory saving activities. Compulsory/especially 20% pre-loan saving may have a merit of rising saving habits between MSEs. Microfinance institutions also attempts to bring demand-driven pecuniary products that address the require of customers in different activities. Secondly, apart from financial services, microfinance institutions also offered nonfinancial services to MSEs. The major non-financial services supplied by microfinance institutions were training about 71.4% of respondents trainee, setting up business plan and monitoring and ~upervl,slOns, consulting services, and experience sharing gathering (table 4.12). Finally, the delivery of microfinance institutions products and services had transaction cost results in order to have larger outreach

(Christabell, 2009). Microfinance institutions visit their customers instead of them to approach to the institution thus declining the cost that customers may experience from. Microfinance customers confess that expediency is more significant to them than return. From the above discussion, one can assume that microfinance institutions played various roles in different phase of MSEs growth. At the establishing phase, they were supplied establish assets and consulting in starting events. In the growth stage microfinance institutions supplied important services in consultancy in financial supervision operation, lending short term working capital for mass production and inventory management, and long term capital for expansion of business.

Research questions (RQ2)

To what extent is the expansion of micro and small enterprise influenced by the financing ability of Mf.ls?

The growth of micro and small enterprise influenced by various factor of financing ability of microfinance institutions especially Omo microfinance in Wolkite, town such as access to loan, access to proper training and long process of loan supply and low amount of loan size. Based on this information the respondent revealed that the influencing factor of some important in analysis result about in table 4.10 shown that the respondent rate and rearrange the factors of most significant to growth access to finance, sufficient input, labor force, working area and innovative technology respectively. From this the financing ability of microfinance institutions provided is like access to finance sufficient input that is loan size, and innovative technology about 231 out of 267 respond to access to finance. The idea supported by empirical evidence, World Bank (2008) access to finance to growth outcomes, and enterprise improvement in particular.

The next influencing finance ability of MFIs were the financing program which the respondent least likely thing in table 4.16 discuss about 128/55.4% respond to long process of loan, high interest rate and low amount of loan size among this specifically long process of loan supply and low amount of loan size influence the micro and small enterprise in the area. Generally for the discussion the financing ability of microfinance institutions were one of key determinants which was access to finance, sufficient inputs and innovative technology and the financing program that contribute in growth of MSEs.

Research questions (RQ3)

Do MFls supply sufficient and reasonable infrastructure for the growth of MSEs?

Numerous factors were used in this survey to evaluate the sufficient and reasonable of microfinance institutions, specifically Omo microfinance funds. These include criteria employed to offer the loan, simplicity of loan criteria, adequacy of loan amount being supplied, and suitability of payment. According to Ledger wood, (1999), the transaction costs also affect the sufficient and reasonable of funds such as cost of forming a group, cost of negotiating with the lender, cost of satisfying investigate work, transportation to and from the microfinance institution, cost of time spent on project assessment and cost of attending meetings.

Examination of consequences in esteem to sufficient and reasonable exposed the subsequent results. Firstly, about 62.4% of MSEs study respondents indicate that the microfinance loans were no sufficient and reasonable (table 4.13). Second it may be considered as un informed i.e. not aware of the facility, or where and how to apply with in criteria of collateral about (63.3 percent) respondents response on it, based on this those who needed them the available and affordable infrastructure form to starting entrepreneur without capable collateral never received sufficient/reasonable base of loan. Other causes were also including high borrowing cost and fears of in ability to repay, and difficulty of the process to be given a loan. Lastly selecting financial resources were also determined by the phase or level of venture growth. Enterprise that is sighted as growing had it simple to obtain a loan.

Research questions (RQ4)

What makes micro and small enterprise to prefer source of finance from microfinance institutions?

Many parameters were used in this study to assess the micro and small enterprise to prefer source of finance from microfinance institutions, specifically Omo microfinance funds. These include low interest rate to offer the loan, loan provided to poor who have no access to finance from formal especially bank, loan provided for base capital, loan supplied by formed cluster and developing small amount size saving habits etc. Also this supported by new approach to

microfinance has taken basis in Ethiopia as could be seen from the inside of the proclamation passed to govern microfinance activities in Ethiopia (Proclamation No. 40/1996).

Microfinance institutions (MFls) are growing subsequent the proclamation, in the last six years, the microfinance industry showed remarkable growth in terms of outreach and performance. Examination of results in respect to prefer source of finance from micro finance institutions exposed in the following results. Firstly, about accessible to finance from MFls which have with low interest and long term maturity date (Annex 5). Next, the respondent revealed to prefer the source of finance from micro and small enterprise because of two reasons that based on social service like pre-source training and post loan training provided for enterprise growth and survival, about 71.4% of trained clients said to 61% growing micro and small enterprise (Annex 5). Therefore, those training provided by MFls help to run business, recording system and monitoring management operations. To this end, the economic sector is the key one in the growth of MSEs among those sector manufacturing sector-which was account about 47.2 % respond to growing, the rest respectively trade, service, construction and agriculture (table 4.7).Firms in manufacturing and service sectors, located at traditional market and those male-headed grow rapidly than their counterparts Gebreeyesus (2007).

Generally the binary logistic regression explained the predictor variables association with response variables. Hence, credits, loan criteria, training, access to market, average sale volume and profits are significant to growth as well as loan criteria were rejected because of the results and assumptions unrelated.

CHAPTER FIVE

5. 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. 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 town, socioeconomic characteristics of owners/manager, ages of the respondents, number or distributions of MSEs within sectors and initial current capital, challenges they have been facing and many other important variables. The arrangement for the presentation is directed by the hypotheses confirmed for discussion.

5.1 Overview of the Thesis and Its Major Findings

The thesis starts through an explanation of microfinance institutions role in total and to MSEs in particular. It was distinguished that access to microfinance institutions products and services is a fundamental element for the growth of MSEs. Therefore their sustainable expansion was mainly depend on the ability of microfinance institutions to mobilize resources from small valued to high valued and spend in MSEs activities. The research reviewed literature on the theoretical acknowledgment and empirical evidence of the role of microfinance institutions in enterprises growth, particularly in _MSEs growth. The review highlighted in general role of microfinance institutions. This confirms the different roles that microfinance institution, particularly, Omo microfinance institutions, play in the growth of MSEs. In esteem of microfinance institutions, the literature review explained that microfinance were funded to fill the gap lived among commercial banks and poor or tiny business venture and then improved the amount of undertaken productive projects. Separately from this the review exposed MFIs products and services package available to enterprises such as pecuniary services, social intermediation or non-financial services and firms expansion services.

Further, the literature review illustrated the character and significance of MSEs in economic growth, and MSEs expansion. The review specified the various definition and meaning of MSEs across country and venture group. About the meaning it was pointed out that there is no single separation line to classify ventures as micro, small, medium and large. Even though every

country has various descriptions, MSEs assist imperative function in its economic actions. Since the dimensions and parameters of MSEs expansion are large and difficult. The growth of MSEs has acknowledged consequence on joblessness decrease and poverty mitigation as MSEs have enormous contribution in job creation and income generation than large ventures but alter in employment size in MSEs were issue to various limitation such as financial, working area and other socio-economic circumstances.

Hence, appropriate considerate of these issues and situation composes a necessary initial point and is a means to the formulation of policies, designing of suitable involvement strategies and realistic steps by the government, non-government organizations and other stake holders in order to decrease poverty, joblessness and income disparity as well as to 'endorse continuing development at micro and macro levels. Moreover, one of the millennium growth goals is mitigate of poverty.

The study of empirical evidence indicated that in spite of their limitedness, MFls essentially form vital features of firm dynamics, like size and development, and then economic growth. Further, in the practical facts it was specified that the preceding scurvies any focused on entrance to 'finance and hindrance of MSEs, but other than financing function emerged to be indefinite. Finally, in the context of Ethiopia, especially in Wolkite there is some survey not reliable and compressive study to evaluate the contribution of MFls particular Omo microfinance in MSEs. Based on this gap it led to the recently research questions.

It was recommended that focusing on the mission for solution of a problem and research philosophy: a research method could be depending on quantitative, qualitative or mixed approach. In general, it was famous that the use of particular approach in evaluating a given event is possible to yield restricted outcomes. Thus, the recent study composed both qualitative and quantitative research approaches to obtain the advantage of a mixed method approach. Whereas the quantitative feature were survey (quantitative data), the qualitative feature utilized semi-structure interviews with MFIs managers/officials. With respect to survey, semi-structured questionnaire was circulated between stratified sample selected MSEs in Wolkite town and a response rate 86.5 percent was accomplished.

On the other hand, semi-structure interviews with Omo microfinance institutions managers officials were performed at various times in their home office in order to have some explanations on the subjects that were raised. As the results of the study joined with information gathered from MSEs and semi-structure interviews with micro finance Omo microfinance manager officials were together utilized in analyzing the role of microfinance institutions 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 specifically Omo microfinance incapable collateral and long process of supply. Thus, Ml'Is played important function in development procedure. In the context Ethiopia specifically in Wolkite town, Omo microfinance 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 Omo microfinance assisted MSEs, specifically small venture that are not accessed from formal source especially banks, to overcome financing limitations and thus accelerating their growth rate. Moreover supplying financial services, microfinance institutions also supplying social intermediation, non-financial services, and venture growth services. 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 manufacturing activities grew faster than the rest economics sector.

Finally, the' association between MSEs growth and the explanatory variables regression analysis explained seven predictor variables were significant and market competition and average sale volume were insignificant to growth. Meanwhile, 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 labor force and profits generation for the large parts of unqualified and semi-skilled. Labor 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 Wolkite town 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 favorable 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 globe.

5.3 Recommendations

The purpose of micro finance institution IS to aid the competitiveness and durable development of ventures, and the economic growth of the nation. This helped to attained for increasing the private render of services. In this manner the subsequent major procedures were recommended to the MFls and controller of MSEs sector. Access to financial and non-financial services has been the key factor to the growth of MSEs. Regarding to these MFls should provide available and reasonable loan/credits as well as provide the participator loan criteria for micro and small enterprise in the town. The analysis results confirms that they were the gap of gender participation In several of the performance and participation of female was very less in various economic activities /sector compared to male controlled MSEs in town. Therefore, the government and responsible sector should enhance female break in the habitually male dominated sector.

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.

5.4 Limitations and Further Research Directions

The drawback of this study is insufficiency of time constraints and shortage of money thus as to take out a careful investigate containing all MSEs growth factors and another economic activities MSEs. The center of the study also on particular part of the economy that is MSE is another drawback. Further, the thesis also overlooks the importance of MFls for medium and large enterprise and economic development. Among this it is obvious such factors as role of microfinance institutions/ Omo microfinance/ on other parts of economy were not assessed. Lastly this study was not being the detailed about MSEs instead, it merely examine the contribution of microfinance especially Omo microfinance institutions for development of MSEs.

These drawbacks lead to potential prospect study information. Generally this thesis merely stressed on the factors affect the growth of MSEs. Consequently, almost all finding arrangement for Micro and small enterprises sector in the town is remains unknown. Therefore, it is better to assess deeply the factors affect the growth of micro and small enterprise and economic growth supplies in Wolkite town for future research.

References

1. Abiola Babaide (2012). "Effects of Microfinance on Micro and Small Enterprises (MSEs) Growth in Nigeria" Asian Economic and Financial Review Vol.2, No.3, pp. 463-477.
2. Adzes, I. (1979). Organizational passages - diagnosing and treating lifecycle problems of organizations. Organizational Dynamics, 8, 3- 25
3. Ageba, G., &.Amha, W. (2006). Micro and Small Enterprises (MSEs) Finance in Ethiopia: Empirical Evidence. Eastern Africa Social Science Research Review, 22(1), 63-69. doi: 10.1353/eas.2006.0002
4. Albert Njiwakale Wanambisi (2013). International Journal of Academic Research in Business and Social Sciences Vol. 3, No.7 ISSN: 2222-6990.
5. Armendariz de Aghion, B. and Morduch, J. (2000). "Microfinance beyond group lending", Economics of Transition, Vol. 8 No.2, pp. 401-20 ..
6. Babajide, A. A. (2011). Effects Of MIcro financing On Micro and Small Enterprises (MSEs) In Southwest Nigeria.
7. Banerjee, A., and E. Duflo (2008). Do firms want to borrow more?
8. Bartlett, J.E., Kotrliik, J.K., and Higgins C.c. (2001). Organizational research: determining appropriate sample size in survey research, Information Technology, Learning, and Performance Journal, 19(1),5-12.
9. Becchetti, L. & Trovato, G. (2002). The determinants of firm growth for small and medium Sized firms. The role of the availability of external finance Small Business Economics, 19(4),291-306.
10. Beck T. A. Demirgllc-Kunt and V. Maksimovic (2005). "Financial and Legal Constraints to Firm Growth: Does Firm Size Matter?" Journal of Finance, Vol. 60(lFebruary), Pp.137-177.
11. Blundel, RK, & Hingley, M. (2001). Exploring growth in vertical inter-firm relationships: small and medium firms supplying multiple food retailers. Journal of Small Business Enterprise Development, 8 (3), 245 - 265.

Annex 1

Micro and Small Enterprises (MSEs) Survey questionnaire

Dear Respondent

This project is entitled "The factors that affect the growth of micro and small enterprises in Wolkite town". The researcher is sosina seyfu who is currently MBA student at wolkit University. The purpose of this study is to examine the factors that affect the growth of micro and small enterprises long run relationship among microfinance institutions, trade and industry offices and Micro and Small Enterprises growth in Ethiopia, particularly in Wolkite town. To supplement the information obtained from microfinance institutions by means of face-to face interviews, the researcher aspires to collect important data from MSEs operators m Wolkite town using a self-administered questionnaire. Participation in this study is totally voluntary. The information you provide was kept confidential and used only for research purpose. Personal answers were not being recognized in the researcher's thesis.

Part I. Background information of respondents

1. Academic status: Certificate☐ Diploma☐ vocational training☐ Bachelor degree& master☐ other☐

2. Sex: Male☐ Female☐

3. Age: Below20☐ 20-30☐ 30-40☐ 41-50☐ above 50☐

4. How many years have you been operating in this enterprise? 1-3☐ 3-6☐ 6-10☐ 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

Instruction: - please write the symbol "√" in the box in front of the choice based your information about the data.

6.What is the major operating activity of your enterprise?

Agriculture☐ Manufacturing☐ Trade☐ Service☐ Construction….

7. Forms of business: Partnership ☐ sole proprietorship ☐ Cooperative organized by Government ☐ 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 employments' ☐

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 employments ☐

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 ☐

14. If your answer to # 13 is yes, is the loan of micro finance institutions provide for your enterprise is sufficient? 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 #20 is 'yes', what type of proper training important to improve the growth of your enterprise? (Multiple responses possible) Education on illiteracy Production skills ☐ Management Skills ☐ Financial skills especially book keeping financial management ☐ e) 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 was the maximum sale volume that your enterprise reported during the last fiscal year? less than or equal to Br.10,000 ☐ Br. 10,001 -50,000 ☐ Br.50,001-100,000 ☐ above Birr 100,001 ☐

21. On average the sales volume that your enterprise reported during the last fiscal year

sales?

Increased greatly ☐ Increased ☐ stayed the same ☐ decreased ☐ Decreased greatly ☐

22.Does your enterprise during last year perform high profit? Yes ☐ No ☐ Don't know ☐

23. Can MFI loan is important in your enterprise growth? (Multiple response possible)

☐ Building family assets, (health and education)

☐ Increasing group property

☐ Enhancing 'enterprise profitability

☐ Improving saving habits of members

☐ Other (if any), specify ::, .

24. Name three things you like most about the Microfinance program: Low interest rate ☐

Rearrange loan size ☐ Provide proper training ☐ Provide individual loan ☐ Make

loan for family consumption ☐

25. Name three things you like least about the Microfinance program: Loan supply by group

☐ Long process of loan supply ☐ High interest rate ☐ Low amount of credit

26. Why does your organization prefer to finance its operations from microfinance Institutions? .

27. Does microfinance institution have special resources intended for your enterprise Expansion which was not specified in above questions? .

28. What is the contribution of the microfinance institutions in your enterprises expansion?

29. What is the impact of microfinance institutions financing ability on the growth of micro and small enterprises? .

Annex 2

Semi-structure Interviews questions prepared for microfinance institutions

1.Does your organization have special products/services designed for MSEs?

2.What are the instrument; mechanisms or criteria using in your organizations for financing to MSEs? .
3.Does your financial/non financial services really as sufficient and as effective in making for the exact wants of MSEs?

4.Do you believe modalities for the resolution of the challenge met by MSEs in accessing microfinance institutions products/services . Annex 3

Chi-Square Test table

Variables	Value(Pearson Chi-Square) X^2	DF	Significance Level
Access to Credits	47.373	1	.000
Loan Criteria of Microfinance	22.829	3	.000
Proper Training	49.935	1	.000
Access to Market	12.407	4	.015
Average Sale Volume	63.334	3	.000
Profits	71.813	1	.000

Annex 4

Multi-Co-linearity of Pearson Correlations

Explanatory Variables	1	2	3	4	5	**6**
Access to credit of MFIs(1)	1					
loan criteria of Microfinance(2)	-.074	1				
Proper Training (3)	.321	-.044	1			
[Access to Market (4)	.160	-.023	.053	1		
Average Sales volume (5)	.242	-.118	.201	.033	1	
1Profits of firm(6)	.382	-.036	.247	.198	.287	1