WOLKITE UNIVERSITY
COLLEGE OF AGRICULTURE AND NATURAL RESOURE

FACTORS AFFECT THE GROWTH OF MICRO AND SMALL SCALE ENTERPRISE IN WOLKITE CITY

A SENIOR RESEARCH PROJECT

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ABSTRACT

The research was conducted under the title factors affecting the growth of MSSEs on wolkite City of South Regional State. The main objective of the study was to assess the growth of micro and small scale enterprises owners in wolkite town of south regional state, and more specifically; to find out the major constraints which affect the growth in total asset of the sector. Five types of micro and small scale enterprises were selected to proceed this research (construction, trade, publication, service and manufacture).The selected design to conduct this research is not experimental or laboratory research design rather it is survey. Both primary and secondary sources were used to gather the data's. The primary data were structured interview and questionnaire. These methods were helpful in collecting information from operators of micro and small scale enterprise in the organization of the sector. The secondary data had been collected from different thesis, and bureau of MSSE. Simple random sampling technique was selected to select kebele. The data gathered during this study have both qualitative and quantitative nature, and it was analyzed by using descriptive statistics like percentage and frequency and econometric model (multiple linear regression models). Based on collected data, the study identified the factors that affects growth in total asset of MSSEs were access of credit infrastructure, and working premise.

1. INTRODUCTION

1.1. Background of the study

It has long been recognized that in developing countries, micro and small scale enterprises (MSSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. MSSEs by virtue of their size, capital investment and their capacity to generate greater employment have demonstrated their powerful propellant effect for rapid economic growth in developing countries (ILO, 2008; Lara and Simeon, 2009).

In today's world, improving the standard of living and quality of life of citizens is a hot issue particularly in developing nations. The development effort made by the Asian tigers (Taiwan, Hong Kong, Singapore etc) shows a successful achievement of standard living and quality of life of citizens. However, it is not real in most developing nations like most African countries due to various factors such as poverty, war, illiteracy, age, capital, task environment etc (Meseret, 2009; Raija, 2004).It is widely accepted that the micro and small scale enterprise sector has the potential to provide a livelihood for a considerably large number of people in least developed countries such as Ethiopia.

Accessing finance is a make-or-break issue for many micro and small scale enterprises (MSSEs) in the developing world. Although, MSSEs are major contributors to the gross domestic product (GDP) and employment in economies around the world, their financial needs are underserved, which holds back their growth. Where financing is available, it is usually out of reach because of short payback periods and excessive collateral requirements. Nonbank financing options, such as leasing, are not always available. In many developing economies, certain segments of the population, primarily women, are excluded from business activity, because traditionally they do not own land, which is often the preferred collateral for loans (Sahar, 2010).

In Ethiopia, MSSEs Sector is the second largest employment-generating sector following agriculture (CSA, 2005). According to (CSA, 2005) the sectors contributes 3.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2004. In spite of the enormous importance of the micro, small and medium scale enterprises (MSMSE) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Gebrehiwot and wolday, 2006)

The main sources of startup and expansion finance or funds for most MSSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSSEs (Admasu 2012). Although significant number of researches in Ethiopia have identified finance as one of the main factors that affect success, performance and growth of MSSEs (Admasu, 2012; Brhane, 2011; Fetene, 2010; Gedam, 2010; Haftu,2009;Mulugeta, 2011), there is little empirical evidence on effects of access to finance in Micro and Small Enterprises.

In Ethiopia, MSSEs were found small comparing to other African countries due to lack of access to markets, finance, working premises, supply of raw material, lack of sufficient capital, business information, business premises, the acquisition of skills and managerial expertise, access to modern technology, and legal and regulatory environments (MoTI,2005). Similarly, Mulu (2007) founds that the average annual growth of the surveyed six major towns in Ethiopia was 9 percent since start-up and 69 percent of these MSSEs did not growth due to the problems of inadequate formal source of credit and informal network. In addition, some studies (Admasu, 2012) reported that most MSSEs have no growth and remain at their initial level due to different internal (owner's/operator's related and/or firm's related) and external factors.

In order to alleviate such problems, the federal government of Ethiopia has introduced its first MSSEs development strategy which states that "Micro and small scale enterprises are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors. In recognition of the important role MSSEs have to play in creating income and employment opportunities and in reducing poverty, the government drafted its first Micro and Small Scale Enterprise Development Strategy in 2005 (MOTI, 2005)." Accordingly, the region based on the countries policy and strategy has design to implement the activities of MSSEs such services, construction, manufacture, trading, association and retailer and others. This designed strategy recognizes the contribution of MSSEs in the employment generation, increasing individual’s income and total growth asset; in general, improving the quality of life of citizens.

In this regard, wolkite city, which is found in the South regional state of Gurage zone, has been faced with economic, social and political constraints towards its residents. Like any other cities in the country as a whole and in the region explicitly, wolkite city has acute shortage of capital, working place, training, and lack of accessibility to market to their products and others by the small scale operators during their start-up and in the process of their operation

1.2. Statement of the problem

Micro and small scale enterprise is a key to long-term economic growth with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Gebrehiwot and wolday, 2006)

MSSEs were largely affected by lack of access to markets, finance, working premises, supply of raw material, lack of sufficient capital, business information, business premises, the acquisition of skills and managerial expertise, access to modern technology, and legal and regulatory environments (MoTI, 2005).Small businesses enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, poor management system and lack of training opportunities, shortage of raw materials, poor infrastructure and over-tax (Eshetu and Zeleke, 2008)

A key challenge facing the country is to come up with policies that would help raise micro and small scale enterprise in order to stimulate and sustain economic growth.Even though, micro and small scale enterprises are vital with regard to employment creation for several citizens in the urban and rural areas of the country, there are various challenges such as inadequate skill lack of capital to run the business, lack of training, lack of working place, lack of access to market to their products etc are most commonly observed constraints in the sector particularly in scale city.

In this study to collect the basic information and special attention to the concerned bodies about the operator’s factors affecting of MSSE in the city. Having the factors in mind, this study can be used to show the major problems on MSSEs in the study area and to assist poverty reduction actors to improve the total asset or standard of living through providing some possible solutions in the major constraint areas which base the major findings. In general, this study addressed to find out the major factors of micro and small scale enterprises in order to improving the MSSE owner's total asset growth and standard of life in wolkite city.

1.3. Objective of the study

1.3.1. General objectives of the study

The general objective of this study was to analyze the factors affecting micro and small scale enterprise growth in wolkite city.

1.3.2 Specific Objectives of the Study

Based on the general objective of the study stated above, the specific objectives of the study were :

- To characterize/summarize the nature of MSSEs in Wolkite city.
- To identify the key factors that affects the growth of MSSEs in the study area.

1.4. Research Question

1. What are the nature and growth characteristics of MSSEs in wolkite city?
2. What are the factors that affect the growth of MSSEs in the study area?

1.5. Scope and Limitation of the Study

In order to know whether the factors that affect growth of MSSE, many measurements used to measure the growth of MSSE such as the growth in total asset, growth in number of employees, profitability and others. However, in this study we were only used to the growth in total asset of MSSE in the study area due to constraints of time, budget and access of computers. Therefore, the researcher believed that the other growth measurements of MSSE are springboard for further study.

The main limitation of this study was that the study not incorporate the characteristics or enterprise situation of other areas because it was cover only wolkite city, thus, the result of this study (micro level) may not be reliably used for other cities.

1.6. Significance of the Study

Understanding the relationship between growth and factors affecting on MSSEs is vital for a given study area for the purpose of economic development. The study was important for micro and small business operators in Wolkite City for various reasons.

- First, identifying the problems facing MSSE and development in wolkite helps to achieve the objectives of the MSSE operators.
- It was help to share of the sector in improving the total asset growth of the poor peoples and in reducing shortage capital and labor force of the study city to give considerable attention on the expansion of the sector.
- It was help to give immediate solution to the problems. Furthermore the study may benefits other researchers who have an interest on the related issues in the study area.
- In general the study comes up with its recommendation which may identify the factors in order to reduce the negative influencing of MSSEs.

2. LITERATURE REVIEW

2.1. THEORETICAL REVIEW

2.1.1 Micro and Small Scale Enterprise (MSSE) definition

These terms and concepts among include “enterprise”, “micro enterprise” and “small scale enterprise’’.

An enterprise can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level. An enterprise might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body.

Micro Enterprises are those business enterprises with a paid up capital of above Birr 100,000 and not exceeding Birr 200,000, and excluding high-tech consultancy firms and high-tech establishments.

Small Enterprises are those small business enterprises with a paid up capital of not exceeding Birr 200,000 and excluding high-tech consultancy firms and other high-tech establishments.

2.1.2 Approaches to Define MSSE

There is no standard definition of micro, small, medium and large scale enterprises. The definition varies from country to country (Lepi, 2005, Wolday, 2007). For instance, in Ghana, there are a number of criteria which serve to define small scale enterprises. Among them, the number of employees employed in the sector is the major one and fixed asset is the other criteria. According to the survey conducted in Ghana, the number of employees in the small scale enterprises is less than 10 workers and in terms of fixed asset not more than 10 million. Micro enterprise is one with fewer than ten employees; and a small scale enterprise is one with 11-50 employees (Annette, 2005).

According to Lois and Annette (2005), there were no well registered and documented data concerning enterprises in Ethiopia. The government of Ethiopia did not show interest in the micro and small scale enterprises until 1990s and an attempt was not made in quantifying its nature, there is currently no classification system of enterprises by size of firm, survival and growth rate etc**.** One of the first comprehensive collections of data on MSSEs sector was undertaken by the Central Statistics Authority (CSA) in 1996/97.According to this survey, there were almost 590,000 micro and 2,731 small scale industries found in the country.

The Ethiopian Proclamation number 124 of 1982 has an official legal definition for small scale industries. According to this proclamation, activities such as oil mills, garment factories, shoe factories, shoe polishing, candle making, steel works, bakers, grain mills metal works breweries etc are included under the small scale activities (Wolday *et al*., 2007).

As indicated above Wolday (2007) verified that various countries have different criteria to determine the size of their enterprises such as number of employees, assets employed, sales turnover or a combination of all these. The Ethiopian government, in its micro and small scale enterprise strategy (2004), defined MSSEs based on the size of the capital and level of automation as follows.

"Micro enterprises are those small business enterprises with a paid up capital of not exceeding birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments and Small Scale enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000, and excluding high-tech consultancy firms and high-tech establishments (Welday, 2007).

2.1.3 Characteristics of MSSE in Ethiopia

Like other developing countries, in Ethiopia MSSE are informal sectors are the main source of employment and income for vast number of people (Solomon, 2008). Many authors argued that the largest private sector constitutes the MSSE and the medium industries and created the largest number of employment in the country (Mulu, 2009, Rahael, 2010). The government of Ethiopia also gives greater emphasis for the development of MSSE in its strategy and policy formulation. In developing countries, the informal sector is a large source of employment and income, particularly for the urban population. The informal employment, outside of agriculture, is defined as employment that comprises of both self-employment, in the informal enterprises, and wage employment, in the informal jobs, without secure contracts, worker benefits, or social protection and represents nearly half or more of the total non-agricultural employment in all regions of the developing world. In Ethiopia, about half of the urban workforce is engaged in the informal sector and Addis Ababa nearly accounts for about 40% of the total operators in micro enterprise activities (Rahael, 2010).

According to the 2002 CSA small scale manufacturing survey, over 89% of the informal sector operators are concentrated in manufacturing, trade, hotel and restaurant activities. Of the small scale manufacturing industries 85% are engaged in the manufacture of food, fabricated metal furniture and old traditional cloths. The survey also revealed that the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial. Hence, in order to channel the support facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

The MSSE sector in Ethiopia appears to be fraught with a number of constraints that stifle its rapid growth and development as a means of overcoming poverty and unemployment (Zewde, 2002). According to Zewde, the main constraints that face MSSE include Inadequate Empirical Research on Women in MSSEs, Limited Responses by Financial Institutions to MSSEs, Lack of Appropriate Technology and Related Facilities, Lack of Strong Organizations for Women Entrepreneurs, Lack of Co-ordination Among Business Development Service (BDS) Providers, Lack of Access to Land and Premises, and Lack of Market Access and Market Information. The Ethiopian government also identifies major constraining factors of the sector (MOTI 2005). These include: inadequate marketing and production space; facilities, backward production technology; lack of innovation; marketing problems; lack of information; poor input quality; absence of intra and inter enterprises networks; and lack of financial capital. Similarly (Solomon, 2009) identified the major constraints faced by small enterprises includes demand problems, paucity of capital, equipment and technology, human and material inputs, rules and regulations and institutional bottle necks.

2.1.4 Theoretical Review on MSSEs

Different theorists followed different perspectives in several related fields such as micro and small scale enterprises. The following development theorists follow their own ideologies. The classical development theories such as the modernization and dependency theory assume that the small or informal enterprises are generally unproductive. According to modernization theory, development is a gradual process which implies; for instance, agriculture is mechanized gradually and small, low-productive artisan workshops are replaced by large scale industrial enterprises through time. This theory assumes that the structure of the industry found in developing countries eventually will mirror what happened in Europe and USA, where large scale, capital intensive enterprises emerged. In large towns, there would be the concentration of production in order to exploit the urban labor and capital markets. Hence, small, informal enterprises would eventually disappear, similar to what happened in Europe (Tegegne and Mulat, 2004).

The other theory, the dependency or dominance theory, views that larger national and international corporation dominate the world's economy. The head quarter of these large corporations has is ted in the capital city of developed countries and their production units have been distributed to developing countries which have cheap production factors. They exploit cheap factor of reduction and enjoy with economies of scale and become more profitable than small local enterprises. Under this circumstance, small enterprises can survive either in direct dependency on large enterprises, as subcontractors to them, or as petty producers and traders operating in extremely competitive markets with little possibility for growth and accumulation of capital to invest cited in (Tegegne and Mulat, 2004).

The recent theoretical perspective in the sector includes flexible specialization and network approach. 'Flexible specialization or production system is based on the manufacture of custom-made products by use of multi-purpose technology and flexible production methods operated by skilled workers (Helmsing, 2000 cited in Tegene and Mulat 2004).

The network theory sees the production system as a system of specialized enterprises linked to her enterprises (as customers or as producers of inputs, investment goods or services), consumers or suppliers and the like. According to this view, the production system is networked to either the supplier or the customer direction. Networking implies local and external linkages such as suppliers, customers, employees, public authorities, family and friends, banks, business services, large enterprises, training institutions, sectored and local business associations. In this context, the theory advocates for the enterprise to be dependent not only on other enterprises but also on the broader social network of the owner and his/her family (Tegegne and Mulat, 2004).

Currently there are two dominant theories on determinants of growth of MSSEs: the Industrial organization model and resources based view. The industrial organization model sees growth of firms from an external perspective, that is, environmental/external factors, instead of resources and capabilities that are internal to the firm, dominant role on a company's growth and strategic actions of a firm (Hitt *et al*., 2009). According to this model a business enterprise must first consider the external environment (the industry in which it operates) and search the one that is most attractive to the firm and design a strategy that fits to (is required by) the characteristics of the industry. Then it must be able to successfully implement that strategy to increase its level of competitiveness so that it generates above average return.

2.2. EMPIRICAL REVIEW

Many empirical studies have been conducted to investigate the determinant factors affecting MSSEs growth. Generally, these factors relate to entrepreneurial, firm, inter-firm characteristics and external factors. Entrepreneurial characteristics such as owner/operator gender, age, education level, previous work experience, management skill, economic background and marital status determine the growth of MSSEs (Chirwa, 2008; Habtamu, 2012; Janda *et al*., 2013; Mbugua *et al*., 2013; Mulu, 2007; Osinde, 2013).

Other studies (Clover &Darroch, 2005; Enock, 2010; Mulu, 2007; Tiruneh, 2011) found that firms related factors including age, size, initial capital, location, formality, type of business to be the most determinant factors affecting the growth of MSSEs. Moreover, some studies (Atieno, 2009; Habtamu, 2012) revealed growth of MSSEs affected by inters- firm related factors like linkage, network, and competition.

The growth factors that affects MSSEs growth was also associated with external factors such as access to credit, infrastructure, market, working place, technology, social services and other legal and regulatory frameworks (Admasu, 2012; Ahiawodzi & Adabe, 2012; Gichana & Barasa, 2013; Hove &Tarisai, 2013; Ishengoma & Kappel, 2008; Kefale & Chinnan, 2012; Kinda & Loening, 2008; Mbugua *et al*., 2013; Mulu, 2007; Syed & Mohammad, 2008).

Growth of MSSEs improves with increasing in education (Ahiawodzi & Adabe, 2012; Mulu, 2007). On the other hand, limited studies revealed the effect of increasing educational level of the owner/operator on the growth of MSSEs is to some level (Habtamu, 2012; Haftom, 2013; Schiebold, 2011). Some studies (Kokobe, 2013; Mulu, 2007) reported that a firm with more years of work experience typically have faster-growing than their counterparty. With regard to the sector-growth relationship firms engaged in manufacturing and service sector grows faster than their counterparts (Mulu, 2007; Habtamu, 2012; Haftom, 2013; Kokobe, 2013).

There were other empirical studies (Haftom, 2013; Janda *et al.,* 2013; Mulu, 2007) which supported the idea that young MSSEs and smaller are more likely to grow faster compared with larger MSSEs and that have been existed longer period. On the other hand, Mateev and Anastasov (2010) revealed that there is positive relation between firm age and its growth by assuming firms may benefit from learning which enables them to develop expertise in production, management, and marketing. Start- up capital of a given firm has significant positive effect on the growth of MSSEs (Ahiawodzi & Adabe, 2012, Habtamu, 2012; Haftom, 2013).
The personal characteristics of the owner-manager make a difference to the firm's ability and likelihood of accessing external finance (Irwin & Scott, 2010; Cassar, 2004). Vos *et al.,* (2007) found that younger owner managers tend to use more bank overdrafts and loans, credit cards, own savings, and family sources than older owners who appear to be more dependent on retained profits.

According to Mabhungu *et al*. (2011), formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining micro and small scale enterprises' access to finance. Financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral reduces the problem of uncertainty, since the lender can theoretically recover some, or all, of his loan in the event of default. Moreover, the borrowers will find it costly to put valuable collateral if they intend to default with the proceeds of the loan, because they will lose their collateral. Credit terms control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Richard, 2010). The working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets. Most of the women do not have their own working premises; their working place is shared with other members in the cooperative (Rahel & Issac, 2010). The most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high income communities, small firms with access to these services incur a relatively high cost per unit for the service. Besides, small size firm cannot afford to invest in private public goods to buy services from private providers which would be more expensive than supplying from government suppliers (Ishengoma, 2004). A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (hygiene standards in cafe), hinders their participation in linkage relationships (Collier, 2000).

3. RESEARCH METHODOLOGY

3.1. Description of the Study Area

Wolkite is located in south eastern of Gurage zone of the south regional state of Ethiopia. It has three main sub cities which includes; Gubre sub-city, Addis sub-city' and Bakur sub city. Wolkite city is located in the south east and found at about 113km from the capital city of Ethiopia. It has altitude and longitude of 8^0 17N and 37^0 47E within elevation between 1910 and 1935 meters above sea level respectively. The annual average ran falls is from 700-1300mm Belge rain from March to May, winter rain from June to September mid, and mean monthly temperature 29^0c. Agro ecologically Wolkite city is classified as weina dega.

According to Wolkite city administrative office (2018), the city has a total population of 43,195 among those 21,963 are males. The main economic activities are, cultivation of land, rearing of animals, and trading activities as the source of income for the community.

The economic sector of the city is mainly composed of construction, manufacturing, trading, and services and urban agriculture. There are 298 micro and small enterprises in in the town (Wolkite city MSSEs development office, 2018).

Table 3.1: Sectors and number of MSEs

Sr No.	Sector MSEs	Number of MSEs
1	Construction	35
2	Trade sector	155
3	Urban agriculture sector	-
4	Multi-purpose public service	24
4	Services	48
5	Manufacture	36
Total		298

Source: Wolkite city micro and small enterprises development office, 2018.

3.2. Type and Sources of Data

To achieve the purpose of this study and collect reliable data, both primary and secondary sources of data were used in this researcher. The primary data were collected through questionnaire and interview. Secondary sources of data were also gathered from different published and unpublished documents, books, electronic sources, magazines, Wolkite city from MSSE bureau etc.

3.3. Sampling Technique

There are two general types of sampling methods. These are probability and non-probability methods of sampling. But in this study the probability sampling method was used. In this study the simple random sampling and stratification methods of probability sampling method were used. The first sampling technique used stratification methods of probability sampling method in order to categorized micro and small scale enterprises in to five groups in the selecting kebele of wolkite city. These are trade, service, manufactures, and construction and private traders. All these five groups in the three kebeles were the target population for this study. Because of heterogeneity among enterprise groups, stratification sampling method was needed.

Next, from the total 298 MSSE found in the three kebeles, the study randomly selected 75 of them, from all sectors.

3.4. Sample size Determination

In order to draw a representative sample size, the study applied the following formula given by (Yemane, 1997).

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

Where: n = statistically acceptable sample size

N = Total size of target population

e = level of precision (error level) at 90% confidence level (0.1).

Using this formula, the statistically acceptable sample size from the given population with maintaining a 90% confidence level is found to be (75) enterprise in the three Kebeles.

Table 3.2 sample size determination

No	Strata enterprise	Population Size	Proportion	Sample size
1	Construction	35	12	10
2	Private trade	155	52	37
3	publication	24	8	6
4	Services	48	16	12
5	Manufacture	36	12	10
Total		298	100	75

Source: Own Survey Design, 2019

3.5. Method of Data Analysis

In this study, a descriptive method of data analysis was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (frequency, percentage, minimum, maximum, mean and standard deviation) Moreover, the reason for using descriptive statistics is to compare the different factors. Qualitative data that was obtained from the interview was presented and discussed as they found to be important. The Statistical Package for Social Science (SPSS) software version 20 was used to analyze the data.

3.6. Definition of variables of interest

There are various arguments in the existing literature on how to measure growth of MSSEs, and scholars have used a variety of different measures. These measures include, for example, growth of sales, employees, assets, profit, equity, and others (Davidson and Wiklund, 2004). Thus, there is a little agreement in the existing literature on how to measure growth thus most previous studies have used a variety of different measures such as total assets, sales, employment size, profit, capital, and others (Berkham et al., 1996; Davidsson and Wiklund, 2000; Holmes & Zimmer, 1994). Moreover, growth has been measured in absolute or relative terms. Perhaps the most common means of firm growth is through relatively objective and measurable characteristics such as growth in sales turnover, total assets and employment size.

These measures are relatively uncontroversial, the data tend to be easily available and it increases the scope for cross study comparability (Freel and Robson, 2004). But it is difficult to get reliable time series data on growth of fixed assets/sales (better indicator of growth) and MSEs owners would be unable to report their sales or profits even at the present time expecting that their guesses as to sales of ten years ago would be accurate is folly.

Hence, the study tried to summarize the factors that affect the growth of MSSEs based on the current total asset capital in Birr, registered for MSSE since their startup period, as an explained variable of interest and the following as an explanatory variable. The potential variables that are supposed to influence MSSE decision in the study area are presented below.

Firm age: it was defined as the actual age of MSSE from their start up to date. In addition, firm age is also another way to measure experience of the operator. The experience of managers refers to the managers' knowledge or skill acquired over time. When the managers have the experience of being able to lead, inspire and champion followers, the enterprises have good performance (George, 2005). Thus, this variable will be expected to have a positive impact on growth of MSSEs decision. Firm age was measured as a categorical variable and categorized as (1) ≤ 1 year, (2) 2-5 year and (3) > 5 years.

Sex: being categorized as 0 for female 1 for being male. Sex of the respondent is also another important variable to be considered in this study. MSEs are particularly important for women since they offer a more flexible, less restrictive form of employment and can be undertaken by the skill they acquire. The development of MSEs is becoming a very critical issue for the unemployed people especially for women. However only new start rate is higher for Women Operated Micro and Small Enterprises (WMSEs). They grow less rapidly than those headed by males and relatively high percentages of the WMSEs were closed due to personal and other non-business failure reasons (USAID, 2001) Studies also show that male-headed firms' grow more than double than that of WMSEs (Liedholm, 2001; Mulu, 2007).

Access to working premise: the working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets (Rahel and Issac, 2010). Any business enterprises need enough working and marketing place for their product and services. Unless having enough working and selling place, the productivity and growth of MSSEs will go down due to the fact that the product produced need warehouse to store and selling outlets to rich in the hands of final customers which is major determinant for existence and growth of any form of business enterprise. From fact, MSSEs that have own working premise is more likely to grow faster as compared to others. It was measured as a categorical variable, which takes a value of 1 (Own premise), 2 (Rented), 3(Family), 4 (Government building).

Access to Credit: Availability of credit from formal sources financing. Those MSSEs that have access to credit from formal financial institutions (bank, micro finance etc.) are expected to grow faster than those that have not. This is a dummy variable, which takes a value 1 if the sampled operators had access to adequate credit availability from formal credit sources and 0 otherwise.

Access to Infrastructures: A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (hygiene standards in cafe), hinders their participation in linkage relationships (Collier, 2000). This variable was included to measure availability of infrastructural facilities obtained by MSSEs in Wolkite city. Specifically it is used to measure availability of infrastructure facilities other than credit access, such as raw materials/inputs, training, market information, support from governmental (responsible bodies) and other non-governmental organizations. In addition, it also includes other basic infrastructure availabilities like power, water, road, and so forth that are expected to enhance and help to the growth of MSSEs. It was measured as a dummy variable, which takes a value 1 if the owner/operator/manager of the MSSEs reported yes to the availability of access to infrastructure facility and 0 otherwise.

Education level of the operator: Education is needed for the success and productivity and growth of micro and small scale enterprises. The implication is that as the education level of a sample respondent increase, there would be a better understanding of the risks and opportunities associated with MSSEs decision making. In the context of this study, this variable takes a value (1) illiterate (2) primary and secondary (3) certificate & above.

Age of the owner/manager: Age of the owner/manager of the MSEs was included, because in the literature reviewed discrimination based on age is one of the factors which affect participation of societies in MSSEs.

4. RESULTS AND DISCUSSIONS

This chapter present and discuss the characteristics of the sampled MSSEs in the city and summarizes the factors affecting the growth of micro and small scale enterprises.

4.1. Descriptive result on the characteristics of MSSEs

The survey has collected a wide range of information which is essential to summarize the findings and understand the results of the study on MSSEs characteristics in Wolkite city.

4.1.1. Growth in total assets of MSSEs

Table 4.1: Current Total capital/asset of MSSEs

	Mean	Max	Mim	Sdv.
Today's total capital/assets of MSSEs in birr	125000	200000	100000	16000

Source- own Survey result, 2019

As indicated in the above table, the current total asset capital on average is estimated to be 125000, with a standard deviation of 16,000 among the operators.

4.1.2. Sex composition of the respondents

Table 4.2: Sex of respondents

Sex of the owner/operator/manager of MSSEs	Frequency	percentage
Female	35	46.7
Male	40	53.3
Total	75	100

Source: - own Survey result, 2019

As indicated on the above table, 53.3% the respondents are male who engaged in micro and small scale enterprise of in three selected kebeles of Wolkite city. The remaining 46.7% sample respondents are female participants in the sector. From the above table it can be summarized and understood as men participation to run or operate the MSSEs business is more than women participation in Wolkite city.

4.1.3. Access to working premises

Table 4.3: Working Premise of MSSEs operator

Working premise	Frequency	Percentage
Own premise	27	36
Family/friends	22	28
Rented	11	14
Government	15	20
Total	75	100

Source- own Survey result, 2019

As can be seen from the above table, 64% of respondents do not own premise and only 36% of them have own premise. This shows that a large majority of MSSE operators are exposed to rent from private owner, family, government building or others and this increases vulnerability of MSSE owners..

4.1.4. Educational level of the respondents

As it is presented in the table below (table 4.4), 41.33% of requested operators of micro and small scale enterprise had attended primary and secondary school. In addition, 40% of them have certificate and above and the remaining 18.67% were reported to be illiterate. This shows that most of the operators had primary and secondary school level.

Table 4.4: Educational status of the respondent

Educational status	Frequency	Percent
Illiterate	14	18.67
Primary & Secondary	31	41.33
certificate and above	30	40.00
Total	75	100.00

Source- own Survey result, 2019

4.1.5. Sources of startup capital of MSSEs

The startup sources of finance can be raised from multiple sources. A business can use internal or external funds to finance their operations and investments based on the accessibility of the alternative sources of capital. A firm can use either one of the two financing sources or both of them. Similarly, some MSEs could generate the sources of finance from their personal saving, families (relatives), Equib, debt and from other sources of finance.

Table 4.5: Source of startup finance

Source of startup finance	Responses	
	N	Percent
From formal financial institution	20	27%
From relatives (families)	32	43%
From personal saving	10	13%
From Equib	13	17%
Total	75	100%

Source- own Survey result, 2019

The above table (table 4.5), indicate as a sources of startup finance 27% MSSEs have generated their initial capital from formal finance institutions, 43% from relatives (families), 13% from personal saving and the remaining 10 generated their initial source of capital from traditional form of financial source like Equib.

4.1.6. Firm age

Table 4.6: Firm age

Firm age	Frequency	Percent
≤ 1 year	19	25.7
1-5 year	39	52.9
>5 year	17	21.4
Total	75	100

Source- own Survey result, 2019.

With regard to MSSEs age table 4.6 indicated that majority 39 (52.9 %) of the surveyed MSSEs have existed in business for 2-5 years. Next to this 19 (25.7%) and 17(21.4 %) of the MSSEs have existed in business for less or about 1 year and more than 5 years, respectively.

4.1.7. Access to credit

Table 4.7: Access of credit

Access of credit	Frequency	Percent
No	49	65.3
Yes	26	34.7
Total	75	100.0

Source- own Survey result, 2019

As indicated on the above table, 34.7 % the respondents have access to credit who engaged in micro and small scale enterprise of in three selected kebeles of wolkite city. The remaining 65.7% sample respondents have not access to credit in the sector. This shows that a large majority of MSSE operators have access to credit.

4.1.8. Access of infrastructure

Table 4.8: Access of infrastructure

Access to inclusive/general good infrastructure	Frequency	%
Yes	29	38.7
No	46	61.3
Total	100	100

Source- Survey result, 2019

As indicated on the above table, 38.7% of the respondents have access to infrastructure who engaged in micro and small scale enterprise of in three selected kebeles of Wolkite city. The remaining 61.3% sample respondents have not access of infrastructure in the sector. This shows that a large majority of MSSE operators have access of infrastructure.

4.1.9. Age of the respondents

Accordingly 92.5% of them were between 15-45 years of age, which represents the productive work force group; those are most participants in the MSE and from our survey 7.5% of them were between ages of 45-60. In this case most of the time the MSE participants are the young age group of population which is 15-45.

Table 4.9: Age category of the respondent

Age Group	**Frequency**	**%**
15-45 age	69	92.5
45-60 age	6	7.5
Above 60 age	0	0
Total	75	100

Source, own survey, (2019)

5. CONCLUSION AND RECOMMENDATION

5.1. CONCLUSIONS

In developing countries, Micro and Small Enterprises (MSEs) by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their paramount effect on rapid economic growth.

This study was aimed at the characterization and identification of the growth determinants of MSEs based on a survey covering 75 randomly selected MSSEs from Wolkite city, southern regional part of Ethiopia through a descriptive method of data analysis. Accordingly the study identified source of access to credit, access to infrastructure (training, support, raw material and other basic infrastructure) and access to working premise and source of startup capital as determinant factors that affect the growth of MSSEs in their asset/capital. This was indicated in the discussion part of this paper. To further support its findings the study used the qualitative data obtained from the questionnaire and the interview during data collection.

As it was presented in the above most of the respondent (about 66%) of them did not have access to credit from formal institution.

In addition, with regard to infrastructure availability only 39% of them reported to have adequate and good infrastructure. Availability of infrastructure was further captured by various measures, such as there was no training (of any kind) and little support from the government/non-government organization and further lack of raw material availability through different means were also reported by the respondent, which clearly showed that the lack of this kind of infrastructure affects their growth in general.

Furthermore, the study also able to summarize that, only 36% of the sampled respondent had their own working places, the rest used other sources, such as renting, family etc. the other major concern the study identified as a growth determinant is source of startup capital, which is highly linked to access to credit only 27% of them obtain from financial institutions.

5.2. RECOMMENDATIONS

The role of MSSEs is consistently recognized in total asset and income generating and has become a major playing with dual objective of enhancing total asset growth and identifying the factors. However, MSSE growth is multidimensional phenomenon and there is substantial heterogeneity in a number of factors. Support program need to consider the heterogeneous nature of the MSSEs. The finding of the result summarized and showed the factor that affects the growth in total asset of MSSEs which include access to credit, access to infrastructure and access to working premise and source of startup capital.

Thus, based on the findings of the research, the following suggestions are worth mentionable to be addressed the factors that affect the performances of micro and small enterprises

- **Access to working place:** - as it was found most of the respondent lacks of own and enough working place (difficulty to get working premise) in the study area the main problem of micro and small scale enterprise. Therefore, the MSSEs development office in collaboration with the municipality should strive for the MSSEs to have own working premise or construct shades and avail them at fair rent.

- **Access of credit**; The government should have to manage credit services and the other functions of the business such as finance, marketing, human resources and these access to credit results to high performance of the business which helps those firms accumulate the total asset without any difficulty. Therefore, government could give favorable condition to give more credit services MSSE by providing training on the MSSE in order to accumulate the growth in total asset. In addition, owner/operator of the MSSEs should have to develop their saving habit, as it was found only a small number of them used their own personal saving to start their business.

- **Access of infrastructure:** as it was found**,** access to infrastructure is also the other major factor that affects MSSEs total asset growth, as it was reported by most of the operator. owner/operator. Thus appropriate measures regarding training support, providing raw materials at convenient way and other basic infrastructure support from the responsible body should be the focus.

In general, the dimensions and determinants of MSSEs growth are vast and complex. The growth of MSSEs has a recognized effect on unemployment reduction and poverty alleviation since MSSEs have massive contribution in employment creation and income generation than big enterprises but growth in terms of total capital asset in MSEs is subject to different constraints such as financial, working premises and infrastructure availability. Thus, proper understanding of these factors and conditions constitutes an essential starting point and is a key to the formulation of policies, designing of appropriate intervention strategies and practical steps by the government, non-government organizations and other stake holders in order to achieve or accomplish the mission they are developed for as well as to promote their sustainable growth in general.

Furthermore, the responsible bodies associated with micro and small scale enterprise and the government could provide facilities, expand opportunities in order to develop their capital, ensure training program for MSSE operators and establish suitable policies and strategies appropriate with MSSE.

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7. APENDIX-A

WOLKITE UNIVERSITY

DEPARTMENT OF AGRICULTURAL ECONOMICS

QUESTIONNAIRE ON MICRO &SMALL SCALE ENTREPRISES (MSSEs)

Dear Respondent,

This is an academic survey questionnaire which is aimed at identifying and collecting data about the challenges faced by micro and small scale enterprises (MSSEs).Your kind and objective response will significantly highlight these challenges from your perspective and contribute to finding practical solution to this problem.

This is purely academic exercise and any information given would not be disclosed

Section A; Demographic about the operators

1. Sex of respondent 1 / female 2/ male

2. Religion 1. Christian 2 .Muslim 3. Others

3. Age ______________in years

3. Marital status

1/ Married 2/ Unmarried 3/Divorced 4/Widowed

4. What is the operator education level?

1/ Illiterate 2/ Read and write 3/ Literate

Section B: General information of the company

1. Nature of Organization. (Please tick as appropriate)

1. Private Limited Company 2. Partnership

2. Nature/Kind of organization (please tick as appropriate)

1. Retail trading 2. Export 3. Manufacturing 4. Services 5. Other (specify)

3. How much money was the initial total asset of enterprise………………………………in birr

4. How much the current total asset of enterprise……………………………………..in birr

5. For how long has your company been in operations (please tick as appropriate)

1. Less than (1) year 2. Between 1 and 5 years 3. Between 6 and 10 years 4. Over 10 years

7. How many people are employed by your company ……………………………………..

Section C; questions relate to the variables

1. Did you get access of working place/land? 1 yes 2 no

2. If yes, where did you get the access of land?

1/ owner premise 2/ rented 3/ family 4/ government building

3. Has your company ever applied for credit from formal institution?

1. Yes 2 No

4. If yes, what was the purpose of the credit?

1. Startup capital 2. Working capital 3. Expansion of business

5. If No, why not?

1/ Do not like Bank Loan 2/ Interest Rate too high 3/ No collateral to pledge

6. How do you rate your relationship with your bankers?

1. Excellent 2. Good 3. Average 4. Poor

7. Have you ever had problem repaying a Bank credit? 1/ Yes 2 / No

8. What was the maturity period of the credit?

1. Up to 1 year 2. Up to 2 years 3. Up to 3 years 4. Other (specify)

9. How did you find the lending rates?

1. Extremely High 2. High 3. Acceptable 4. Low

10. How did you finance the start up of the business?

1. Personal Savings 2. Bank credit 3. Friends & Relations 4. Others (Specify)

11. In your opinion, what are the major constraints to the growth of your company?

1. Lack of finance 2. Competition 3. High interest on bank loans 4. Taxes

12. Have you accessed credit from other sources other than a bank? 1/ yes 2/ no

13. Did you get access sources of raw materials for the business? 1/ Yes 2/ no

14. Did you get availability of infrastructure like road, telecommunication, and health center? 1. Yes 2. No

15. Distance from main road of your business--------------------km/hrs

16. Have you get the availability of market access for the business? 1. Yes 2. No

17. Do you have access to credit in order to run your MES? A/yes B/ no

18. What are the major obstacles experienced by small scale manufacturing industries in your sub city?

A) credit access 1.yes 2. No

A) Supply of raw materials and a shortage of suitable working premises 1.yes 2. No

B) The lack of working premises 1.yes 2. No

C) Insufficient capital, were often impeded from the start 1.yes 2. No

D) Access of training 1.yes 2. No

E). training obtain 1.yes 2. No

F) Market information 1.yes 2. No

19. The amount of capital registered at the start of the business ________________in birr

20. Your current total capital/asset ______________________in birr

Questionnaire for discussion

1. What do you think about the factors that affect the growth/ profit of your firm?

____

____

2. What measures were taken by the administration office in order to support your firm growth?

____

____

1. What would you like to add in this regard in general-- -- --

Thank you!!!!!!