THE EFFECT OF MICROFINANCE INSTITUTIONS ON THE GROWTH OF SMALL SCALE ENTERPRISES IN KIAMBU COUNTY

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment for the Executive Degree of Masters in Organizational Development (EMOD)

UNITED STATES INTERNATIONAL UNIVERSITY

SUMMER 2014
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: __________________________          Date: __________________________

Peter K. Gathogo (ID No.: 612316)

This project proposal has been presented for examination with my approval as the appointed supervisor.

Signed __________________________          Date: __________________________

Gidraph Nduati

Signed: __________________________          Date: __________________________

Dean Chandaria School of Business
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ABSTRACT

The main objective of this study was to determine the effect of MFIs on the growth of SMEs in Kiambu County. The study was guided by the following research objectives: To determine the effect of MFIs on the growth of SMEs capital, to examine the effect of MFIs on the growth of SMEs human resource and to investigate ways of how MFIs can improve their financial assistance towards SMEs growth.

This research adopted a descriptive research design. A descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in any way. The research population consisted of 25,000 registered Kiambu SMEs. In this study, the sampling frame constituted of SMES entrepreneurs and the information was obtained from the Kiambu County Authorities. The sampling techniques included the purposive sampling method in the determination of SMEs to be included in the study. Using a confidence level of 95% and a total population of 25,000 SMEs the sample size was 393.

The data collection techniques that were employed for the research include the use of structured questionnaires. The respondents were requested for their time prior to sending the actual questionnaire. A pilot test involving 5 respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. In this study, the descriptive statistics such as percentages and frequency distribution will be used to analyze the demographic profile of the participants. The demographic data will be tabulated using frequency and percentages. In order to describe the data, the study used means of each variable.

The study established that savings remains the most important source of finance throughout the business cycle. The MFIs play a smaller role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans, self help groups (SHG) and from family members in generating their business start up capital. SHGs can also promote savings and yield moderate economic benefits that reduce the dependence on moneylenders. Access to finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete,
to create jobs and to contribute to poverty alleviation in the county. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment.

MFIs play a small role on the growth of human capital. From the findings, MFIs also play a small role in making the labour force to be more productive. A small proportion of the respondents agreed that there were a number of MFIs offering business training to small and medium scale entrepreneurs in Kiambu County. It was also found that MFIs do not play any significant role in offering training in business skills.

Any government interested in the development of their economy should be involved in the provision of good regulations for business growth. Making credit available to SMEs and at an affordable rate is a means to empower them. MFIs should deal with trustworthy Self Help Groups. MFIs should increase the grace period of loan repayment among SMEs. MFIs should collaborate with other MFIs in assisting SMEs and sensitization of SME business management in giving clients information about new loans, saving procedures and any other new products from the MFIs.

The study concludes that MFIs have a small impact on the growth of SMEs as savings remains the most important source of finance throughout the business cycle. MFI plays a small role on the growth of human capital. The Kenyan government has failed to safeguard the property of the SMEs. The study recommends that MFIs should come up with innovative ways to finance SMEs for successful growth. MFI should play a critical role on the growth of human capital. The government should be involved in business growth. MFIs should assist SMEs in marketing of the business products, making credit available to SMEs at an affordable rate.
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DEDICATION

This research project is dedicated to my dear late mother, Teresia Nyambura, who as a “single mother” gave me the foundation of my life after my father was forcefully captured by the British Military Forces to fight in India during the Second World War. I also gratefully acknowledge and respect the role played by everyone who taught me the values of life, knowledge, respect, integrity, hard work and self improvement. They inspired me to stand up when I fall, to be good to people and always encouraged me to work hard towards my dreams.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

According to Financial Sector Deepening (FSD) Journal (2007), Small Medium Enterprises (SMEs) employ between 1-99 people each and the sector is characterized by small scale level of activity, self employment, with high proportion of family workers and apprentices, little capital and equipment, labour intensive technologies, low skills and low level of access to organized markets. The development of SMEs is believed to be a desirable end as the key drivers of employment and economic growth. However, the growth of SMEs has been hampered due to great difficulties encountered when raising capital because of the pre-occupation of the microfinance institutions with collateral based lending (Hossain, 2000).

Firm’s growth in general refers to the increase in size. In research, firm’s growth has been operationalized in many ways and different measures have been used. This may be one reason for the contradictory results reported by previous studies, though other explanations have also been presented (Delmar, Davidsson and Gartner, 2003). One of the typical measures for growth has been change in the number of employees. However, it has been found that these measures, which are frequently used in the SME context, are strongly intercorrelated (Pasanen, 2003). Growth can also serve as an instrument for increasing profitability by enlarging the firm’s market-share. Other similar goals include securing the continuity of business in the conditions of growing demand or achieving economies of scale. Further, growth may bring the firm’s new business opportunities, and on a larger scale growth enhances the firm’s credibility in the market. Also, achieving a higher net value of the firm can be regarded as a motive for growth (Pasanen, 2006).

SME growth is often closely associated with the firm’s overall success and survival (Barringer, Jones and Neubaum, 2005). Growth has been used as a simple measure of success in business. Also, as Brush and Vanderwerf (1992) cited by Pasanen (2006) suggest that, growth is the most appropriate indicator of the performance for surviving small firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (Delmar, Davidsson and Gartner, 2003). From the point of
view of an SME, growth is usually a critical precondition for its longevity. Phillips and Kirchhoff (1989) cited by Pasanen (2006) found that young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm’s profitability temporarily, but increase it in the long run (Pasanen, 2003a). The growth of SMEs is believed to be a desirable end as the key drivers of employment and economic development.

Small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic growth (Tagoe, 2005). However, the seminal role played by SMEs notwithstanding their development is constrained by inadequate funding and poor management. The unfavourable macroeconomic environment has also been identified as one of the setbacks encouraging financial institutions to be risk-averse in funding small and medium scale businesses (Ray, 2008).

Small and Medium Enterprises have huge potential for employment generation and wealth creation in any economy, yet the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment (FSD Kenya, 2007). Beck, Demirguc-Kunt, and Maksimovic (2004) determined the financing obstacles faced by firms in over 10,000 sampled firms from 80 countries established that SMEs are faced with higher financing constraints than larger and older firms as part of the reason that limits their growth. In addition, small and medium enterprises have been forced to make extensive reports to financial institutions when applying for finances and at the same time, agree with more restrictive asset usage (Zeller and Sharma, 2000).

In Kenya, although there is no reliable data to show that productivity in the SME sector has improved, the sector is still faced with a number of constraints with lack of credit availability as the principal one. The situation in Kenya is not that different from the rest of the world. Credit is the largest element of risk in the books of most banks and failures in the management of credit risk. Credit risks have contributed too many episodes of
financial instability (Bakht, 2008) in relation to the small and medium enterprises in the long run (Tagoe, 2005).

Generally, the stage of development of SMEs in Kiambu County and the efficiency of the sector varies in the different locations of the county. Microfinance institutions recognize the importance of promoting SMEs as the basis of economic growth (Das, Shil and Pramanik, 2006). As a result, several MFIs have been established to enhance the development of SMEs and they include Kenya Women Finance Trust (KWFT), Faulu Kenya, Unaitas (Formerly known as Murata), KREP and Kenya Ecumenical Loan Funds (ECLOF). Hence, this study aims to establish the effect of MFIs on the growth of SMEs in Kiambu County.

According to the Kenya Open Data (2013), Kiambu is a county in the Central Province of Kenya. It has a total population of 1,623,282 with 496,244 Households and it covers an area of 2,543.4 SQ. KM. The Population density is 638 PER SQ. KM. The county is made up of the following regions: Gatundu, Githunguri, Kiambu, East Kiambaa, Kiambu West, Kikuyu, Lari, Ruiru, Thika East and Thika West districts were mapped to this county. Kiambu town is the administrative capital of the County. The district is predominantly rural with Thika and Ruiru towns being home to several industries which include: Food Processing, Manufacturing (Leather), Mining (Carbacid), Textile (Cotton), Motor Vehicle Assembly, Wholesale and Retail Trade (Kenya Open Data, 2011). The rest is predominantly agricultural in the fields of coffee, tea and dairy farming.

Some of the key attraction in the County include: natural resources such as Arable land, Forests, Water Falls, tourist attractions such as Mau Mau Caves, Paradise Lost, Chania Falls and Fourteen Falls, Mugumo Gardens, Christina Wangare Gardens (Kenya Open Data, 2013). It is estimated that there are about 25,000 SMEs in Kiambu County. It is on this basis that MFIs should create a platform for SMEs growth. The growth in SMEs should be encouraged and supported to bring about favourable economic growth and development, alleviate poverty and improve the standards of living at the County.
1.2 Statement of the Problem

A number of studies have been conducted on the effect of banking institutions on SMEs growth. In many cases, bank lending has been a prime source of credit to SMEs. However, with the current economic downturn, the credit relationship between banks and SMEs has been associated with a lot of risk, and in order to mitigate these risks, banks all over the world have used strict financing rules and collateral in financing SMEs growth (Beck et al., 2004). Bakht (2008) carried out a study on the challenges facing SMEs in Bangladesh and he acknowledged that insistence on collateral security adversely affected the growth of SMEs and the interest rates charged were prohibitive. Aftab (2001) carried out a study in Saudi Arabia on the cost of acquiring capital and established that SMEs in the kingdom are not satisfied with the existing banking institutions as this was because lending institutions often require guarantees or collateral beyond the means of the borrowers. Tagoe (2005) conducted a study on the burden that SMEs faced in getting financial approval in Ghana. The study found out that the financing of the enterprises were strict and there was a high demand for collateral among financial institutions. In addition, there were long procedural issues such as a lot of paperwork, collateral security and high processing fees and prepayment charges, issues that affected the growth of SMEs.

In Tanzania, Temu (2009) conducted a study on the constraints of SMEs and the common constraints identified included capital, poor business skills, poor technology and entrepreneurship. As a result, the study concluded that the government and international development organizations should implement assistance programmes aimed at fostering micro-enterprises creation and growth in Tanzania. Many studies have also been done in Kenya on the financing of SMEs. Some of the studies included Atieno (2001) and Nyarko (2005) empirical findings. Atieno (2001) aimed at empirically analyzing the credit policies on SME in the rural markets and their effect on SME’s growth and performance. Nyarko (2005) evaluated the financial challenges facing urban SMEs growth under financial sector liberalization in Kenya in accessing credit.

In this regard, the studies excluded some important factors on the effect of MFIs financing which are critical for SMEs growth, performance and success. This is because
there are a number of factors which interact to lead to SMEs performance such as their sources of capital, the skills of its human resource and the satisfaction of their financial needs with the assistance of MFIs. It is in this context that this study was conducted primarily to address the research gaps in the effect of microfinance institutions in financing the growth of SMEs in Kiambu County. Lack of adequate finance from microfinance institutions is one of the most prominent issues facing SMEs seeking to expand and sustain their growth. The shortage of long-term finance was considered to be a major long-term constraint on SMEs growth and expansion plans.

Most SMEs rely too heavily on short-term loans from banking institutions, which are more expensive and therefore increase the risk of failure due to strict financing rules and procedures (Nyarko, 2005). For SMEs, equity financing from MFIs could be more appropriate for their growth and expansion. Thus, it is more appropriate to study the effect of MFIs on the growth of SMEs. SMEs find it difficult to access loans from the banking sector. The MFIs may be a solution because they would lend without putting stringent demands on SMEs. This notwithstanding, the SMEs have not shown great growth. The failure rate continues to be high.

1.3 General Objective
The main objective of this study was to determine the effect of MFIs on the growth of SMEs in Kiambu County.

1.4 Specific Objectives
The study was guided by the following research objectives:

1.4.1 To determine the effect of MFIs on the growth of SMEs capital.

1.4.2 To examine the effect of MFIs on the growth of SMEs human resource.

1.4.3 To investigate ways of how MFIs can improve their financial assistance towards SMEs growth.
1.5 Importance of the Study

The study can be of benefit to:

1.5.1 Micro Finance Institutions

The management of microfinance institutions would be interested to know the contribution of this sector to SMEs economic development. The management of MFIs can be happy to see their money being well spent for the benefit of its customers. This study can therefore help the MFIs know how effective and efficient they have been towards the economic development of SMEs.

1.5.2 Small and Medium Enterprises

The capital required in operating SMEs is limited in supply and very few of them have access to it considering the type of collateral security required by the MFIs or banks which must be fulfilled before granting loans. Since financial institutions act as intermediaries between surplus and deficit of the SMEs, at the end of this research SMEs entrepreneurs can be able to know some sources of finance and choose the best available option.

1.5.3 Employees

The study can create an awareness of the role of MFIs on SME growth. The results from the study will also help the employees of MFIs understand the SMEs sources of finance, the role of MFIs in SME growth and identify ways of improving the microfinance financing activities.

1.5.3 Researchers and Academicians

Research findings can make a great contribution to the world of academia as researchers in the area of microfinance and SMEs growth. The findings can act as a point of reference in their literature reviews.

1.6 Scope of the Study

This research work was intended to examine the effect of MFI on SMEs growth with emphasis on Kenya Women Finance Trust (KWFT), Faulu Kenya, KREP, and Kenya
(Ecumenical Loans Fund) ECLOF. The study targeted SMEs in Kiambu County. The target respondents were SMES entrepreneurs, beneficiaries and the staff. It was also assumed that the target respondents would complete the questionnaires objectively and accurately on the basis of their own perception, knowledge, and experience on the effect of MFI on SME growth. The study was done in the month of June to July 2013.

1.7 Definition of Terms

1.7.1 Entrepreneur
An entrepreneur can be defined as a person who sets and starts his own small business enterprise (Ray, 2008).

1.7.2 Economic Growth
Economic growth is defined as a sustained increase in a nation’s gross national income per capital over a long time period (Hossain, 2000).

1.7.3 Economic Development
Economic development is defined as the structural transformation of all the economic indexes from a low to the high strata (Ray, 2008).

1.7.4 Financing
Financing is the process of sourcing for fund or acquisition of funds for financial purpose (Aftab, 2001).

1.7.5 Capital
Capital can be defined as wealth or property in form of money or property, sometimes the basic sum in an investment enterprise (Ray, 2008).

1.7.6 Collateral Security
Collateral security is a property or something valuable which is used as guarantee that someone will repay such as property, insurance policy just to mention the few which the bank is authorized to take in the event of a customer defaulting in the loan agreement (Basu and Simon, 2001).
1.7.7 Loan
Loan is the sum of money borrowed at an agreed rate of interest. It can be of long term or short term (Hossain, 2000).

1.7.8 Micro-finance
Micro-finance can be defined as a development tool used to create access to economically active poor to financial services at a sustainable and affordable price. MFIs fulfill their outreach mission by serving poor clients, and many operate as NGOs. Also, many MFIs are similar to banks because they are regulated or supervised by a regulatory body and/or because they collect deposits (Hulme and Mosley, 2008). The regulatory body is the Central Bank of Kenya (CBK).

1.7.9 Small and Medium Enterprises Growth
SME growth is often closely associated with firms’ overall success and survival (Barringer, Jones and Neubaum, 2005). The growth is the most appropriate indicator of the performance for surviving small firms. Moreover, growth is an important precondition for the achievement of other financial goals of business (Delmar, Davidsson and Gartner, 2003).

1.8 Chapter Summary
Chapter one presents the background of MFIs and SMEs growth in Kenya. The chapter also outlined the specific objectives of this research, the importance of the study, the scope of the study as well as the working definitions of specific terms used in the project. Chapter two is on the literature review and it provides insight into what other researchers have done on the effect of MFI on SMEs growth. Chapter three is on research methodology and it highlights the various methods and procedures that will be used by the researcher in conducting the research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the effect of MFIs on the growth of SMEs. Section 2.2 determines the effect of MFIs on the growth of SMEs capital, section 2.3 examines the effect of MFIs on the growth of SMEs human resource and section 2.4 investigates the ways of how MFIs can improve their financial assistance towards SMEs growth. The chapter ends with a summary of the literature review.

2.2 Effect of MFIs on the Growth of SMEs Capital

2.2.1 Economic Growth and Development of SMEs

Credit markets worldwide are characterized by asymmetric information, moral hazard problems and credit market failures. Among the borrowers, the poor are normally considered not bankable because of their lack of collateral, prospective income or credit record, and are therefore severely credit rationed. The inability of the poor to obtain credit contributes to a variety of problems such as: low levels of consumption, malnutrition, low investment in human capital, inadequate medical care and high level of indebtedness thereby increasing their vulnerability (Youssoufou, 2002).

The growth of microfinance reflects the expansion of informal sector activities. Large volumes of financial transactions are carried out by microfinance institutions, with little or no publicity around them. Their operations are not explicitly captured in official financial statistics and their activities are hardly reported by the mass media, yet their transactions impact directly on a large section of the population especially the poor and the small scale enterprises (Pioty and Rekowski, 2008). Kenya’s increasing population requires the production of goods and services on daily basis and funding is required for the production. The microfinance institution’s operations are therefore expanding and have a prominent role to play in the development of small scale enterprises in Kenya. Since the microfinance institutions are financing the small scale enterprises in order to keep them in line; they also ensure that funds are made available and at the right time to the small scale industry (Youssoufou, 2002).
2.2.2 Access to Finance

A major barrier to rapid development of the small scale enterprises is the shortage for both debt and equity financing. The ability to finance working capital is vital for SMEs growth. Parker and Torres (2004) found that a shortage of working capital was cited as the primary reason for 25 percent of the Kenyan microenterprises that terminated operations. Savings remains the most important source of finance throughout the business cycle. The survey conducted by Daniels, Mead and Musinga (2005) found that almost 95 percent of the interviewed entrepreneurs used savings as the primary source of working capital.

Accessing finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small scale enterprises are a risk because of poor guarantees and lack of information about their ability to repay loans (Youssoufou, 2002). Without finance, small scale enterprises cannot acquire or absorb new technologies. Although the banking sector is the largest and most important source of external financing for small scale enterprises, by and large, it is believed that the SME sector is not well served. As a result, small firms rely more on non-bank services such as internal funds (savings, earnings or family network) and the informal sector (money lender) as they lack the collateral needed by the commercial banks loans (Salta, 2003).

2.2.3 Enhancing Savings

Among the sources mentioned above, personal savings are the most convenient source of financing to quite a number of people. Savings are defined broadly in this study to encompass the residual capital remaining after an entrepreneur has paid household living expenses and business operating expenses. Because of the unstable nature of the household economic portfolio, savings can be easily shifted between the household and enterprise. In many instances, savings from the business are transformed into household assets. These same assets may be transformed later to invest in the business. Alternatively, savings may be deposited into the business and withdrawn as needed by the household. Investment in the business usually reflects savings accumulation (Youssoufou, 2002).
Low-income entrepreneurs save but lack adequate liquid savings options. In this case, Microfinance institutions are uniquely positioned to target this market. Few microfinance institutions have developed a mechanism to collect voluntary savings. Many, however, require members to deposit into a mandatory savings account. This provides a source of security in case of loan default. Some institutions allow clients to deposit excess savings into their mandatory savings account. The willingness of clients to deposit mandatory and voluntary savings reflects their ability and willingness to save with microfinance institutions. The experience of MFI and its mandatory savings mechanism provides insight into the potential role of microfinance institutions to collect savings. Offering saving services would provide motivation for clients to retain membership. Entrepreneurs must always engage in some form of short-term or long-term savings (Banerjee and Duflo, 2007).

2.2.4 Enterprise Income
SMEs provide a vital source of employment and income in the society. According to UNESCO (2007) small businesses are characterized by few employees, few assets, and informal operations. The study also finds that the average income generated per month for these different microfinance beneficiaries was higher for participants who expanded their business using the microfinance loans as compared to those who did not. UNESCO (2007) also found that employed participants are generating more income by working for lesser number of hours as compared to the newly employed participants. This may be due to their work experience that the microfinance programme increases the economic prospects of the participants which help them to have an access and control over the household economic resources such as house, land, possession of gold and jewellery. In this way, entrepreneurs become financially independent.

Experiences of these programmes show that the provision of micro-credit and savings facilities when efficiently utilized enables the poor to build strong micro enterprises, increase their incomes and encourage participation in economic growth (UNESCO, 2007). MFI also contributes greatly to the empowerment of the poor, especially women and helps raise awareness and aspirations for education, health care and other social services. In light of these achievements, microfinance is increasingly being considered as
an important tool for poverty reduction. Vonderlack and Schreiner (2001) argue that the success of microfinance has been to supply production loans to women who run tiny business enterprises, thereby creating new market opportunities and increasing their bargaining power in the household.

2.2.5 Improve Household Welfare

According to Sengsourivong (2006), microfinance is a significant source of finance for the poor and the lower income people in developing countries. Sengsourivong (2006) found that microfinance could improve household expenditure. Morduch (1998 cited by Sengsourivong, 2006) argued that eligible households that get involved in microfinance programs have less consumption patterns compared to eligible households not involved in the MFI programs. Deferred consumption can be used to improve the welfare and social standing of a household. Savings may be applied to socially important festivities, such as weddings or community fundraisers, which build social capital. Patronage is another form of entrustment that can be considered an abstract form of savings accumulation. “Withdrawal” occurs in the form of future favours. Savings in the household are often devoted to the welfare of children. Investment in the younger generation reflects the hope for a better future.

Savings accumulation furnishes an important tool to generate business growth. Sengsourivong (2006) suggests that MFI s have a positive impact on household assets. Direct reinvestment of profits is one option. Investing savings in an intermediate form is another option (such as cash or in a bank account). There is evidence that entrepreneurs have a higher propensity to save than salaried workers (Huddle 1977). The marginal returns from reinvesting in enterprise development may be greater than the investment opportunities available to salaried labourers’. Savings enable entrepreneurs to pursue investments that yield higher rates of return. Many of these options would not otherwise be pursued, because of the associated risks. Dercom (2006) found that the higher the level of household savings, the lower the allocation of household resources to the cultivation of low value crops in Tanzania.
2.2.6 Risk Aversion

Risk aversion is an inherent, intrinsic and inseparable element of entrepreneurship (Rahman, Hossain and Miah, 2000). According to Johnson (2007), women entrepreneurs tend to prefer to follow an organic growth model in their businesses rather than obtaining finance from external sources. This tends to slow growth when the business becomes reliant on internally generated funds from cash flow and retained profits to fund their growth due to limited capitalisation (Okpara, 2011). However, young and educated entrepreneurs tend to have a higher level of risk-taking propensity and the need for achievement than average entrepreneurs, thus their willingness to take debt financing (Johnson, 2007).

According to the ILO report (2008), women stay clear of financial institutions because they lack information and are afraid of high transaction costs and interest rates, limited amount of finance, the lack of grace period in repayments and facilities tend to be short term in nature. This is supported by the Kenya Integrated Household Budget Survey report (2006) which reflected that the largest proportion of the entrepreneurs did not feel the need to borrow, followed by those who are unable to borrow due to inadequate collateral, and in the third position were those who do not like to be in debt. Entrepreneurs save using various forms-ranging from cash to informal savings and credit associations commonly known as pyramid schemes. These forms of savings reflect aversion to risks, such as inflation or seasonal income fluctuations, and the desire to improve household livelihood. Secure liquid savings options are often not available to low-income populations, especially those in rural areas (Dercom, 2006).

2.2.7 Enhancing Competitiveness of SMEs

According to Ricupero (2002), MFIs play a major role in determining the survival and growth of SMEs. The strength of MFIs is that they serve the SMEs at low cost, their service delivery is flexible, which makes it easy for weak SMEs to access financial services from them. On the other hand, their weaknesses lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance and dependence on donor funding. MFIs create opportunities for SMEs to undertake productive investments to expand their businesses and to acquire the latest
technologies, thus ensuring their competitiveness by making profits, creating a higher capacity to create more jobs, operate in a free and fair environment, attract private sector investment and have a strong export base (Cuttler, 2001).

SMEs also face a very competitive environment due to globalization process and new technologies. In this environment, they need a full range of products that solves their financial problems. They also need consultancy services from MFIs, which includes a plan for business start-up, the overall financial, business operations and management. MFIs assist SMEs to adapt to these environmental changes by developing core competencies in various areas which include automation, distribution, marketing, credit policy and management (Cuttler, 2001). Ricupero (2002) explains that MFIs can assist the SMEs in implementing advanced technology to achieve high efficiency and cost effectiveness. The MFIs assist the SMEs distribution channels to meet their needs, as well as marketing to create an efficient market selling culture, improvement of credit scoring and rating tools as well as in helping the top management have a clear vision for the future of the business.

2.3 Effect of MFIs on the Growth of SMEs Human Resource

2.3.1 Human Capital and SMEs Growth

Mel, McKenzie and Woodruff (2008) highlight the importance of human capital in a growth perspective. Mel et al. (2008) suggest that it makes the labour force more productive and adoptive towards new technology. The study indicates that knowledge and abilities are important in determining returns to capital. Most developing countries have low levels of human capital, in particular evident in the informal sector where people with poor education might see entrepreneurship as a last way out to earn an income. There are a number of NGOs offering business training to small and medium scale entrepreneurs in poor countries, though there are few academic studies that investigate the causal effect of entrepreneurial training on enterprise outcome. An important research issue is whether relevant training in business management, such as cost control, accounting, market analysis, marketing, and pricing strategies can stimulate investments in feasible projects and lead to growth and expansion in the long-term (Bjorvatn and Tungodden, 2010).
Klinger and Schundeln (2007) find that participation in business-training programmes significantly increases the probability of establishing new enterprises and expansion of existing businesses. However, the findings indicate that there are no impacts from business training on business outcomes, such as sales and profits. Further, by restricting the sample to mature enterprises, they partly ignore the role of financial constraints in entrepreneurial activity. Klinger and Schundeln (2007) find a positive relationship between age and the probability of launching a new business. One possible explanation is that younger entrepreneurs have relatively severe capital constraints compared to their older counterpart.

Karlan and Valdivia (2006) conducted a comparable study in Peru, where they implemented a business-training programme to micro entrepreneurs in two different cities, Lima and Ayacucho. Their study differs from the one by Klinger and Schundeln (2007) in several dimensions: First of all, Karlan and Valdivia examine the impact of providing business training to entrepreneurs with lower operation scale than in the case of Klinger and Schundeln. In addition, by restricting their sample to female microcredit clients, they investigate how injections of both human and financial capital affect the enterprise performance of a group with relatively severe financial and human capital constraints. Finally, the methodology differs in that Karlan and Valdivia conduct a randomised control trial to measure the average treatment effect of their programme.

2.3.2 Training and SMEs Profits
Karlan and Valdivia (2006) find that microfinance clients subjected to the training programmes are more likely to maintain a clean repayment record compared to untrained clients. They argue that this results from the improved business outcome, which on average is 16 percent higher for trained clients in terms of sales. The results are however not similar to other business outcomes such as profit margins and change in the number of employees. Nor are there significant changes in loan size and cumulative savings due to training. In a different study carried out by Henriken and Svoldal (2010) on the impact of providing business training to microfinance clients in Tanzania, the study uncovered that training was not reflected on the entrepreneur’s profits. The general judgment was that business training leads to shifts towards business structures that are associated with
higher profitability. This is because entrepreneurs with business training have more often become multiple-business owners (Karlan and Valdivia, 2006).

Second, the entrepreneurs offered business training have increased their engagement in commerce at the expense of engagement in manufacturing. Parallel to this, the bulk of indicators rank commerce as the most profitable sector and manufacturing as the least profitable sector, especially in terms of profit per working hour (Bennett, 2007). Taking into account working hours, it is therefore confirm that business training enhances movements away from the least profitable sectors and towards the sectors associated with higher profits (Legerwood, 2009). Any better predictors of the future business environment are however difficult to find, and the micro entrepreneurs are also restricted to the available market information when they evaluate the profitability of different business practices. In view of this, the entrepreneurs with business training have more often exploited the profit opportunity of operating successful businesses compared to the least profitable ones (Henriken and Svoldal, 2010).

The presence of people that have gone to school also eases the sensitization process, training on business development, loan utilization and repayment. This is because educated people would grasp the ideas faster than those with low education levels (Karlan and Valdivia, 2006). It was also found that the issues of expansion and diversification of businesses, asset accumulation, interest calculations were all found to be well understood and practised by educated people in the loan groups (Bennett, 2007). Microfinance institutions also provided training and skills development to enable the clients to plan, manage and evaluate investment, keep the record of all activities of the investment and also to utilize the loan more effectively.

2.3.3 Sensitization of Members
According to Karlan and Valdivia (2006), another service provided by the MFIs is that of sensitising the clients about their policy issues new products. This is where the clients are given information about new loans, saving procedures and any other new products from the MFIs. This enables the clients to benefit from the promotions and also diversify the investment portfolio. The clients are also sensitized about food security, HIV/AIDS and
other health issues. It was established that most of the MFIs sensitize their clients about HIV/AIDS so that the necessary precautions are taken for the infected persons appropriately. For example, insurance cover and collateral details are emphasized so as to enable the MFIs not to lose the funds and for the family to benefit as well in case death occurred to the beneficiary. It was established that there is a cost for insurance cover in case of fire or the death of a partner that is provided to the family.

Karlan and Valdivia (2006) explains that this insurance cover ensures that the families do not suffer with the burden of paying back the loan but are given some funds as contribution towards the funeral arrangements of the dead client. In Uganda, there have been various fire outbreaks in the markets and MFIs have encouraged the traders who lost their goods that the insurance they took could cover for their losses. A case in point is in the capital city, Kampala, where St. Balikuddembe Market got burnt in February 2009. The traders who had loans from the MFIs were told they would not repay the old debt but could apply for a new one since their insurance had covered their misfortune and losses.

2.3.4 Entrepreneurial Skills
Some MFIs actively pursue strategies to teach about entrepreneurial skills. The fast growing economies and the ones with competitive capabilities have realized the importance of Human Resource Development (HRD) as of prior importance and therefore invest heavily in HR in the form of capacity building and acquisition of modern skills. Upgrading of the human skills can make SMEs remain competitive (Bennett, 2007). A survey report by OECD for determining the relationship between the training and SMEs competitiveness and productivity shows that the nature and impact of training and skills development in firms is viewed by firm managers as being an important contributor for firm’s development. Small firms continue to have a preference for arranging their own trainings in line with their particular business needs (Henriken and Svoldal, 2010).

SMEs lack managerial skills, resources and experience to motivate the potential investors to invest with them. They view them as high risk business concerns and some well to do SMEs may be hindered from critical financing (Kanichiro and Lacktorin, 2000). SMEs and providers of debt and equity need to have a cordial relationship to avoid the problem.
of information asymmetry and their conflicts of interests. The MFIs in Cameroon fight to meet the aspirations of their customers by organising trainings on book-keeping, auditing and providing supervisory techniques. These services are not offered by the regular commercial banks. These activities can have a significant impact on SMEs human resource development. Bennett (2004) also adds that the clients need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource that they receive.

2.3.5 Enterprise Development

In most developed and developing economies, SMEs still need both entrepreneurship development and financing support for them to grow. To support the development of SMEs, some governments, particularly in the developed world provide a comprehensive set of programmes through various agencies which are broadly categorized into financial assistance and business support services (Berger and Udell, 2006). These governments’ financial assistance to micro enterprises comprises of soft loans, grants, equity financing, venture capital, guarantees and tax incentives. Governments in developing countries should follow suit. While, the SMEs business support services benefit from advisory services, awareness and outreach, strengthening skills of workforce, entrepreneur development, marketing, promotion, product development, quality accreditation and technology development (Rosli and Ghazali, 2007).

According to Ledgerwood (2009), some MFIs provide financial and social intermediation services such as the formation of groups, development of self confidence and the training of members in enterprise development. The services provided by MFI include: marketing and technology services, business training, production training and subsector analysis and interventions. Enterprise development services can be sorted out into two categories (Karlan and Valdivia, 2006). The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing (Bennett, 2007).
Entrepreneurship training can equip business owners with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most MFIs to work with since the level of involvement is high and consequently lower risk (Ledgerwood, 2009). Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are sometimes subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI (Bennett, 2007). The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 2009).

2.4 Improving MFIs Financial Assistance towards SMEs Growth

2.4.1 MFI Support and Access to Credit

There have been several commitments that have been recorded in favour of promoting microfinance in the least developed countries as an intervention to alleviate poverty. The UN report (2005) has emphasised the importance of private enterprise as a driver of development, highlighting Africa’s need to improve its investment climate and pledging to support the region by promoting increased access to finance including strong support for the development of microfinance in Africa. The UN also pledged that through actions by the relevant international financial institutions and African Governments they would increase access to financial services through increased partnerships between commercial banks and microfinance institutions, including through support of diversification of financial services available to the poor and effective use of remittances (United Nations, 2005).

The G8 members are supporting work on access to finance, microfinance and remittances. It has been reported that in the final declaration of the 2004 G8 Summit, leaders stressed microfinance’s contribution in the continuum of services needed to support the economic fabric of developing countries (United Nations, 2005). The UN report observed that the G8 members affirmed their support by stating that; “Entrepreneurs, no matter how small,
need access to capital”. Microfinance programmes have provided small amounts of capital to entrepreneurs for many years benefiting women in particular. Sustainable microfinance can be a key component in creating sound financial market structures in the world’s poorest countries. It is often the first step in launching SMEs, the beginning of what should be a continuum of credit access necessary to support the maturation of companies in developing countries (United Nations, 2005).

The Kenyan government has not established an outreach programme to support MFIs like the Ugandan government. It has been reported that the government of Uganda has designed and established a multi donor, private sector driven microfinance outreach plan to spread sustainable microfinance services to undeserved areas in Uganda (Developing a sustainable microfinance industry, 2005). This microfinance outreach plan has the aim of benefiting as many active rural poor as possible, in support of the government’s objective of eradicating poverty and building a prosperous and stable nation (Developing a sustainable microfinance industry 2005). The vision of this microfinance outreach plan is to develop a coordinated, professionally efficient and sustainable microfinance industry providing affordable financial services especially to the rural Ugandans. The objectives of this microfinance outreach plan have been identified as increasing savings mobilization, assisting microfinance apex institution to support and build capacity of their member institutions, developing and building capacity in the microfinance training market and enhancing the rural population’s capacity and business orientation to access financial services for income generation (Developing a sustainable microfinance industry, 2005).

2.4.2 Sustainability of SMEs Funding
The lack of funds sets SMEs back by limiting their growth and sustainability (Cook, 2001). UNIDO (2003) also argues that the growth and the competitiveness of women entrepreneurs have been hampered by the lack of funds, training skills and weak government infrastructure in promoting entrepreneurship projects. While the lack of the necessary training and education to seriously affect the efficiency of entrepreneurs, Boter and Lundstrom (2005) explains that unstable political and economic environment, complex taxation, corruption, poor laws, long waiting times for approval of licenses and
registrations are common problems faced by entrepreneurs in most developing countries such as Kenya.

Luyirika (2010) carried out a study on the role of microfinance in the socio-economic development of women in a community in Mpigi Town Council in Uganda. As one of the ways of improving the financial assistance towards SMEs growth, the findings revealed that MFIs could increase the money given to their clients so as to allow them expand and diversify their investment opportunities, reduce the interest rates so that all the profits realized do not go towards paying the interest and also increase the grace period to allow the growth of the enterprise. Luyirika (2010) explains that small amounts of money given at a time affect the growth of the enterprises. It was also noted that there were too many deductions from the money disbursed initially yet the whole amount was paid back. The respondents reported that they paid even for what they had not received and what was annoying was the deductions made from the small amount given, thus the money given was lowered even more.

2.4.3 Increase Repayment Period

Luyirika (2010) indicates that short repayment period affects the flow of money from the business to the MFI. Eighteen percent of the respondents revealed that they had to borrow from other MFI to service the loans or risk the taking of their property by the MFI. The repayment period for some MFI was weekly while for others it was bi-weekly. For the respondents, this period was too short for any meaningful profits to have been realized from which to get money for repaying part of the loan. Twelve percent of the respondents also mentioned that at times it was difficult for them to fulfil the repayment schedules and they ended up defaulting. This could have been as a result of circumstances beyond their control like weather for farmers but the MFI would call them defaulters and confiscate their collateral property.

Any government interested in the development of their economy should be involved in the provision of regulations to govern the microfinance programs, the interest rate and safe guard the property of the SMEs. For example, the Kenyan government has failed to control commercial banks’ interest rates, which are now prohibitively high. Furthermore,
the MFIs are requested to establish loan products for social problems like school fees, weddings and funerals, collaborate and share successes and failures of businesses, harmonize the service delivery. MFI can also elicit the support of SMEs owners in the repayment of money borrowed by colleagues (Armendariz, 2004).

Luyirika (2010) also suggests that the MFIs can continuously sensitize their clients on loan utilization and repayment and discuss with their clients before they confiscate their property. This is because the clients say that if given more flexible terms they would be able to pay back the loan. However, the challenge of MFIs support to business owners is the lack of flexibility from the MFIs when their clients fall sick, lose family members or are involved in accidents (Armendariz, 2004). The respondents who were ten percent explained that “borrowed money/loan did not know sorrow, did not know sickness, did not know death” in other words, whatever the situation of the client, the loan has to be serviced.

2.4.4 Group Lending

According to Armendariz (2004), group lending refers to the practice of working with clients in small groups (typically comprised of three to seven members). Loans are made to individuals, but the group as a whole is held jointly liable should repayment difficulties arise. Economic theorists have been particularly interested in group lending, and nearly all of the economic work on microfinance focuses on the incentives induced by joint liability in group lending contracts, building on lending models pioneered by microfinance leaders like Bangladesh’s Grameen Bank and Bolivia's BancoSol (de Aghion, 2000).

This method of providing small credits to the poor is most used by MFIs that provide loans without collateral. The interest charged is far lower than interest charged by individual money lenders (Natarajan, 2004). The Grameen bank is a typical example of MFI using group lending method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 2000). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group which act as collateral.
This is to avoid the problems of adverse selection and reduce costs of monitoring loans to the members who must make sure the loan is repaid or they become liable for it (Armendariz, 2004).

According to Carlton et al. (2001), group-based lending schemes provide SMEs with an opportunity to build their social assets by reinforcing reciprocal relationships and social networks. Membership of microfinance groups links individuals, households and enterprises into a vital web of business and personal relationships that enables members to better cope with the challenges of life. However, in some cases membership to groups can also become a social liability, especially where there is a consistent pattern of non-payment and mounting peer pressure (Natarajan, 2004). Access to financial services also allows SMEs to cope with shocks or economic stress events once these take place. SMEs use MFI loans to re-stock their businesses and to smooth consumption. As most MFIs offer only inadequate savings services, only few SMEs are able to use these as source of liquidity in times of emergencies (Armendariz, 2004).

Carlton et al. (2001) found a positive impact of access to group loans on food consumption and entrepreneurship. Among households that were offered group loans the likelihood of owning an enterprise increases by ten per cent more than in control villages. Enterprise profits increase over time as well, particularly for the less-educated households. For individual lending on the other hand, there were no significant increase in consumption or enterprise ownership. These results are in line with theories that stress the disciplining effect of group lending as the joint liability may deter borrowers from using loans for non-investment purposes. Borrowers in group-lending villages are less likely to make informal transfers to families and friends while borrowers in individual-lending villages are more likely to do so.

2.4.5 Individual Lending
This is the lending of loans to individuals with collateral. Carlton et al. (2001) found that individual and group methodologies require different operational and financial structures. The choice of structure is based on organizational goals, profitability objectives, and risk tolerance. Individual lending and group lending have different cost structures. For
instance, because of the increase in loan amount per client, some of the administrative costs on a per client basis would be lower; however, due to increase in the due diligence and monitoring costs which get translated into decreased case load per loan officer, costs on personnel might increase. Individual lending requires careful analysis on behalf of the lending institution prior to fund disbursement (Fotabong and Akanga, 2005).

According to Fotabong and Akanga (2005), individual borrowing may not necessarily mean increase in enterprise ownership in the short run. But as time goes, it may lead to greater enterprise growth. The ability to secure collateral helps the individual-based programs and the success of microfinance programs in general (Morduch and Aghion, 2000). Many of the large micro-finance institutions provide individual loans to clients who have a track record and have improved their economic status; the provision of individual loans to first-time borrowers is not common. Despite the challenges for individual loans, the need for such a product seems to be higher amongst the mature clients (Fotabong and Akanga, 2005).

2.4.6 Self-Help Groups (SHG)

The fundamental concept of SHGs is the creation and utilization of a group savings and resource fund to make low cost loans to its members. SHGs consist of low income individuals of a particular village who come together to address their common problems, including their need for access to financial services (Swain, 2007). SHGs are usually formed and supported by NGOs, Government Agencies or Banks, but they can even be formed through the sole initiative of members of a community and MFI (Kay, 2003). A prominent feature of SHGs is that they enable members to obtain small loans on a regular basis. This has created a trend of constant borrowing whereby members apply for new loans immediately following the repayment of previous ones. As such it is possible to infer that the poor population served by SHGs is becoming reliant on a continuous flow of microcredit (Swain, 2007).

The general findings of most evaluation studies on SHGs include increase in household income, improvement in asset position, increase in savings, increase in employment, increase in consumption expenditure and overall poverty reduction. The overall impact of
MFI on SHG is the alleviation of poverty (Swain, 2007). Poverty is a global phenomenon which in its simplest sense refers to the deprivation of basic human needs. The most conventional approach to poverty eradication is the promotion of economic growth (Roger and Robinson, 2002). In this regard, microfinance better equips SHG to cater to the needs of its target group and improve their standards of living. Microfinance through SHG improves the ability of the poor to face shocks such as illness, price fluctuations and natural disasters, thereby improving their risk management capability. On the whole the provision of financial services to the poor through SHG is believed to increase incomes and reduce vulnerability (Tankha, 2002).

SHGs are therefore one form of community organization which can be developed for a variety of purposes, both financial and non financial. SHGs can have positive effects on social harmony and justice as they bring people of different religions and ethnicities together to work towards a common goal (Kay, 2003). The most significant impact of SHGs however, is their impact on poverty alleviation which is also identified as economic empowerment. Apart from providing its members with much needed access to timely credit at considerably lower interest rates, Tankha (2002) explains that an SHG also promotes savings and yields moderate economic benefits, and reduces the dependence on moneylenders.

2.4.7 Village Banking

Village banking is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions (Mk Nelly and Stock, 2008). Village banking is a microcredit organization designed to provide financial services to SMEs rather than formal financial institutions. Village banking has been brought about by MFIs as a way to control costs. Village banking offers several important services such as credit in the form of a loan to a group of approximately 15-30 individuals. Village bank provides members with an opportunity to save voluntarily, over and above the amounts the members are forced to save (Hatch and Hatch, 2008).

These deposit services are maintained even if internal account loans are discontinued. Village banks can and do reach remote households in rural areas (Mk Nelly and Stock, 2008).
Strengthening and expanding the operations of village banks in remote areas may work better than trying to lure urban commercial banks into the remote areas. The lack of rural lending experience of these banks may constitute a formidable barrier to their entry into rural markets. A number of village bankers show impressive levels of performance through loan recovery and sustainability as a result of microfinance activities (Nelson et al., 2006).

Borrowers are uplifted using village banking because they own SMEs that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financially sustainable (Mk Nelly and Stock, 2008). Village banking as of 1990s gained grounds and certain adjustments were made to suit partner institutions (Nelson et al., 2006). Hatch and Hatch (2008) say that Village banking loan and savings growth rate increases as the banks continue to exist.

2.5 Chapter Summary
This chapter reviewed literature on the effect of MFIs on the growth of SMEs. The first section determined the effect of MFIs on the growth of SMEs capital. The second section examined the effect of MFIs on the growth of SMEs human resource and the third section investigated the ways of how MFIs can improve their financial assistance towards SMEs growth. The next chapter deals with the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the research methodology and the profile of the study area. The key issues discussed in this chapter include the research design, data required and sources, data collection tools, sampling procedures, key variables and the analysis of the data. In addition there are issues on the physical characteristics, the economic and social characteristics as well as other relevant characteristics of the study region.

3.2 Research Design
This research adopted a descriptive research design. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. In addition, a descriptive study attempts to describe a subject, often by creating a profile of a group of problems, people or events, through collections of data and the tabulation of frequencies on research variables and the research reveals who, what, when, where or how much (Saunders and Thornhill, 2000). A survey in form of standardized questions in a questionnaire will be used to collect data. A survey is defined by Malhotra and Birks (2007) as a method of collecting data from people about who they are, how they think (motivations and beliefs) and what they do (behaviour). Therefore, the study adopted a quantitative approach on the effect of MFIs on the growth of SMEs in Kiambu County. The independent variables included: effect of MFIs on the growth of SMEs capital, the effect of MFIs on the growth of SMEs human resource and the ways of how MFIs can improve their financial assistance towards SMEs growth.

3.3 Population and Sampling Design
3.3.1 Population
According to Frankel and Wallen (2000) a population refers to the group to which the results of the research are intended to apply. They stated that a population is usually the individuals who possess certain characteristics or a set of features a study seeks to examine and analyze. Kumekpor (2002) emphasized this by defining a population as the total number of all units of the issue or phenomenon to be investigated into which is “all
possible observations of the same kind”. The research population consisted of 25,000 registered Kiambu SMEs.

Table 3.1: Total Population Distribution

<table>
<thead>
<tr>
<th>Sub-Counties</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gatundu</td>
<td>1,500</td>
<td>6</td>
</tr>
<tr>
<td>Githunguri</td>
<td>3,500</td>
<td>14</td>
</tr>
<tr>
<td>Kiambu West</td>
<td>3,000</td>
<td>12</td>
</tr>
<tr>
<td>Kiambu East</td>
<td>2,000</td>
<td>8</td>
</tr>
<tr>
<td>Kikuyu</td>
<td>1,500</td>
<td>6</td>
</tr>
<tr>
<td>Lari</td>
<td>1,500</td>
<td>6</td>
</tr>
<tr>
<td>Ruiru</td>
<td>3,000</td>
<td>12</td>
</tr>
<tr>
<td>Thika</td>
<td>9,000</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25,000</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Kiambu Sub-County Authorities (2014).

3.3.2 Sampling Design and Sample Size

3.3.2.1 Sampling Frame

A research sampling design is that part of the research plan that indicates how cases are to be selected for observation. The design therefore maps out the procedure to be followed to draw the study’s sample. A sampling frame is a list of elements from which the sample is actually drawn and is closely related to the population under study (Cooper and Schindler, 2003). In this study, the sampling frame constituted of SMES entrepreneurs and the information was obtained from the Kiambu Sub-County Authorities on the 12th February 2014.

3.3.2.2 Sampling Techniques

The sampling techniques included the purposive sampling method in the determination of SMEs to be included in the study. The purposive sampling will be used when the various sampling units satisfy certain criteria of interest. In this study, the chosen group were SMEs entrepreneurs operating in Kiambu County and functioning. Random sampling technique (Lottery Method) was also employed to ensure fair representation of individual members in the groups selected for the study. A random sample is a subset of individuals (a sample) chosen from a larger set (a population). Each group was chosen randomly and
entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process, and each individual has the same probability of being chosen for the sample (Yates, Daniel, Moore and Starnes, 2008). This minimized bias and simplified analysis of the results.

3.3.2.3 Sampling Size

The study will use a mathematical approach in the determination of the sample size for the research. The mathematical sampling approach was based on Miller and Brewer (2003) formula that is stated as follows:

\[
n = \frac{N}{1 + N (\alpha)^2}
\]

Where \( n \) = sample size  
\( N \) = Population  
\( \alpha \) = margin of error

Using a confidence level of 95% and a total population of 25,000 SMEs the sample size was 393 calculated as follows;

\[
n = \frac{25,000}{1 + 25,000 (0.05)^2} = 393
\]

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Sample Size Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gatundu</td>
<td>1,500</td>
<td>24</td>
<td>1.6%</td>
</tr>
<tr>
<td>Githunguri</td>
<td>3,500</td>
<td>55</td>
<td>1.6%</td>
</tr>
<tr>
<td>Kiambu West</td>
<td>3,000</td>
<td>47</td>
<td>1.6%</td>
</tr>
<tr>
<td>Kiambu East</td>
<td>2,000</td>
<td>31</td>
<td>1.6%</td>
</tr>
<tr>
<td>Kikuyu</td>
<td>1,500</td>
<td>24</td>
<td>1.6%</td>
</tr>
<tr>
<td>Lari</td>
<td>1,500</td>
<td>24</td>
<td>1.6%</td>
</tr>
<tr>
<td>Ruiru</td>
<td>3,000</td>
<td>47</td>
<td>1.6%</td>
</tr>
<tr>
<td>Thika</td>
<td>10,000</td>
<td>141</td>
<td>1.6%</td>
</tr>
<tr>
<td>Total</td>
<td>25,000</td>
<td>393</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Source: Kiambu Sub-County Authorities (2014).
3.4 Data Collection Method

The data collection techniques that were employed for the research included the use of structured questionnaires. The questionnaires were used for the collection of data from the entrepreneurs from SMEs in Kiambu sub-counties. The questionnaire will embody both open and closed-ended questions for randomly selected members of the various groups. A survey questionnaire was designed to apply to a heterogeneous sample selected from the large population of SMEs (Burns, 2000). A questionnaire is defined as a formalized schedule or form which contains an assembly of carefully formulated questions for information gathering (Wong, 1999). The questionnaire was structured in three broad areas that included general information, a rating on the effect of MFIs on the growth of SMEs capital, the effect of MFIs on the growth of SMEs human resource and the ways of how MFIs can improve their financial assistance towards SMEs growth. The variables on the key objectives of the study measured in interval scales on a five point Likert scale (1-representing strongly agree to 5– strongly disagree) to determine respondents agreement with the concepts under investigation.

3.5 Research Procedures

The respondents were requested for their time prior to sending the actual questionnaire. A pilot test involving 5 respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. This ensured the reliability of the data collection instruments used. After the amendment of the final questionnaire, the researcher explained the purpose of the research and sought permission from the institution to carry out the actual research. The final questionnaires were distributed to the respondents with the help of research assistants. This enhanced the speed of data collection. Each completed questionnaire was treated as a unique case and a sequential number given to each. Filling the questionnaire took approximately 10 minutes. The collected data was edited and entered into the Statistical Package for the Social Sciences (SPSS) software to enable the carrying out of the analysis.

3.6 Data Analysis Methods

To ensure easy analysis, the questionnaires were coded according to each variable of the study. This study used descriptive and inferential statistics. According to McDanile and
Gates (2001), descriptive analysis involves a process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages, which are a vital part of making sense of the data. In this study, the descriptive statistics such as percentages and frequency distribution were used to analyze the demographic profile of the participants. In order to describe the data, the study used means of each variable and correlation analysis between the independent and the dependent variable.

3.7 Chapter Summary
This chapter presents the various methods and procedures the researcher adopted in conducting the study in order to answer the research questions raised in the first chapter. The chapter is organized in the following ways: the research design, population and sample, data collection methods, sampling design and sample size, research procedures and data analysis. The next chapter presents the results and findings of the study.
4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the findings on the effect of Microfinance Institutions on the growth of SMEs in Kiambu County. The findings were based on specific objectives of the study. The first section presents the findings on respondents’ demographic profile, the second section presents the findings on the effect of MFIs on the growth of SMEs capital, the third section presents the findings on the effect of MFIs on the growth of SMEs human resource and the fourth presents the findings on how MFIs can improve their financial assistance towards SMEs growth. The response rate was 67% and was representative enough to answer the research objectives.

4.2 General Information
This section presents the general information on the respondents’ age, gender, marital status, year of business establishment, educational level attained and the type of business.

4.2.1 Age of Respondents
The researcher sought to find out the age of the target respondents involved in the study. The findings in Table 4.1 show that a majority of the respondents (52%) were aged between 40 to 49 years, followed by 38% above 50 years and 10% between 30 to 39 years.

<table>
<thead>
<tr>
<th>Age of Respondents</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-39 yrs</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>40-49 yrs</td>
<td>129</td>
<td>52</td>
</tr>
<tr>
<td>50 yrs +</td>
<td>94</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>249</td>
<td>100</td>
</tr>
</tbody>
</table>
4.2.2 Gender of Respondents

The researcher sought to find out the gender of the target respondents involved in the study. The findings in Figure 4.1 show that majority of the respondents were male (73%) as compared to 27% females.

![Figure 4.1: Gender of Respondents](image)

4.2.3 Marital Status

The results in Figure 4.2 show that a majority of the respondents were married (69%) and 31% were single.

![Figure 4.2: Marital Status](image)
4.2.4 Year of Business Establishment

The researcher sought to find out the year of business establishment. The findings in Table 4.2 indicate that 5% of the respondents had established their businesses before 1982, 7% established their businesses between 1982 to 1990, another 7% of the respondents had established their businesses between 1991 to 1999, 28% of the respondents had established their businesses between 2000 to 2008, 24% had established their businesses between 2009 to 2010 and 30% of the respondents had established their businesses after 2011.

<table>
<thead>
<tr>
<th>Year of Business Establishment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1982</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>1982-1990</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>1991-1999</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>2000-2008</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>2009-2010</td>
<td>63</td>
<td>24</td>
</tr>
<tr>
<td>2011 to date</td>
<td>77</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>261</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.5 Educational Level Attained

The researcher sought to find out the academic level of the respondents. The findings in Table 4.3 show that 41% of the respondents had completed high school, 36% of the respondents had technical college education and 23% of the respondents had university degrees or had college education.

<table>
<thead>
<tr>
<th>Educational Level Attained</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed High School</td>
<td>109</td>
<td>41</td>
</tr>
<tr>
<td>Technical College</td>
<td>95</td>
<td>36</td>
</tr>
<tr>
<td>University or College Degree</td>
<td>60</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>264</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.6 Type of Business

The study intended to determine the type of businesses operated by the respondents. The findings in Table 4.4 show that 31% of the respondents were in farming, 23% were in trading, 16% did artisan works, 19% operated boutiques and 11% of the respondents operated in shoe business.
### Table 4.4: Type of Business

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>81</td>
<td>31</td>
</tr>
<tr>
<td>Trading</td>
<td>62</td>
<td>23</td>
</tr>
<tr>
<td>Artisan Works</td>
<td>42</td>
<td>16</td>
</tr>
<tr>
<td>Boutique</td>
<td>49</td>
<td>19</td>
</tr>
<tr>
<td>Shoes</td>
<td>30</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>264</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

### 4.3 Effect of Microfinance Institutions on the Growth of SMEs Capital

This section presents findings on source of business start-up capital, amount of start-up capital, capital increment, meeting loan criteria, problems repaying loans, MFIs help in promoting businesses and MFIs ensuring SMEs’ access to credit finance.

#### 4.3.1 Source of Business Start-up Capital

The study sought to determine the sources of business start-up capital. The findings in Table 4.5 show that majority of the respondents (52%) started their businesses with their own savings, 23% of the respondents borrowed money to start up their businesses and 25% of the respondents used retained capital to start-up their businesses.

### Table 4.5: Percentage of Business Start-up Capital

<table>
<thead>
<tr>
<th>Percentage of Business Start-up Capital</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own savings</td>
<td>134</td>
<td>52</td>
</tr>
<tr>
<td>Borrowed</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td>Capital</td>
<td>63</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>256</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

#### 4.3.2 Amount of Start-Up Capital

The study intended to determine the amount of start-up capital. The findings showed that 25% of the respondents started their businesses with a capital of between Ksh. 10,001 to Ksh. 20,000, 8% started their businesses with between Ksh. 20,001 to Ksh. 30,000, another 8% started their businesses with between Ksh. 30,001 to Ksh. 40,000, 22% of the respondents started their businesses with between Ksh. 40,001 to Ksh. 50,000, and 37% of the respondents started their businesses with above Ksh. 50,000. Thus, the results showed that most of the respondents started their business with at least Ksh. 40,000.
### Table 4.6: Amount of Start-Up Capital

<table>
<thead>
<tr>
<th>Amount (Kshs)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,001-20,000</td>
<td>63</td>
<td>25</td>
</tr>
<tr>
<td>20,001-30,000</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>30,001-40,000</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>40,001-50,000</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>Above 50,000</td>
<td>95</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>256</td>
<td>100</td>
</tr>
</tbody>
</table>

#### 4.3.3 Capital Increment

The study sought to determine whether there was capital increment from those who participated in the survey. The findings in Figure 4.3 indicate that 76% of the respondents had increased their capital as compared to 24% of the respondents who suggested otherwise.

![Figure 4.3: Capital Increment](image)

#### 4.3.4 Percentage of Capital Increment

The study sought to determine the percentage of capital increment from those who participated in the survey. The findings in Table 4.7 indicate that 24% of the respondents stated that there was no change in capital increment, 8% stated that it increased with less than 1 percent, 13% suggested between 1-2 percent, 10% suggested between 2-3 percent, 17% suggested between 3-4 percent and 28% suggested above 4 percent.
### Table 4.7: Percentage of Capital Increment

<table>
<thead>
<tr>
<th>Percentage of Capital Increment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change</td>
<td>52</td>
<td>24</td>
</tr>
<tr>
<td>Less than 1%</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>1-2%</td>
<td>28</td>
<td>13</td>
</tr>
<tr>
<td>2-3%</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>3-4%</td>
<td>37</td>
<td>17</td>
</tr>
<tr>
<td>Above 4%</td>
<td>60</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>216</td>
<td>100</td>
</tr>
</tbody>
</table>

#### 4.3.5 Meeting Loan Criteria

The study intended to find out if the criteria for issuing the loan were met. The findings in Figure 4.4 show that 64% of the respondents suggested that the criteria for the loan was met as compared to 36% of the respondents who disagreed.

![Figure 4.4: Meeting Loan Criteria](image)

#### 4.3.6 Problems with Loan Criteria

The study sought to examine the problems with loan criteria from those who participated in the survey. The findings in Table 4.8 indicate that 26% of the respondents suggested that there were strict or inflexible terms, 23% stated that there was lack of collateral required by MFIs, 16% suggested that the cost of processing the applications and follow up of loans was high, 14% suggested that there was a long procedure in acquiring loan,
13% suggested that there was too much paper work and 8% of the respondents suggested that there was mandatory savings.

Table 4.8: Problems with Loan Criteria

<table>
<thead>
<tr>
<th>Problems with Loan Criteria</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strict/inflexible terms</td>
<td>33</td>
<td>26</td>
</tr>
<tr>
<td>Long procedure</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Too much paper work</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Lack of collateral required by MFIs</td>
<td>29</td>
<td>23</td>
</tr>
<tr>
<td>Mandatory savings</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Cost of process in applications and follow up of loans</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>195</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.3.7 Problems Repaying Loans

The study intended to determine whether the respondents had problems in repaying the loans. The findings show that 65% of the respondents agreed that they had problems in repaying the loans compared to 35% of the respondents who stated otherwise.

![Figure 4.5: Problems in Paying Back the Loan](image)
4.3.8 Challenges in Paying Back the Loan

The study sought to identify the challenges in paying back the loan from those who participated in the survey. The findings in Table 4.9 indicate that majority of the respondents (25%) suggested that there was shortage of finance, in particular working capital, worsened by the problems of access to available finance and its cost, 22% stated that the large initial capital requirement are given shorter payment periods in relation to annual cash flows created by the investment, 18% suggested that there were strict repayment schedules, 15% suggested that there was high interest rates, 12% suggested that there was unsatisfactory credit needs, 9% suggested mandatory savings services and 3% suggested that there was lack of user friendly system.

Table 4.9: Challenges in Paying Back the Loan

<table>
<thead>
<tr>
<th>Challenges in Paying Back the Loan</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strict repayment schedules.</td>
<td>32</td>
<td>18</td>
</tr>
<tr>
<td>Mandatory savings services.</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Lack of user friendly system.</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Large initial capital requirement are given shorter payment periods in relation to annual cash flows created by the investment.</td>
<td>39</td>
<td>22</td>
</tr>
<tr>
<td>Unsatisfactory credit needs.</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>High interest rates.</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>Shortage of finance, in particular working capital, worsened by the problems of access to available finance and its cost.</td>
<td>44</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>177</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.3.9 MFIs Ensuring SMEs’ Access to Credit Finance

The study intended to examine whether the MFIs ensured SMEs’ access to credit finance. The findings indicate that 78% of the respondents agreed compared to 22% of the respondents who stated otherwise.
4.3.10 MFI Help in Promoting Businesses

The study sought to examine how MFIs help in promoting businesses from those who participated in the survey. The findings in Table 4.10 indicate that majority of the respondents (42%) suggested that there was provision of working capital, 27% stated that there was provision of loan, 19% suggested that there was access to savings services and 12% suggested that there was access to microfinance services.

Table 4.10: MFI Help in Promoting Businesses

<table>
<thead>
<tr>
<th>MFI Help in Promoting Business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of working capital</td>
<td>86</td>
<td>42</td>
</tr>
<tr>
<td>Access to savings services</td>
<td>39</td>
<td>19</td>
</tr>
<tr>
<td>Access to microfinance services.</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td>Provision of loan</td>
<td>55</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>100</td>
</tr>
</tbody>
</table>
4.3.11 Correlation of MFIs Provision of Credit Finance and Promoting SMEs Growth

There was a significant relationship between MFI provision of credit and provision of working capital ($r=0.530$, $p>0.001$) in promoting SMEs growth. There was also a significant relationship between access to microfinance services and access to savings services ($r=0.664$, $p>0.001$). This means that for anyone who access to microfinance services, they were likely to access savings services. For the rest of the variables the relationship was insignificant as shown in Table 4.11.

Table 4.11: Correlation of MFIs Provision of Credit Finance and Promoting SMEs Growth

<table>
<thead>
<tr>
<th></th>
<th>MFI provision of credit</th>
<th>Provision of working capital</th>
<th>Access to savings services</th>
<th>Access to microfinance services.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI provision of credit</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.530**</td>
<td>-.170</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.159</td>
<td>.694</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>170</td>
<td>169</td>
<td>170</td>
</tr>
<tr>
<td>Provision of working capital</td>
<td>Pearson Correlation</td>
<td>.530**</td>
<td>1</td>
<td>-.018</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.884</td>
<td>.577</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>169</td>
<td>170</td>
<td>170</td>
</tr>
<tr>
<td>Provision of working capital</td>
<td>Pearson Correlation</td>
<td>-.048</td>
<td>-.156</td>
<td>.152</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.694</td>
<td>.196</td>
<td>.207</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>170</td>
<td>170</td>
<td>171</td>
</tr>
<tr>
<td>Access to savings services</td>
<td>Pearson Correlation</td>
<td>-.170</td>
<td>-.018</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.159</td>
<td>.884</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>170</td>
<td>170</td>
<td>171</td>
</tr>
<tr>
<td>Access to microfinance services.</td>
<td>Pearson Correlation</td>
<td>-.048</td>
<td>.068</td>
<td>.664**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.694</td>
<td>.577</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>170</td>
<td>170</td>
<td>171</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
4.4 Effect of MFIs on the Growth of SMEs Human Resource

This section presents the findings on MFIs and human resource development, challenges of MFIs in promoting human resource development, ways in which MFIs have improved SMEs staff training, addressing of skills shortage and correlation between MFI training in relation to SMEs skills development.

4.4.1 MFI and Human Resource Development

The study intended to determine the role of MFI in promoting human resource development. The results in Table 4.12 indicate that 26% of the respondents agreed as compared to 74% of the respondent who stated otherwise.

<table>
<thead>
<tr>
<th>Table 4.12: MFI and Human Resource Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.4.2 Challenges of MFIs in Promoting Human Resource Development

The study sought to identify the challenges of MFIs in promoting human resource development from those who participated in the survey. The findings in Table 4.13 indicate that majority of the respondents (23%) suggested that there was lack of sufficient long term resources to make medium to long term loans to SMEs, 22% stated that there was lack of skills upgrade in access to technology, raw materials, market information and business networks, 19% suggested that there was weak managerial training, 15% suggested that there was lack of financial management skills and 12% suggested that there was no training in analyzing the market and its adverse effects.
Table 4.13: Challenges of MFI in Promoting Human Resource Development

<table>
<thead>
<tr>
<th>Challenges of MFI in Promoting Human Resource Development</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak managerial training</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>No training in analyzing the market and adverse effects</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Lack of skills upgrade in access to technology, raw materials, market information and business networks</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Lack of efficient marketing</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Lack of financial management skills</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Lack of sufficient long term resources to make medium to long term loans to SMEs.</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.4.3 Ways in Which MFIs have Improved SMEs Staff Training

The study sought to identify the ways in which MFIs have improved SMEs staff training from those who participated in the survey. The findings in Table 4.14 indicate that majority of the respondents (18%) suggested that they were trained on business planning skills, 13% stated that they gained fund management skills, 12% suggested book keeping and accounting skills, 11% suggested management capabilities, 10% enhanced technology skills and another 10% loan application skills, 8% mentioned improved business confidence, 7% mentioned improved business governance, 6% professional management and 5% claimed that there was improved technical skills.

Table 4.14: Ways in Which MFI Have Improved SMEs Staff Training

<table>
<thead>
<tr>
<th>Ways in Which MFI Have Improved SMEs Staff Training</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved technical skills</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Funds management</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Loan application</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Book keeping and accounting skills</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Business governance</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Professional management</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Business planning skills</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Improve business confidence</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Enhanced technology skills</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Management capabilities</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>117</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.4.3 Addressing Skills Shortage

The study intended to examine whether generally MFIs have done enough to address skills shortages in SMEs growth. The findings in Table 4.15 indicate that 32% of the respondents agreed while 68% of the respondents disagreed with the statement.

Table 4.15: Addressing Skills Shortage

<table>
<thead>
<tr>
<th>Addressing Skills Shortage</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>84</td>
<td>32</td>
</tr>
<tr>
<td>No</td>
<td>180</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td>264</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.3 Correlation between MFI Training and SMEs Skills Development

The aim of this section was to determine the relationship between MFIs training and SMEs skills development. It is assumed that MFIs business training would lead to the acquisition of superior business skills. The correlation was significant at the 0.01 level. The findings indicated that there was a strong correlation between MFIs training and loan application skills \((r=0.358, \ p>0.01)\). Also there was a significant relationship between MFIs training in relation to book keeping and accounting skills \((r=0.358, \ p>0.01)\). In addition, there was a strong correlation between MFIs training and business governance at \((r=0.572, \ p>0.01)\). The findings are presented in Table 4.16.

Table 4.16: Correlation between MFI Training and SMEs Skills Development

<table>
<thead>
<tr>
<th>Addressing Skills Shortage</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan application</td>
<td>.358**</td>
<td>.005</td>
<td>10</td>
</tr>
<tr>
<td>Book keeping and accounting skills</td>
<td>.263**</td>
<td>.003</td>
<td>12</td>
</tr>
<tr>
<td>Management capabilities</td>
<td>.269*</td>
<td>.045</td>
<td>11</td>
</tr>
<tr>
<td>Business governance</td>
<td>.572**</td>
<td>.000</td>
<td>7</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
4.5 Improving MFIs Financial Assistance towards SMEs Growth

This section presents the findings on the role of MFIs financial assistance in SMEs growth and alternative ways of promoting financial assistance in SMEs growth.

4.5.1 Role of MFIs Financial Assistance in SMEs Growth

The study intended to examine whether the MFIs played a significant role in the growth of SMEs. The findings in Table 4.17 showed that 18% of the respondents agreed that MFIs played a significant role in strengthening the financial literacy of SME operators, 16% suggested that their financial products were suited to SMEs growth, 15% suggested that MFIs provided education SME entrepreneurs, 13% suggested that group lending reduced information asymmetry, 11% suggested that there were lower loan interest rates compared to other financial institutions, 10% suggested that there was flexile repayment schedules, 9% suggested that was an extensive network of MFIs branches and fewer respondents mentioned that the MFIs provided longer loan payment period.

Table 4.17: Role MFIs Financial Assistance in SMEs Growth

<table>
<thead>
<tr>
<th>Role MFIs Financial Assistance in SMEs Growth</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group lending reducing information asymmetry</td>
<td>30</td>
<td>13</td>
</tr>
<tr>
<td>Strengthen financial literacy of SME operators</td>
<td>42</td>
<td>18</td>
</tr>
<tr>
<td>Lower loan interest rates</td>
<td>26</td>
<td>11</td>
</tr>
<tr>
<td>Flexible repayment schedules</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Financial products suitable for SMEs growth</td>
<td>37</td>
<td>16</td>
</tr>
<tr>
<td>Longer loan repayment period</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Extensive network of MFI branches</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>Provide education to SME entrepreneurs</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>233</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.2 Alternative Ways of Promoting Financial Assistance in SMEs Growth

The study intended to determine the alternative for promoting financial assistance in SMEs growth in Kiambu County. The results in Table 4.18 indicate that most of the respondents suggested that MFIs should assist SMEs in marketing of their business products at a mean of (1.71). This was followed by MFIs should assist SMEs in obtaining inputs for their businesses at a mean of 1.57. Third, a large proportion of the respondents mentioned that MFIs should reduce interest rates on SMEs loans at a mean of (1.29). Fourth, a number of respondents mentioned that MFIs should create trust worthy Self
Help Group at a mean of (1.24) and a number of MFIs should increase the grace period of loan repayment among SMEs at a mean of (1.18).

On the other hand, few respondents agreed that MFIs should collaborate with other MFIs in assisting SMEs at a mean of 1.12. Fewer respondents mentioned that the MFIs should assist SMEs in obtaining finance faster at a mean of 1.08. Very few respondents agreed that MFIs should create more sensitization of SME business management at a mean of 1.07. Few respondents also agreed that MFIs should create opportunities for individual lending to entrepreneurs at a mean of 1.07 and lastly very few respondents agreed that MFIs should help SMEs increase the amount of money given at a mean of 1.05.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs should assist SMEs in obtaining inputs for the business.</td>
<td>1.57</td>
<td>2</td>
</tr>
<tr>
<td>MFIs should assist SMEs in marketing of the business products.</td>
<td>1.71</td>
<td>1</td>
</tr>
<tr>
<td>MFIs should collaborate with other MFIs in assisting SMEs.</td>
<td>1.12</td>
<td>9</td>
</tr>
<tr>
<td>MFIs should reduce interest rates on SMEs loans.</td>
<td>1.29</td>
<td>3</td>
</tr>
<tr>
<td>MFIs should assist SMEs in obtaining finance faster.</td>
<td>1.08</td>
<td>10</td>
</tr>
<tr>
<td>MFIs should help SMEs increase the amount of money given.</td>
<td>1.05</td>
<td>13</td>
</tr>
<tr>
<td>MFIs should create flexible payment schedule.</td>
<td>1.16</td>
<td>6</td>
</tr>
<tr>
<td>MFIs should create trust worthy Self Help Group.</td>
<td>1.24</td>
<td>4</td>
</tr>
<tr>
<td>MFIs should create opportunities for individual lending to entrepreneurs.</td>
<td>1.07</td>
<td>12</td>
</tr>
<tr>
<td>MFIs should create group lending opportunities to entrepreneurs.</td>
<td>1.15</td>
<td>8</td>
</tr>
<tr>
<td>MFIs should help SMEs in business management.</td>
<td>1.14</td>
<td>7</td>
</tr>
<tr>
<td>MFIs should increase the grace period of loan repayment among SMEs.</td>
<td>1.18</td>
<td>5</td>
</tr>
<tr>
<td>MFIs should create more sensitization of SME business management.</td>
<td>1.07</td>
<td>11</td>
</tr>
</tbody>
</table>

4.5.3 Correlation between MFIs Assistance and Alternative Financial Assistance

There was a significant relationship between Group lending and SMEs in obtaining inputs for the business \((r=0.530, p>0.001)\) in promoting SMEs growth. There was also a significant relationship between Group lending and SMEs obtaining faster finance \((r=0.468, p>0.001)\). In addition, there was a significant relationship between lower loan interest rates and reduced interest rates on SMEs loans at \((r=0.654, p>0.001)\). Moreover, there was a significant relationship between flexible repayment schedules and grace...
period of loan repayment at \((r=0.664, p>0.001)\). For the rest of the variables the relationship was insignificant as shown in Table 4.19.

### Table 4.19: Correlation between MFIs Assistance and Alternative Financial Assistance

<table>
<thead>
<tr>
<th></th>
<th>Group lending</th>
<th>Lower loan interest rates</th>
<th>Flexible repayment schedules</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs in obtaining inputs for the business</td>
<td>Pearson Correlation</td>
<td>-.170</td>
<td>-.048</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.159</td>
</tr>
<tr>
<td>SMEs obtaining faster finance</td>
<td>Pearson Correlation</td>
<td>.468**</td>
<td>.018</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.884</td>
</tr>
<tr>
<td>Trust worthy Self Help Group</td>
<td>Pearson Correlation</td>
<td>-.156</td>
<td>.152</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.196</td>
<td>.207</td>
</tr>
<tr>
<td>Grace period of loan repayment</td>
<td>Pearson Correlation</td>
<td>-.018</td>
<td>.313*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.884</td>
<td>.015</td>
</tr>
<tr>
<td>Reduce interest rates on SMEs loans</td>
<td>Pearson Correlation</td>
<td>.068</td>
<td>.654**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.577</td>
<td>.000</td>
</tr>
</tbody>
</table>

### 4.6 Chapter Summary

The study established that savings remains the most important source of finance throughout the business cycle. MFIs play a smaller role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans; self help groups (SHG) and from family members in generating their business start up capital. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment. MFIs also play a small role on the growth of SMEs human resource capital. MFIs relatively make the labour force to be more productive. MFIs credit provision to SMEs at an affordable rate is a means to empower them. The next chapter presents the discussion, conclusion and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the major findings on the effect of MFIs on the growth of SMEs in Kiambu County. The findings are spelt out in consonance with the objectives of the study. The researcher delves into a deeper discussion on the major findings in relation to the literature reviewed presented in chapter two.

5.2 Summary

The main objective of this study was to determine the effect of MFIs on the growth of SMEs in Kiambu County. The study was guided by the following research objectives: To determine the effect of MFIs on the growth of SMEs capital, to examine the effect of MFIs on the growth of SMEs human resource and to investigate ways of how MFIs can improve their financial assistance towards SMEs growth.

This research adopted a descriptive research design. A descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in any way. The research population consisted of 25,000 registered Kiambu SMEs. In this study, the sampling frame constituted of SMEs entrepreneurs and the information was obtained from the Kiambu County Authorities. The sampling techniques included the purposive sampling method in the determination of SMEs to be included in the study. Using a confidence level of 95% and a total population of 25,000 SMEs the sample size was 393.

The data collection techniques that were employed for the research included the use of structured questionnaires. The respondents were requested for their time prior to sending the actual questionnaires. A pilot test involving 5 respondents was carried out to evaluate the completeness, precision, accuracy and clarity of the questionnaires. In this study, the descriptive statistics such as percentages and frequency distribution were used to analyze the demographic profile of the participants. In order to describe the data, the study used means of each variable.
The study established that savings remains the most important source of finance throughout the business cycle. The MFI is play a smaller role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans; self help groups (SHG) and from family members in generating their business start up capital. SHGs can also promote savings and yield moderate economic benefits that reduce the dependence on moneylenders. Access to finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in the county. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment.

MFIs play a small role on the growth of human capital. From the findings, MFIs also play a small role in making the labour force to be more productive. A small proportion of the respondents agreed that there were a number of MFIs offering business training to small and medium scale entrepreneurs in Kiambu County. It was also found that MFIs do not play any significant role in offering training in business skills.

Any government interested in the development of their economy should be involved in the provision of good regulations for business growth. Making credit available to SMEs and at an affordable rate is a means to empower them. MFIs should deal with trustworthy Self Help Groups. MFIs should increase the grace period of loan repayment among SMEs. MFIs should collaborate with other MFIs in assisting SMEs and sensitization of SME business management in giving clients information about new loans, saving procedures and any other new products from the MFIs.

5.3 Discussion

5.3.1 Effect of MFIs on the Growth of SMEs Capital

The most significant impact of MFIs is on the growth of SMEs capital. However, much of SMEs business start up capital was generated from the entrepreneur’s savings (52%). Savings remains the most important source of finance throughout the business cycle. The results were similar to a survey conducted by Daniels, Mead and Musinga (2005) who found that almost 95 percent of the interviewed entrepreneurs used savings as the primary source of working capital. Savings accumulation furnishes an important tool to generate
business growth. Sengsourivong (2006) suggests that investing savings is an intermediate form is another option (such as cash or in a bank account). There is also evidence that entrepreneurs have a higher propensity to save than salaried workers (Huddle, 1977).

The results (52% preferring to save) also indicates that the MFIs play a small role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans, self help groups and from family members in generating their business start up capital. On the other hand, the high dependency on savings may suggest that SME owners lack information and are afraid of high transaction costs and interest rates in accessing finance from MFIs that tend to limit their business growth (ILO report, 2008). This is supported by the Kenya Integrated Household Budget Survey report (2006) which reflected that the largest proportion of the entrepreneurs did not feel the need to borrow, followed by those who are unable to borrow due to inadequate collateral, and in the third position were those who do not like to be in debt.

The findings indicated that most of the respondents had started their business with own savings. Tankha (2002) explains that SHGs can also promote savings and yield moderate economic benefits that reduce the dependence on moneylenders. Though a small proportion of the respondents (23%) borrowed money for their business start up capital is an indication that most of business equity does not come from MFIs. These figures suggest that more than half of the entrepreneurs surveyed were actually using savings instead of borrowed funds. Other sources of finance available to SMEs for example financial institutions loans are practically not accessible as 26% of the respondents suggested that there were strict or inflexible terms from MFIs, 23% stated that lack of collateral required by MFIs.

Banerjee and Duflo (2007) documented that a huge proportion of the poor still lack access to formal banking services. The findings revealed that there was a significant relationship between MFI provision of credit and provision of working capital (r=0.530, p>0.001) in promoting SMEs growth. There was also a significant relationship between access to microfinance services and access to savings services (r=0.664, p>0.001). This means that for anyone who access to microfinance services, they were likely to access working
capital and savings services. This is a reflection that SMEs provide a vital source of employment and income in the society by itself. On the other hand, on sourcing for the initial capital start up, 64% of the respondents suggested that the criteria for the loan were met as compared to 36% of the respondents who disagreed. Abereijo and Fayomi (2005) note that the majority of commercial bank including MFI loans offered to SMEs are often limited to a period far too short to pay off any meaningful investment. Youssoufou (2002) also observes that access to finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation. However this may be difficult in Kiambu County. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment.

5.3.2 Effect of MFIs on the Growth of SMEs Human Resource

MFIs play a critical role on the growth of human resource capital. However, the results indicated that 74% of the respondent did not agree with this. This indicates that the MFIs play a small role in making the labour force to be more productive. Mel et al. (2008) indicate that knowledge and abilities are important in determining the returns SMEs capital especially in areas where there are low levels of human capital. This is more relevant in the informal sector where people with poor education might see entrepreneurship as a last way out to earn an income. Despite these results, a small proportion of the respondents (26%) agreed that there were a number of MFIs offering business training to small and medium scale entrepreneurs in Kiambu County. Klinger and Schundeln (2007) find that participation in business-training programmes significantly increases the probability of establishing new enterprises and expansion of existing businesses.

Karlan and Valdivia (2006) find that microfinance clients subjected to the training programmes are more likely to maintain a clean repayment record compared to untrained clients. However, most of the respondents (66%) agreed that the MFI do not provide staff. In a different study carried out by Henriken and Svoldal (2010) on the impact of providing business training to microfinance clients in Tanzania, the study uncovered that training was not reflected on the entrepreneur’s profits. But, the general judgment was
that business training leads to shifts towards business structures that are associated with higher profitability. This is because entrepreneurs with business training have more often become multiple-business owners. This behaviour is associated with generally higher total profits and profits per working hours. However, it cannot automatically be translated into higher short-term profits. This explains the positive relationship between profits and operation of multiple businesses, but also the observed disadvantage of operating new establishments (Karlan and Valdivia, 2006).

Training can also increase the level of business engagement. The findings established that 32% of the respondents agreed while majority (68%) of the respondents disagreed with the statement. In addition, the findings indicated that there was a strong correlation between MFIs training and loan application skills \((r=0.358, p>0.01)\). Also there was a significant relationship between MFIs training in relation to book keeping and accounting skills \((r=0.358, p>0.01)\). Further, there was a strong correlation between MFIs training and business governance at \((r=0.572, p>0.01)\). In this case, entrepreneurs who engaged in business training through MFIs may have increased their business activities because of training. But a number of challenges were there which included the lack of skills upgrade in access to technology, raw materials, market information and business linkages, 19% suggested that there was weak managerial training, 15% suggested that there was lack of financial management skills and 12% suggested that there was no training in analyzing the market and its adverse effects. But Legerwood (2009) study argues that business training enhances movements away from the least profitable sectors and towards the sectors associated with higher profits. Any better predictors of the future business environment are however difficult to find, and the micro entrepreneurs are also restricted to the available market information when they evaluate the profitability of different business practices. In view of this, the entrepreneurs with business training have more often exploited the profit opportunity of operating successful businesses compared to the least profitable ones (Henriken and Svoldal, 2010).
5.3.3 Improving Microfinance Institutions Financial Assistance towards Small Medium Enterprises Growth

Any government interested in the development of their economy should be involved in the provision of good regulations for SMEs growth. The study revealed that majority of the respondents (70%) disagreed that the Kenyan government was not doing enough to promote investment through tax relief and low import duties. In addition, the Kenyan government has failed to safe guard the property of the SMEs and even control commercial banks’ interest rates, which are now prohibitively high. Armendariz (2004) elicits that SMEs need the support of the government in solving their social problems and in creating a collaborative and harmonic business environment.

Manimekalai and Rajendran (1993) found that the MFIs were helping and promoting self-employment among entrepreneurs in India. However, this has not been the case in Kenya and Kiambu County in particular. The results suggest that MFIs should assist SMEs in marketing of their business products at a mean of (1.71). Sivasankaraiah and Ramappa (1993) study elicits that the marketing of product made by SMEs is very important to the entrepreneurs in India. The interest of SMEs in the MFI programme can only be sustained only when a proper market is arranged for their products. Rajakutti and Prita (1994) in their study opined that orientation of MFIs financial assistance on SMEs growth led to the success of the programme.

Making credit available to SMEs and at an affordable rate is a means to empower them. A large proportion of the respondents mentioned that MFIs should reduce interest rates on SMEs loans at a mean of (1.29). This is because SMEs entrepreneurs are afraid of high transaction costs associated with high interest rates. This is reflected by the largest proportion of the entrepreneurs that did not feel the need to borrow, followed by those who were unable to borrow due to inadequate collateral, and in the third position were those who do not like to be in debt (Kenya Integrated Household Budget Survey report, 2006).

Self Help Groups are common among SMEs entrepreneurs who are involved in one income generating activity or another (Roger and Robinson, 2002). A number of
respondents mentioned that MFIs should deal with trust worthy Self Help Groups at a mean of (1.24). SHGs in an institution help its members sustainably with the necessary inputs to foster their lives. SHGs provide its members with the financial intermediation services like the creating of awareness of health hazards, environmental problems and educating them. These SHGs are provided with support both financial, technical and other-wise to enable them engage in income generating activities (Morden, 2010). The members in the SHGs have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 2005).

In addition, there was a significant relationship between group lending and in obtaining inputs for the business (r=0.530, p>0.001) in promoting SMEs growth. There was also a significant relationship between group lending and SMEs obtaining faster finance (r=0.468, p>0.001). Further, there was a significant relationship between lower loan interest rates and reduced interest rates on SMEs loans at (r=0.654, p>0.001). Moreover, there was a significant relationship between flexible repayment schedules and grace period of loan repayment at (r=0.664, p>0.001). These MFIs activities enable SMEs to benefit in the growth of their business portfolios. Similarly, Karlan and Valdivia (2006) argue that the sensitization of MFIs financial assistance to SMEs through the provision of new loans, saving procedures and other financial products may lead to the growth of the enterprises.

5.4 Conclusion

5.4.1 Effect of MFIs on the Growth of SMEs Capital
The study established that savings remains the most important source of finance throughout the business cycle. The MFIs play a smaller role in economic empowerment of SMEs in Kiambu County, as most of the respondents, depended on village loans, self help groups (SHG) and from family members in generating their business start up capital. SHGs can also promote savings and yield moderate economic benefits that reduce the dependence on moneylenders. Access to finance has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete,
to create jobs and to contribute to poverty alleviation in the county. Without finance, small scale enterprises cannot grow or compete in the turbulent business environment.

5.4.2 Effect of MFIs on the Growth of SMEs Human Resource
MFIs play a small role on the growth of human capital. From the findings, MFIs also play a small role in making the labour force to be more productive. A small proportion of the respondents agreed that there were a number of MFIs offering business training to small and medium scale entrepreneurs in Kiambu County. It was also found that MFIs do not play any significant role in offering training in business skills.

5.4.3 Improving MFIs Financial Assistance towards SMEs Growth
Any government interested in the development of their economy should be involved in the provision of good regulations for business growth. Making credit available to SMEs and at an affordable rate is a means to empower them. MFIs should deal with trust worthy Self Help Groups. MFIs should increase the grace period of loan repayment among SMEs. MFIs should collaborate with other MFIs in assisting SMEs and sensitization of SME business management in giving clients information about new loans, saving procedures and any other new products from the MFIs.

5.5 Recommendations
5.5.1 Recommendation for Improvement
5.5.1.1 Effect of MFIs on the Growth of SMEs Capital
The study recommends that MFIs should come up with innovative ways to finance SMEs for successful growth. This would enable MFIs play a great role in economic empowerment of SMEs in Kiambu County. MFIs should also collaborate with self help groups and pyramid schemes in generating start up capital for SMEs. SME owners should be made aware on loan interest rates, grace period in repayments to have confidence in approaching MFIs for capital. This will lead to access to adequate finance which is critical for the growth of SMEs.
5.5.1.2 Effect of MFIs on the Growth of SMEs Human Resource

The study recommends that MFIs should play a critical role on the growth of human resource capital. This will make SMEs labour force to be more productive. MFIs should also intense and continuous business training to small and medium scale entrepreneurs in Kiambu County. The training should cover critical areas of business management that range from cost control, accounting, market analysis, marketing, and pricing strategies that can stimulate investments in feasible projects and lead to growth and expansion in the long-term. The training can also enable SMEs owners to plan, manage and evaluate investment, keep the record of all activities of the investment and also to utilize the loan more effectively.

5.5.1.3 Improving MFIs Financial Assistance towards SMEs Growth

The study recommends that the government should be involved in business growth. MFIs should assist SMEs in marketing of their business products and making credit available to SMEs at an affordable rate. The MFIs should continuously deal with trust worthy Self Help Groups. MFIs should also create flexible periods of loan repayment; collaborate with other MFIs in assisting SMEs and sensitization of entrepreneurs in giving them information about new products. This will enable the SMEs to benefit from the promotions and also diversify their investment portfolio.

5.5.2 Recommendations for Further Research

While this study is on Kiambu County, it can be applicable to many other counties with the same level of development. Other studies can also be conducted on the formal and informal institution’s lending policies and access to credit by small scale enterprises in Kiambu County.
REFERENCES


58


Muktar, M., (2009). The role of microfinance banks in the promotion and development of entrepreneurship in semi urban and rural areas.


APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Dear Sir/Madam,

RE: RESEARCH STUDY

I am pleased to inform you that I am a student at United States International University pursuing a degree of Executive Masters in Organizational Development (EMOD). As partial fulfillment for my degree, I am conducting research on the effect of MFIs on the growth of SMEs in Kiambu County.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

Yours faithfully,

Peter K. Gathogo
APPENDIX II: QUESTIONNAIRES

Section A: Bio-Data

This study is a requirement for the partial fulfilment of the degree of Executive Masters in Organizational Development (EMOD). The purpose of this research is to determine the effect of MFIs on the growth of SMEs in Kiambu County. Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

1. Age of Respondents:
   - 20-29 yrs
   - 30-39 yrs
   - 40-49 yrs
   - 50 yrs +

2. Gender:
   - Male
   - Female

3. Martial Status:
   - Single
   - Married

4. Year of business establishment ........................................

5. Educational Level Attained:
   - No schooling
   - Completed Primary School
   - Completed High School
   - Technical College
   - University or College Degree
   - Other________________

6. What is the type of business?
   - Farming
   - Trading
   - Artisan Works
   - Other (Please Specify) ____________
7. What percentage can you estimate to be the start-up capital for your business?

Own savings
Borrowed
Capital

If borrowed please the source___________________________

8. How much capital did you start the business with?

Less than Ksh. 10,000
10,001 - 20,000
20,001 - 30,000
30,001 - 40,000
40,001 - 50,000
Above 50,000

9. Has your capital increased?

Yes       No

10. If yes, what was the percentage of your capital increment?

No Change [ ]
Less than 1% [ ]
1-2% [ ]
2-3% [ ]
3-4% [ ]
Above 4% [ ]

11. If you have applied for a loan for your business, were the criteria easy to be met?

Yes_________________________________________________________.
No__________________________________________________________

12. If no, what were the problems with the loan criteria?

Strict/inflexible terms [ ]
Long procedure [ ]
Too much paper work [ ]
Lack of collateral required by MFIs [ ]
Cost of process in applications and follow up of loans [ ]
Other (Specify) __________________________ [ ]
13. If you got the loan did you have challenges in repaying back?
   Yes________________________________________________________.
   No________________________________________________________

14. If you have had problems in paying back the loan, what were the challenges?
   High interest rates [ ]
   Unsatisfactory credit needs [ ]
   Shorter payment periods for large capital investment [ ]
   Mandatory savings services [ ]
   Strict repayment schedules [ ]
   Other (Specify) _____________________

15. Do you conclude that MFI has helped you in developing your business?
   Yes________________________________________________________.
   No________________________________________________________

17. If yes please indicate how?
   Provision of working capital [ ]
   Access to savings services [ ]
   Access to microfinance services [ ]
   Provision of loan [ ]
   Other (Specify) _____________________

18. Apart from financial services offered by the MFIs, do they provide other services in
   the development of SMEs entrepreneurial skills?
   Yes________________________________________________________.
   No________________________________________________________
19. If yes, what were the skills?

- Improved technical skills [ ]
- Funds management [ ]
- Loan application [ ]
- Book keeping and accounting skills [ ]
- Business governance [ ]
- Professional management [ ]
- Business planning skills [ ]
- Improve business confidence [ ]
- Enhanced technology skills [ ]
- Management capabilities [ ]
- Others (Specify) ______________________

20. If no, what were the challenges of human resource development?

- Lack of skills upgrade in access to technology, raw materials, market information and business networks. [ ]
- Lack of sufficient long term resources to make medium to Long term loans to SMEs. [ ]
- Lack of financial management skills [ ]
- Lack of efficient marketing [ ]
- No training in analyzing the market and adverse effects [ ]
- Weak managerial training [ ]
- Others (Specify) ______________________

21. Has the MFI done enough to address skills shortages in SMEs?

- Yes_______________________________________________.
- No________________________________________________

22. How is the MFI playing a significant role in the financial assistance in the growth and development of SMEs?

- Group lending reducing information asymmetry [ ]
- Strengthen financial literacy of SME operators [ ]
- Lower loan interest rates [ ]
- Flexible loan repayment schedules [ ]
Financial products suitable for SMEs growth [ ]
Longer loan repayment period [ ]
Extensive network of MFI branches [ ]
Provide education to SME entrepreneurs [ ]
Others (Specify) ______________________ [ ]

23. Which alternatives can lead to financial assistance in the growth and development of SMEs in Kiambu County?

- MFIs should create more sensitization of SME business management. [ ]
- MFIs should increase the grace period of loan repayment among SMEs. [ ]
- MFIs should help SMEs in business management. [ ]
- MFIs should create Group lending opportunities to entrepreneurs. [ ]
- MFIs should create opportunities for individual lending to entrepreneurs. [ ]
- MFIs should create trust worthy Self Help Group. [ ]
- MFIs should create flexible payment schedule. [ ]
- MFIs should help SMEs increase the amount of money given. [ ]
- MFIs should assist SMEs in obtaining finance faster. [ ]
- MFIs should reduce interest rates on SMEs loans. [ ]
- MFIs should collaborate with other MFIs in assisting SMEs. [ ]
- MFIs should assist SMEs in marketing of the business products. [ ]
- MFIs should assist SMEs in obtaining inputs for the business. [ ]

24. What other ways can improve MFIs financial assistance towards SMEs growth?
______________________________________________________________

THANK YOU FOR YOUR COOPERATION