INFLUENCE OF GOVERNMENT CREDIT SCHEME ON GROWTH OF MICRO AND SMALL ENTERPRISES IN VIHIGA DISTRICT OF VIHIGA COUNTY, KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for any award in any University.

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This report is dedicated to my wife Susan; children Bevan and Benjamin and my parents, especially my mother who sacrificed a lot to enable me scale the academic heights and to be what I am in this day. May God bless you from His ever flowing bounty of goodness.

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ABSTRACT

MSEs are vehicles of achieving the Millennium Development Goals (MDGs) and Vision 2030 (Republic of Kenya, 2008). This study attempted to look at the influence of Government credit scheme on the growth of MSEs in Vihiga District of Vihiga County in Kenya. The purpose of the study was to assess the impact of government lending on the growth of MSEs and in solving societal problems such as poverty, unemployment and the problems encountered by MSEs including poor access to credit and low rating in terms of creditworthiness. The objectives of the study were to examine whether the Government Credit Scheme had achieved its goals which include: enhancing access to credit, reducing poverty levels, creating employment and improving MSEs creditworthiness in the mainstream financial sector. Had the four aspects of the GCS influenced the growth of MSEs in Vihiga District of Vihiga County? The study adopted a descriptive survey design with both qualitative and quantitative approaches. In the background of the study, the definition and economic contribution of MSEs worldwide is covered. The study zeroed on MSEs in Africa and specifically Kenya. Poverty as a global phenomenon was tackled. The contribution of MSEs to gross domestic product in Kenya and employment creation was reviewed. The objectives of the study included; assessing how access to credit, reduction of poverty levels, creation employment and improvement of creditworthiness as aspects of Government Credit Scheme influence the growth of MSEs in Vihiga District. The policy framework was analyzed in view of its moderating influence on the growth of MSEs in Kenya. The MSEs were classified into strata with a representative random sample obtained from various sectors comprising 203 MSEs out of the 448 enterprises that had been funded under the GCS selected for the study, that is: retail trade, carpentry, bookshops, tailoring, bar and restaurant, wholesale trade, posho mill, agribusiness, catering services, chemists, hardware and salon. The data collection instruments that were employed were; structured interviews, questionnaires and non-participant observation. To ensure internal validity of the instruments, theoretical expectations were observed and care was taken in the selection of indicators to measure the key concepts under study. To enhance external validity, all sectors of MSEs were represented with random sampling being employed to select the sample. Test-retest co-efficient was used to enhance the main questionnaire and ensure reliability during data collection. Quantitative and qualitative analyses were applied to establish essential facts, accomplish the objectives and to draw relevant conclusions. The study established that the GCS had made an important contribution to the growth of MSEs in Vihiga District. The finance offered through GCS had improved the standard of living of the households of the entrepreneurs that were funded, improved the creditworthiness of MSEs and led to creation of employment opportunities. The study also established that a majority of the businesses that had been loaned through the GCS in Vihiga District had recorded growth in all the parameters that were used to measure growth; growth in profit, creation of jobs, expansion in stock and opening of new branches, acquisition of new technology and purchase of new equipment. In view of the findings outlined, the study recommends that the maximum loan amount be increased from Kshs.100, 000/= to Kshs. 500,000/=. The repayment period should also be increased from 24 months to 60 months. The government should look at the possibility of granting a grace period of one or two months to the MSE operators before commencement of loan recovery. It is invaluable that BDS be an integral and key plank of the government's intervention policy. It is proposed that "business extension" officers be engaged to offer BDS on an ongoing basis to improve the transition rate to medium and large enterprises. The study concluded that the GCS is an important tool that can be used to spur business growth in Vihiga District and should be up-scaled to cover more MSEs than is currently the case.

ABBREVIATIONS AND ACRONYMS

BDS	Business Development Services
BRIs	Bretton Woods Institutions (World Bank and IMF)
CBS	Central Bureau of Statistics
DTDO	District Trade Development Officer
EU	European Union
EUROSTAT	European Statistics Office
GCS	Government Credit scheme
GDP	Gross Domestic Product
GVA	Gross Value Added (GVA remains when intermediate costs are deducted from sales
HTM	High Tech Manufacturing
ICEG	International Centre for Economic Growth
ILO	International LabourOrganisation
ISO	International Standards Organization
JLB	Joint Loans Board
KNBS	Kenya National Bureau of Statistics
K-REP	Kenya Rural Enterprise Programme
MFI	Micro Finance Institution
MSEs	Micro and Small Enterprises
MSE BILL	Micro and Small Enterprises Bill 2012
MSMEs	Micro Small and Medium sized Enterprises

PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development
SMEs	Small and Medium Enterprises
SBA	Small Business Administration
UK	United Kingdom
US	United States of America

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Micro and Small enterprises have been in existence for a long time. Perhaps, one of the earliest recorded MSE is the episode of the widow with a little oil as recorded in the book of 2 Kings Chapter 4.Through a miracle performed by Elisha, she was able to sell the oil, pay her debts and to live on what was left, around 900 B.C.

Wymenga et al (2012) stress that MSEs are considered one of the driving forces of modern economies due to their contributions in terms of technological upgrading, product and process innovations, employment generation and export promotion.

Micro, small, and medium sized enterprises (MSMEs) account for over 90 percent of enterprises in all countries, they are important sources of output and employment. They employ 33 percent of formal sector workers in low income countries and 62 percent of such workers in high income countries; (World Employment report 2004-05).

In Kenya, according to Sessional Paper No. 2 (2005), MSEs are defined as businesses in both formal and informal sectors, classified into farm and non-farm categories, employing 1-50 workers. The same definition is adopted in this study. These enterprises cut across all sectors of the Kenyan economy. They provide employment, generate income and help in poverty reduction, (Sessional Paper No.2 of 2005). The most commonly used criteria at international level for defining MSMEs are the number of employees, total net assets and investment level, (Ghatak, 2008). The European Union makes a general distinction between self-employment, micro, small and medium sized enterprises based on the number of employees: 0 - self employed, 2 - 9 - micro business, 10 – 49 – small business and 50 – 249 – medium size enterprise(http://www.unido.org/fileadmin/user_media/publications/pub_free/effective policies_for_small_business.pdf).

In the United States of America, the Association of Enterprise Opportunity (AEO) defines a micro enterprise as a business with five or fewer employees. This definition is in line with a believe held by Americans through several centuries. Americans have always believed that they live in a land of opportunity, where anybody who has a good idea, determination and willingness to work hard can start a business and prosper. In practice, this belief in entrepreneurship has taken many forms from the self employed individual to the global conglomerate (Conte and Carr, 2001). In the 17th and 18th centuries, the pioneers overcame great hardships to carve a home and a way of life out of the wilderness. By the 19th century in America, small agricultural enterprises rapidly spread across the vast expanse of America. As the nation's population grew and cities assumed a greater economic importance, the dream of being in business for oneself evolved to include small merchants, independent craftsmen and self reliant professionals. In the 20th century there was an enormous leap in the scale and complexity of economic activity. According to the Outline of U.S Economy (2001), today, the American economy boasts a wide range of enterprises ranging from sole proprietorships to some of the world's largest corporations and multinational corporations. In 1995, there were 16.4 million non-farm sole proprietorships, 1.6 million partnerships and 4.5 million corporations in the United States, making a total of 22.5 million independent enterprises. Statistics from the Small Business Administration (SBA) show that some 19.6 million Americans work for firms employing fewer than 20 workers. In addition, small businesses produced three quarters of the economy's new jobs between 1990 and 1995. SBA figures also show that 97.3 percent of US exporters of goods are small businesses.

Even with the downturn associated with the global economic crisis of 2008-2009, MSEs have retained their position as the backbone of the European economy, with some 20.7 million firms accounting for more than 98 percent of all enterprises of which 92.2 percent are firms with fewer than ten employees, (Wymenga et al, 2012). In 2012, it is estimated that MSEs accounted for 67 percent of total employment, with more than 87 million persons employed by the EUs Micro and Small Enterprises and accounting for 58 percent of gross value added (GVA) across the 27 member states.

Wymenga et al (2012), point out that there are almost 46,000 MSEs in high-tech manufacturing (HTM) and more than 4.3 million MSEs offering knowledge- intensive services (KIS) in the EU. These include MSEs producing pharmaceutical products, electronics, legal and accounting services as well as scientific R&D plus creative industries. Together, these represent more than a fifth (21.1%) of all MSEs in the EU. Germany contains the largest number of MSEs in high-tech manufacturing, while Italy, the UK and France have the largest number of knowledge-intensive services.

According to Wymenga et al (2012) three classes of MSEs have been distinguished: these are micro enterprises, small enterprises and medium scale enterprises. Micro enterprises are businesses that employ up to 9 people. Small enterprises employ between 10 and 49 people. Medium enterprises employ between 50 and 249 people. Large enterprises are defined as having 250 or more employees. The number of enterprises, employment and gross value added in the EU is summarized in the table.

Table 1.1:-*Number of enterprises, employment and gross value added in the EU-27by size-class,2012 estimates.*

	Micro	**Small**	**Medium**	**SMEs**	**Large**	**Total**
Number of enterprises						
Number	19,143,521	1,357,533	226,573	20,727,627	43,564	**20,771,281**
%	92.2	6.5	1.1	99.8	0.2	**100**
Employment						
Number	38395819	26771287	22310205	87477311	42318854	**129796165**
%	29.6	20.6	17.2	67.4	32.6	**100**
Gross Value Added						
EUR Millions	1307360.7	1143935.7	1136243.5	3587540	2591731.5	**6179271.4**
%	21.2	18.5	18.4	58.1	41.9	**100**

Source: Eurostat/ National statistics offices of member states, 2012

MSEs are a major feature of the economic landscape in all developing countries; (Liedholm and Mead, 1999). In addition, economic growth and poverty reduction in developing countries would to a large extent rely on how well small businesses perform (Liedholm and Mead, 1993). They contribute to the creation of jobs and the alleviation of poverty. Vandenberg (2009) noted that micro enterprises especially those operating in the informal sector, constitute the vast majority of businesses in most developing countries. Liedholm and Mead (1999) say that according to survey results in a number of countries; 17-27 percent of the working age population is employed in MSEs. Further, the number of people engaged in MSE activities per 1000 persons in the population i.e. employment densities, ranged from 70 to 90 in Botswana, Kenya, Lesotho and Malawi to well over 100 in the Dominican Republic, Swaziland and Zimbabwe. The majority of activities categorized as MSEs are very small, with most consisting of only one person working alone. Self employment is therefore a central characteristic of the MSEs.

Using the definition of the MSE world as being made up of those firms with 1-50 workers, Liedholm and Mead (1999); the larger end of the spectrum – those with ten or more workers – constitute less than 2 percent of the businesses in virtually all the countries in Africa covered by MSE surveys. They contend that most MSEs are owned by women and are concentrated in beer brewing, knitting, dressmaking, crocheting, cane work and retail trade.

In Ethiopia, about 50.6% of the total urban labour force is employed in the informal sector (Samson et al 2012). Most of these informal businesses were found to be micro enterprises that are run by owner managers.

All over India, around 13 million MSEs have been registered. Overall there are 26.1 million enterprises throughout India. Data from the Annual Report of Ministry of MSME, (www.msme.gov.in); further shows that these MSEs produce more than 6000 products ranging from simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, microwave components and electro-medical equipments. Other MSMEs are concentrated in furniture, textiles, retail trade, wearing apparel, food products and beverages, wood and wood products etc. MSEs are the driving force for the long term growth of India's economy. According to the World Bank; MSEs in India contribute 45 percent of employment, 40 percent of GDP and 35 percent of exports. The government of India has identified three key areas for increasing competitiveness of the MSE sector. These are technology acquisition and quality, skills development and finance. Through government support, 15,000 MSEs have been enabled to obtain ISO certification. The annual Report, Ministry of MSME, (http://msme.gov.in/MSME-Annual-Report-2011-12-English.pdf), indicates that the MSMEs sector accounts for about 45% of manufacturing output and 40% of the country's exports. The sector is estimated to employ around 59.5 million persons in the over 26.1 million enterprises all over India. Micro enterprises account for 94.94 percent, while small enterprises comprise 4.89 percent, whereas medium enterprises make 0.17 percent. Of these, 67.1% are manufacturing enterprises and 32.9% is made of services enterprises. The Fourth All India Census of MSMEs (2006-2007) found that about 45.23 percent of all enterprises were located in rural areas.

In Brazil, MSEs make important contributions to the Brazilian economy representing 20% of GDP, (http://search.oecd.org/official documents/display documents pdf) Nunes et al, (2008) indicate that MSEs represent approximately 98.4% of all private enterprises in Brazil. The Ministry of Development of Industry and Foreign Trade (2010) reveals that in 2008, MSEs comprised 98% of the total number of service companies in Brazil and employed 77% of the country's formal labour force. In 2009, MSEs totaled 44% of Brazil's exports with 9,871 exporting MSEs. The report further shows that each year, many MSEs upgrade to Medium Enterprises.

It is widely accepted that MSEs have been playing an increasingly important role in China's economy. Statistics available at cft.ccpit.org show that the number of MSEs registered with the Industrial and Commercial Bureau (ICB) has reached 10.23 million, accounting for 99% of the national total. MSEs create 85% of job opportunities in urban and rural areas. These MSEs produce 60% of the GDP by end products and services. They also pay 54.3% of national tax income to the Chinese government.

In Kenya, the Economic Survey (2012) indicates that the informal sector created 445,000 jobs which constituted 85.7% of all new jobs. According to the Economic Recovery Strategy for Wealth and Employment Creation (2003), Kenya's informal sector provided an estimated 936,000 jobs over 2001-2002. It further elaborates that the bulk of the jobs that the Government aims to create annually will continue to be in small enterprises. The Strategy paper notes that the Small and Medium Enterprises sector provides 3.7 million jobs or 72 percent of all employment opportunities with a contribution of 18 percent to national GDP. The National Micro and Small Enterprise Baseline Survey 1999, ICEG, CBS, K-REP (1999); uncovered the following information: there were 1.3 million MSEs in Kenya employing an estimated 2.4 million people. The average income of the enterprises that were surveyed was about KSh.6000 per month or 2.5 times higher than the minimum legal monthly wage for the general labourers which was KSh.2363 in 1999. The share of the MSE sector contribution to GDP was estimated at 18.4%. In terms of problems facing MSEs, the 1999 survey found that access to markets (34%) was the main constraint facing Micro and Small Enterprises followed by lack of capital at (18%). The survey findings show that 65.6% of all Kenyan enterprises are rural based.

The first baseline survey in the MSE sector in Kenya was carried out in 1993. The 1993 baseline survey revealed that there were approximately 910,000 MSEs employing up to 2 million people. The second baseline survey in 1995 estimated the size of the MSE sector at 708,000 enterprises employing up to 1.2 million people. Both the 1993 and the 1995 MSE baseline surveys remain the most authoritative and basic source of information on the MSE sector in Kenya, (ICEG et al 1999). Furthermore, the 1999 National MSE Baseline Survey found that 26% of all the households in the country are involved in some kind of non-primary (non-farm) business activity with 48% of MSEs being owned by women. The MSEs were concentrated in the sectors shown in the table.

Table 1.2:-*Sectoral and urban-rural distribution of MSES in Kenya*

Sector	Urban	Rural	Total number	Percentage
Manufacturing	45,019	127,745	172,764	13.4
Trade	273,738	552,310	826,149	64.1
Bars/Hotels/Restaurants	24,888	51,789	76,677	6.0
Services	92,937	98,398	191,335	14.8
Construction	6,551	15,537	22,087	1.7
Total	**443,133**	**845,879**	**1,289,012**	**100**

Source; National MSE Baseline Survey 1999 (CBS K-REP and ICEG)

In the survey results also, the aspect of employment in the MSEs is discussed within the context of the total labour force, which increased from 8,558,880 in 1989, to 13,146,757 in 1999, with an average growth rate of 5% per annum. Agriculture was the single biggest employer at 59.8 percent followed by services that employed 24.6 percent of the workforce with trade engaging 9.0 percent and industries taking 6.6 percent of the Kenyan labourforce in 1999. The structure of the Kenyan labour force in 1999 is illustrated in the table.

Table1.3:- *Structure of the labour force in Kenya, 1999.*

Sector	**Women**		**Men**		**Both**	**% of**
	No.	**%**	**No.**	**%**		**Labour force**
Agriculture	4,173,071	60.9	3,503,515	58.5	7,676,587	59.8
Industries	143,069	2.0	703,362	11.7	846,431	6.6
Trade	539,586	7.9	613,645	10.3	1,153,231	9.0
Services	2,000,145	29.2	1,165,213	19.5	3,165,358	24.6
Total	**6,855,871**	**100**	**5,985,735**	**100**	**12,841,607**	**100**

Source; National MSE Baseline Survey 1999 (CBS K-REP and ICEG)

According to CBS (2005) Kenya had over 5,970,600 people employed in the informal sector which translates to about 19% of the total Kenyan population. MSEs have the potential to contribute in a number of ways to the development process. Liedholm and Mead (1999) enumerate the following aspects as among the most significant: Contribution to household income and welfare; MSEs provide regular income to households. They also provide a basis for growth in income and welfare through asset accumulation, skill development and improvement of access to more rewarding economic activities. MSEs provide employment to millions of people who would otherwise remain unemployed. They contribute to building self confidence and in empowering of the individual. By being economically engaged and being able to sustain livelihood through meaningful economic activity, the individual is empowered and gains self confidence. MSEs also contribute to social change, political stability and democracy. Through their contribution to GDP, innovation in product and services, employment and skills development; these enterprises make a big contribution to the general welfare of society. Micro and Small Enterprises contribute to distributional or developmental objectives in a number of ways. Firstly by providing new opportunities for the poor; this could not be available without these enterprises. Secondly, they provide new opportunities for women who are in most cases discriminated against in mainstream economic opportunities. Thirdly, these enterprises provide new opportunities to those in rural areas. Some of these areas have long been neglected in allocation of national resources and investment of resources. MSEs contribute to demographic change, through reduction of birth rates and reduction in rural-urban migration by creating opportunities and increasing knowledge levels of those engaged in the sector.

In addition, Liedholm and Mead (1999) found that the defining characteristics of MSEs are: size of the enterprise, sector and location, gender of the entrepreneur, plus adherence to laws and regulations of the country. Enterprises can further be classified based on the past history of the enterprise: particularly its age and growth experience. The duo proposed a four way separation that includes new startups, enterprises that have been in existence for some time but have not grown at all in terms of employment since they were established, enterprises that have recorded grown since birth, but only in a small way; and enterprises that have managed to graduate to the upper end of the small enterprise spectrum or even gone on to become large scale enterprises.

According to the Ministry of Trade manual, (undated) the Joint Loans Board Scheme was established in 1954 under the Local Authority Act, cap 265, section 104 as boards to be administered by the Local Authorities. There are 49 such boards comprising 5 municipality Joint Loans Boards in Nairobi and 43 District Joint Loan Boards. The objectives of the scheme include: - To promote small scale enterprises through provision of credit. To assist small scale enterprises become credit worthy and to be mainstreamed into the credit market. To introduce small scale traders into borrowing funds for business. To help in reducing poverty levels. To help create employment and to curb rural-urban migration by encouraging investors to establish ventures in rural areas. The 49 boards are gazetted in the official Kenya Gazette (a government publication) by the permanent secretary in the Ministry of Trade. Each board comprises six members, a secretary/treasurer/manager who is the District Trade Development Officer (DTDO) and an ex-official member the District Commissioner in the respective District. The board membership is shared equally between the respective Local Authority and the central government at three members each. The board chairperson is selected from the private sector by the PS, Ministry of Trade who is the accounting officer. The Loan Board is wholly funded by the respective Local Authority and the government through budgetary allocation from the national treasury. Currently, due to financial constraints, most local authorities do not contribute any finance to the Board. Thus the Loan Board has not been as vibrant as desired, with some loan applicants being kept on the waiting list for the next lending cycle that usually follows after three months.

1.2 Statement of the problem

The first and most prominent United Nations Millennium Development Goal (MDG-1) has been widely acknowledged worldwide. It is aimed at halving; between 1990 and 2015, the proportion of people whose income is less than one US dollar a day (www.un.org/millenniumgoals/poverty.shtml). The global poverty statistics serve to indicate the grim reality of poverty as a worldwide phenomenon. According to the World Bank, 3 billion people live on less than US $2 per day. 1.4 billion people live on less than US $ 1.25 per day – the definition of those who live under the conditions of "extreme global poverty." Of these, more than 1 billion people live on less than $1 per day. In Kenya, 50% of the population lives below the poverty line (US $1.25 per day). The unemployment rate is estimated at 40% (2008 estimates). This means that there are 40% of the total labor force of 18.39 million that are without jobs but are available and seeking employment (www.indexmundi.com). According to the Poverty Reduction Strategy Paper, GOK (2001) poverty remains a pervasive national problem. The poor constitute more than half of the population of Kenya. One in every two Kenyans is poor. Poverty is a multi-dimensional concept. It includes inadequacy of income and deprivation of basic needs and rights coupled with lack of access to productive assets as well as social infrastructure and markets. The poor are defined as those who cannot afford basic food and non-food items. The 1997 Welfare Monitoring Survey estimated the absolute poverty line at Kshs. 1,239 per person per month in rural areas and Kshs. 2,648 for urban areas in Kenya. Poverty is viewed as the inability to meet basic needs. It is inevitably associated with features such as lack of land, unemployment, inability to feed oneself or one's family, lack of proper housing, poor healthcare and illiteracy. The national incidence of absolute poverty was estimated at 52 percent. Sadly, the number of poor increased from 3.7 million in 1972-3 to 11.5 million 1994 and is currently estimated at 15 million (GOK 2001). In Vihiga District, 65 percent of the population is poor out of a population of 498,882 and total households of some 105,704 (1999 Population and Housing Census). This is higher than the national average of 52 percent. Poor entrepreneurial attitude, theft, food insecurity and lack of capital have hindered the growth of MSEs that can lift thousands out of the poverty trap (GOK 2001).

MSEs are seen as a key plank in solving the twin problems of poverty and unemployment. But according to Sessional Paper No. 2 (2005), MSEs have high mortality rates with most of them not surviving beyond their third anniversaries. The mean enterprise age was at 4.23 years (Kimuyu and Omiti 2000).This has made it difficult for MSEs to graduate into medium and large scale enterprises thus the "missing middle." On the other hand, some enterprises do not live long enough to build contacts and reputation needed in seeking out and making use of credit (Ibid). The potential of the MSE sector to solve the problems of unemployment and poverty is enormous. MSEs can contribute to poverty reduction through employment creation and raising household incomes. But the sector has for long been left neglected and unregulated with minimal government intervention and investment. Yet this is the sector that can unleash creative potential, harness skills of the youth, drive exports growth, create employment, immensely contribute to national GDP and reduce national poverty levels.

1.3 Purpose of the Study

The purpose of the study was to investigate the influence of Government credit scheme on the growth of MSEs in Vihiga District of Vihiga County.

1.4 Objectives of the Study

The study was guided by the following objectives:-

1. To determine the extent to which access to credit as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County.
2. To examine how reduction of poverty levels as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County.
3. To establish the extent to which creating employment as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County.

4. To assess how improvement of creditworthiness as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County.

1.5 Research Questions

The study was undertaken to seek answers to the following research questions:-

1. To what extent does access to credit as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County?
2. How does reduction of poverty levels as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County?
3. To what extent does creating employment as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County?
4. How does improvement of creditworthiness as an aspect of Government credit scheme influence the growth of MSEs in Vihiga District of Vihiga County?

1.6 Significance of the Study

The findings of the study it is hoped will be used by the relevant ministries (Trade, Labour and Industrialisation) in reviewing the JLB scheme to cater for the needs of MSE operators. The study will inform and propose areas of improvement in the organization and disbursement of loans to MSEs in order to achieve the goals of the Government credit scheme. The study may be utilized to identify areas of further research. It will hopefully endeavor to fill knowledge gaps in this field. The study focuses on the Government credit scheme because it is the biggest, low interest lender to MSEs in Kenya. Whereas many studies have been conducted on impact of the Women Enterprise Fund and the Youth Enterprise Fund on MSE sector growth, the findings have largely focused on startups and not on the sustainability plus growth of existing enterprises. The GCS is meant to support ongoing enterprises to help them grow into medium scale enterprises. Thus it was thought important to study this scheme to see the impact it has had in Vihiga district, whether it has achieved the objectives it was set up for and to explore ways in which it can be improved in order to help MSEs to grow and transform into medium enterprises. The growth of MSEs it is thought, will help generate more decent jobs, create more wealth and produce quality goods and services for the local consumer in Vihiga District or even for export.

1.7 Limitations of the study

Access to data proved to be a challenge since most MSEs operate informally and are thus unregistered. Statistics were hard to come by. This was resolved by sourcing updated information that is only available at the Kenya National Bureau of Statistics (KNBS). Some respondents were unable or unwilling to give information about their businesses for fear of victimization since some of them are not tax compliant. Lack of properly kept books of account was an impediment since some business owners' financial literacy is low. The study resorted to verifying and utilizing the rough estimates that may have been given by such respondents. The study was limited to enterprises that were registered by the Vihiga Municipal council; which comprise the only eligible businesses that can access the Government credit scheme. Furthermore, the study had to narrow down to the enterprises recorded in the Vihiga district JLB loan book at the District Trade Development Office as having accessed loan facilities from the Government credit scheme. For the sample, the study zeroed in on enterprises which received loans from the GCS in Vihiga District between 1995 and 2012. Suffice to say that some Enterprises that were not selected for the study were interviewed to shed some light on why they had not accessed the loan facility and to give suggestions for the improvement of the GCS.

1.8 Delimitations of the Study

Vihiga District is located in Vihiga County, Western Kenya. The District borders Kakamega County to the North, Nandi County to the East, Kisumu District to the South and Siaya County to the South West. It lies between Longitude 34º 30' East and between 0º and 0º 15' North. The equator cuts across the southern tip of the District. The total population as per the1999 Population and Housing Census is 498,882 with an annual growth rate of 3 percent. The geographical size of the District is 563 square kilometers. The District is well served by motor able all weather roads with the Kisumu-

Kakamega road, Chavakali-Kapsabet road, Majengo-Luanda and Majengo-Mudete roads traversing through the District. Social amenities are generally easy to access within the District and its home to a fledging MSE sector in the main market centers. The topography ranges between 1300mm and 1500mm above sea level and slopes gently from West to East. It is characterized by undulating hills and valleys. Vihiga has moderate temperatures ranging from 14ºC to 32ºC and abundant rain all year round. The good soils and abundant rain supports livestock rearing and cultivation of crops such as tea, avocados, coffee, maize, beans and French beans. Vihiga District is also home to two gazetted forests covering an area of some 4160.6 hectares. The District has a high potential for thriving agribusiness, agro based industries and services. Vihiga District was deemed an ideal location for the study because of its proximity to Kisumu city, an average of 40 minutes drive from Kisumu campus.

The study was delimited to MSEs that had obtained credit from the Government credit scheme through the Vihiga District Joint Loans Board from 1995-2012. Similar studies in the past have concentrated on the growth of businesses owned by groups; that mainly access credit from the Women Enterprise fund and the Youth Enterprise fund which do not include the majority of MSEs in Kenya. The Government credit scheme was chosen for this study because it is the biggest lender to MSEs disbursing millions of shillings every financial year. Moreover, the study was carried out in Vihiga district because there is no such study that has been conducted in Vihiga to date. All markets in the district where almost all MSEs are located are fairly easy to access. Moreover, the funds that were available could only be able to fund the study in the said district. In addition, Vihiga district is also a home to a sizeable chunk of MSEs clustered in its main market centres.

1.9 Basic Assumptions of the Study

The study assumed that all the MSE operators in Vihiga district who had been funded by the JLB between the years 1995 and 2012; who were consequently involved in the study answered all the questions posed to them honestly and accurately to the best of their knowledge. It was further assumed that the records of the Joint Loans Board held at the DTDOs office were accurate and up to date. Thus they could be used in obtaining the sample for the study. The other assumption was that enterprises selected in the sample had accrued some measurable growth as a result of investing the monies that were advanced to them. This enterprise growth it was assumed would be reflected in increased profits, creation of employment, acquisition of new technology, a higher credit rating, expansion and divestiture.

1.10 Definition of significant terms used in the study

Micro and Small Enterprise: In this study, refers to a business in the formal and informal sectors, in all sectors of economic activity; employing 1-50 workers.

Joint Loans Board Loan: Any amount of money disbursed through the Vihiga JLB that is payable within an agreed period and with determined interest rate.

Growth of MSE: An incremental increase in the business entity as reflected by: increased profits, creation of employment, acquisition of new technology, a higher credit rating, expansion and divestiture.

Government Credit Scheme: A loan scheme administered by the Government of Kenya managed by the Ministry of Trade under the Vihiga Joint Loans Board for lending and the development of MSEs.

Access to credit: Ability to apply for and obtain finance from the Vihiga JLB under the set loan application procedures, terms and conditions.

Poverty: Lack of adequate income as measured by the World Bank standard of US $ 1.25 per day.

Rural-urban migration: Movement of people from rural to urban areas in search of employment and better living conditions.

Creditworthiness: Ability to access finance from mainstream commercial lenders other than the Vihiga JLB such as banks and MFIs which offer higher amounts than the GCS based on repayment ability of the business.

1.11 Organization of the Study

The study was organized in five chapters. The first chapter is the introduction part. In the introductory chapter, an introduction to the study is discussed followed by the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, assumptions of the study, limitations of the study, delimitations of the study and definition of operational terms as applied in the study. This chapter is crowned by the organization of the study. Chapter two entails the literature review. The literature is presented in thematic form. The themes included: Theories of enterprise growth with its sub-themes which are; increased profits, employment creation, acquisition of new technology, a higher credit rating, expansion and divestiture. Other themes were; Access to credit, reduction of poverty levels, creation of employment and the policy and regulatory framework. The theoretical framework followed and thereafter the conceptual framework. In chapter three, the research design, target population, sampling size and sampling procedures is covered. This chapter also covers research instruments, pilot testing, validity and reliability of the instruments used in the study. Chapter three ends with data collection methods, data analysis techniques and ethical considerations. Chapter four begins with the response return rate, then the data is analyzed, the findings are presented, interpreted and discussed. The findings are discussed under various themes including; gender distribution of MSE operators in Vihiga District, loan application procedures, the contribution of the GCS to poverty reduction, employment creation, improved creditworthiness of MSEs and the growth recorded by MSEs and attributable to GCS lending. Chapter five presents a summary of the findings, inferences and conclusions of the study. The findings of the study are summarized, relevant conclusions are drawn and recommendations are made for the improvement of the GCS in Vihiga District. The contributions of the study to the body of knowledge are listed in tandem with the objectives of that the study sought to achieve. Finally, in cognizant of the fact that the fountain of knowledge never runs dry, suggestions for further research are given.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of literature related to the study on the following themes: Theories of enterprise growth and its sub-themes of increased profits, employment creation, expansion of business, divestiture, and acquisition of new technology; as viewed in line with the objectives of the GCS which are; access to credit, reduction of poverty levels, creation of employment, improvement of MSEs creditworthiness. This is followed by poverty reduction strategies, the theoretical framework and the conceptual framework of the study.

2.2 Theories of growth of the firm

By the middle of this century, the neoclassical "theory of the firm"; the theory of perfectly competitive markets, relative prices and pareto optimal resource allocation had emerged. In analyzing the growth of firms in the 1950s, Penrose (1995), wanted to uncover whether there was something inherent in the very nature of any firm that both promoted its growth and necessarily limited its rate of growth. The economic function of such a firm was simply acquiring and organizing human and other resources in order to profitably supply goods and services. Generally, managers are primarily interested in the profitable expansion of the activities of their firm. Profits are treated as necessary condition of expansion or growth. And subsequently, growth is the chief reason for the interest of managers on profits, (Penrose1995). Moreover, the more profits that could be retained in the firm, the better because retained earnings are a relatively cheap source of finance. The growth of the firm need not be stifled by demand. Therefore a firm should search for opportunities of using its productive resources and knowledge more efficiently. From this follows the theory of diversification of the firm because its existing markets become less profitable or the prospects of new ones seem brighter.

Penrose (1995) argues that a firm's growth rate is usually limited by the growth of knowledge within it. The theory of growth therefore is developed first as a theory of internal growth, which is growth without merger or acquisition. It is to the organization as a whole that we must look to discover the reason behind its growth. In contrast, many firms do not grow and a variety of reasons have been given for this. These include: un-enterprising direction, inefficient management, insufficient capital, lack of adaptability to the external environment, poor judgment leading to costly mistakes, or simply environmental factors beyond their control.

According to Mao (2009), enterprise growth is used to describe a development process of an enterprise from small to large and from feeble to strong. Growth therefore connotes a development process including outputs, sales volume, profits and assets gross, market share, number of employees and growth in quality which embodies technological innovation. Penrose's Enterprise Growth Theories (1959) established the base of enterprise growth theory. Three schools of thought have emerged from the enterprise growth theory. These are; the growth theory based on scale boundary theory, the growth theory based on lifecycle and the growth theory based on gene combination. It has been argued that dynamic and growing MSE sector can contribute to the achievement of a wide range of development objectives such as; income generation and poverty reduction; creation of employment; provision of the springboard to industrialization; mobilization of savings and the production of goods and services that meet the basic needs of the poor, (Christopher et al 2006).

Lewis (1955), labor surplus theory argued that the driving force behind MSE development is excess labor supply which cannot be absorbed in the public sector or large private enterprises, that is forced into MSEs despite the poor pay and low productivity. This school of thought further says that the MSE sector develops in response to growing unemployment, being a place of last resort for people who are unable to find employment in the formal sector. There are some empirical problems with the unemployment theory of the growth and development of MSEs. For instance, there is lack of reliable and adequate data to enable researchers to test the hypothesis that MSEs absorb labor from the public sector or large enterprises.

The second theory explaining the development of the MSE sector in developing countries is the output-demand theory, (Christopher et al 2006). The theory postulates that a prerequisite for the development of MSEs is that a market exists for their products and services. Consequently the MSE sector will tend to develop a cyclical relationship with the economy as a whole.

The third theory, called the firm growth theory, contends that, as a consequence of industrialization and economic growth, MSEs are likely to disappear and be replaced by modern large scale industries. Critics of this theory point out that this theory does not consider differences in efficiency, the overall impact of MSEs in society, linkages between small and large enterprises, differences in the level of education and other social-economic differences. One important element that is common to all these theories and their variants is the proposition that the growth of MSEs can contribute to poverty reduction, (Christopher et al 2006).

Christopher et al (2006) further argues that the prioritization of poverty reduction has greatly increased the interest of scholars in the contribution that financial development can make to poverty reduction. Improving the supply of financial services to the poor has been found to directly contribute to poverty reduction. It is in this context that researchers and policy analysts have shown keen interest in the contribution of finance to development and poverty reduction. The crucial link between financial development and poverty reduction is the growth of MSEs.

Furthermore, inadequate access to credit and other financial services from formal financial institutions has for long been recognized as an impediment to the expansion of the MSE sector. To address this seeming failure of the market to provide small firms with adequate access to external finance, significant resources continue to be channeled into financing the MSE sector in developing countries. For example, it is estimated that the World Bank Group has approved more than 10 billion US dollars in MSE support programmes in five years, 80% of which is direct financial assistance. In addition, a recent survey of funding sources for businesses conducted by the Investment Climate Survey in 2002-2003 in 40 developing countries in Europe, Asia, Africa and Latin America, has found that large firms generally have more access to bank credit than small firms. Christopher et al (2006) conclude that intellectual consensus in the 1960s and 1970s was that governments would intervene to provide directed credit to MSEs. Evidence shows that the small size of MSEs is a serious handicap and enterprises have to grow in order to gain further and easier access to credit.

Kimuyu and Omiti (2000) acknowledge that MSEs are reputed to be behind most of the social-economic transformation in South East Asia and they play a significant role in Kenya's development process. These enterprises embody unique opportunities for creating employment and wealth. The development of the sector is therefore crucial in reducing poverty in Kenya. MSEs are generally under-capitalized, suggesting major operational difficulties in accessing credit and aiding the pursuit of their growth needs. The implication of this is that since MSEs have inadequate access to credit, the potential of this sector in reducing poverty and contribute to Kenya's socio-economic transformation and achievement of Vision 2030 is unlikely to be realized.

According to Kimuyu and Omiti (2000), the formal segment of Kenya's financial sector is dominated by a few commercial banks that do not have a track record of lending to MSEs. The liberalization of interest rates in the 1990s and heavy government domestic borrowing did nothing to increase MSEs access to credit. In their relative access to credit (CAR) hypothesis, Klein et al (2000) posit that while firms may be constrained by the position of their balance sheets, they may also be constrained by a reduction in the willingness of lenders to provide credit, particularly in an inward shift in loan supply caused by deterioration in bank financial health.

MSEs in Kenya do not have adequate access to credit. The 1999 Baseline Survey reveals that only a very small portion of MSEs borrow funds for re-investment. On the other hand, an analysis of enterprises that closed down shows that more than one third of these closed down for lack of working capital. Data from the Baseline survey further indicates that, for the MSE sector, the most important sources of capital for both initial and additional, are own funds and family resources. Considering the low incomes and savings rate prevalent in Kenya, these findings suggest that MSEs fall back on these sources for lack of alternatives and out of desperation. Alternative sources of credit are either costly or out of reach for the majority of these enterprises, (Kimuyu and Omiti 2000). The table below summarizes the sources of Initial and additional capital as captured in the 1999 MSE Baseline Study. The sources are listed against their relative contribution to the initial and additional capital for the MSEs that were surveyed. It should be noted that borrowing only accounted for a paltry11.4 percent of initial capital and only 19.6 percent of additional capital.

Table 2.1:- *Sources of initial and additional capital in Kenya*

Sources	**Relative contribution of source %**	
	Initial	Additional
Own Family funds	88.6	80.4
Loan from family and friends	7.0	6.2
Commercial bank	0.7	1.8
Formal or informal co-operatives	1.2	1.3
Non-bank financial institutions	0.7	1.1
Rotating savings and credit schemes	0.7	1.1
Others (NGOs, Government programmes, Trade credit, money lenders and others	1.1	8.1
Total	**100**	**100**

Source; Computed from the 1999 MSE Baseline Survey (CBS K-REP and ICEG)

Only 5.8 percent of enterprises interviewed during the 1999 MSE Baseline Survey applied for a loan even though most entrepreneurs perceive external resources as being important for enterprises performance. It can be concluded that the MSE sector faces a major problem in accessing credit. This credit problem is particularly acute among the small registered enterprises and those that are rural based, (Kimuyu and Omiti 2000).The unfilled credit gap is estimated at Kshs. 55 billion. There is therefore a huge gap between credit demand and supply within the MSE sector in Kenya, (Kimuyu and Omiti 2000). It has also been documented that in most developing countries, there is an ever increasing flow of rural migrants into urban areas and the inability of the urban economy to provide permanent jobs for a majority of these workers (Todaro 1969).

2.3 Poverty Reduction Strategies

The formulation of Poverty reduction Strategy Papers (PRSPs) was initiated by the Bretton Woods Institutions-The IMF and World Bank early this decade. The PRSP processes were meant to be country driven and involved broad based popular participation. The strategies were to be result oriented and purely focused on outcomes that benefit the poor with a long-term perspective of poverty reduction. It was further envisaged that the strategies that were to be developed would be comprehensive in recognizing the multidimensional nature of poverty with strong partnerships and participation by development partners. By September 2003, PRSPs had been endorsed by the boards of the BRIs in fifty four countries (Gould 2005).

According to Gould (2005), the new poverty reduction partnerships are based on consensus and mutual interest among state and donor actors. Poverty reduction strategies identify economic growth as a primary objective; advocate expanded social sector spending and access to lending from International financial agencies as key planks.

Narayan, et al (2000), say that a field work conducted among 20000 poor men and women in 23 countries to determine the view of poor people on their problems and priorities sponsored by the World Bank in 1999, to inform poverty reduction strategies, found that the common underlying theme of poor people’s experiences is powerlessness. Powerlessness consists of 10 intertwining dimensions of ill-being or poverty: The poor’s livelihoods and assets are precarious, seasonal and inadequate. Their dwelling places are isolated, risky, lack basic amenities and are socially stigmatized. The poor experience hunger, exhaustion, sickness and lack adequate clothing. Gender relations among the poverty stricken are troubled and unequal. It was also found that the social relations of the poor are discriminating and isolating. To the poor, security is lacking in terms of both protection and peace of mind with the behaviors of those more powerful marked by disregard and abuse. Key institutions disempower and exclude the poor, whereas on the other hand, organizations of the poor are usually weak and poorly organized. The study concluded that the capabilities of poor people are weak because of lack of information, education, skills and self confidence. In view of these, an agenda for change is proposed; emphasizing the need for the poor to access adequate assets, healthcare, information, education, equity, security, enhanced livelihoods, social services, peace, empowerment, fair treatment and inclusion in all facets of national economic endeavor.

2.4 Policy Framework on the growth of MSEs in Kenya

The government of Kenya has put in place measures and programmes to support the growth and development of the MSE sector. The Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth was the first government policy document to give explicit recognition of the MSE sector's role in economic growth and development. This led to the publication of Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya, which provided a more comprehensive policy framework for the promotion of the MSE sector. In 2005, the government of Kenya came up with Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction.

In this Sessional Paper, it is acknowledged that a well functioning policy on MSEs is critical for attracting and spreading investment in both urban and rural areas. In consultation with key stakeholders, the earlier policy documents and strategies were reviewed to embody a new policy framework to provide a more balanced policy focus in line with national goals of fostering economic growth, employment creation, income generation, poverty reduction and industrialization. The policy review was aimed at promoting the MSE sector to perform at the optimum for increased economic benefit of all Kenyans.

The vision of the government policy is to promote a strong Kenyan economy where MSEs are effectively integrated and able to produce quality goods and services. The goal is to develop a vibrant MSE sector capable of creating durable, decent and productive employment opportunities, stimulate economic growth, reduce economic disparities, strengthen linkages between firms and diversify domestic production (Sessional Paper No. 2 of 2005).

Granted, the MSE sector in Kenya plays an important role in the socio-economic development of the country, the problems bedeviling the sector have been identified (GOK 2005,Ouma 2007). These problems are discussed hereunder.

First, the unfavorable policy environment and inhibitive legal regulatory framework currently in place negatively impacts the growth of the MSEs. The by- laws of most local authorities are not standardized and are usually punitive for MSEs. The legal framework, in most cases does not recognize innovative financial intermediation strategies of institutions providing these services such as group credit to MSEs. Furthermore, constant harassment meted upon MSEs by local authorities makes them incur heavy losses when their merchandise are confiscated or destroyed during the clean up raids in the major towns and cities. Dispute resolution mechanism is complex, bureaucratic and unfriendly to MSEs and they fail to get fairness in the due process of the law. The centralization of registration of Business Names in Nairobi poses challenges to MSEs located outside the capital city. The daily license fees charged are prohibitive. Majority of MSEs have no legal title deeds for the sites on which they operate and they often encounter harassment from local authorities and government officials over attempts to operate on unused land.

Secondly, limited access to financial services and markets is a major impediment to the thriving of the MSE sector. MSEs have little access to finance. Their main sources of funding are own savings, merry go round, friends, relatives and neighbors. These sources of capital are unpredictable, insecure, staved off loaning funds and have limited scope for risk sharing. Most MSEs are unable to access formal finance due to their poor assets base which denies them the much needed collateral to secure formal finance sector loans. Financial institutions perceive MSEs as high risk debtors because of default and their poor credit rating due to poor record keeping or low financial literacy.

Thirdly, access to markets is one of the most severe problems facing MSEs. This is as a result of the stiff competition amongst the entrepreneurs because their products in any particular sector tend to be homogenous. The problem is exacerbated by lack of customers, lack of product publicity, lack of knowledge about the needs of customers, limited access to external markets and poor infrastructure. According to the 1999 National MSE Baseline Survey, more than a third of MSE proprietors alluded to the fact that low market demand for their commodities was a serious problem.

Fourthly, inadequate skills and technology is another major constraint. Most MSE operators have low levels of education. Whereas the low levels of education of the entrepreneurs can help them successfully operate at micro scale for many years, to graduate to medium or large-scale requires more sophistication, formal management practices and fluency in finance. Kenya's MSEs have restricted levels of technology application and inappropriate technology characterized by inadequate institutional capacity to support adaptation and absorption of modern technological skills. Thus, the sector continues to experience low productivity, poor quality of products, poor packaging and poor distribution network.

Fifthly, poor infrastructure and lack of basic amenities also weighs down on the growth of MSEs. Inadequate physical infrastructure is one of the main causes of low levels of investment and unsatisfactory performance of micro and small enterprises. The poor state of the country's roads adds to the cost of production and marketing of goods and services, rendering them less competitive than imported substitutes. Other infrastructural constraints include; difficulty of obtaining land title deeds which can be used as collateral to seek capital, insecurity, unreliable power and water supply coupled with shortage of serviced sheds and incubation centres.

Sixth, there are inadequate linkages between MSEs and large enterprises. Forward and backward linkages between MSEs and large enterprises in Kenya are weak and sometimes non-existent. This scenario leads to inadequate technology transfer and development, poor information flow, inadequate sub-contracting arrangements and few marketing opportunities. Public sector procurement standards that demand the assurance of large supplies and proof of adequate financial resources have resulted in a near total exclusion of MSEs from the public sector market.

The seventh major problem is gender inequality, which has had a negative influence on MSE growth in Kenya. It is widely acknowledged that elimination of gender inequality is an important step towards equitable development. Women are more vulnerable to poverty because they are discriminated against in income distribution, access to credit, access to and control of land, education, employment and training.

Eighth is the fact that most MSEs operate in unsatisfactory occupational health and safety conditions. Occupational health and safety is a crucial component for enhanced productivity, enterprise growth and expansion of business. Currently, the MSE sector in Kenya endures the adverse effects of limited access and non adherence to safety and health regulations. Workers and operators are exposed to many occupational health hazards and accidents due to the nature of their work and work sites, equipment, lack of protective gear and materials used, yet they are not covered by the Factories and Other Places of Work Act.(GOK 2005, Ouma 2007).

To tackle these problems, the government undertook to implement the following policies: To operationalize the single business permit, decentralize business registration, earmark land for MSE development, initiate capacity building progammes for MSE operators, provide BDS to the sector, establish an MSE court and enact the MSE act to regulate the activities of these businesses. Furthermore, the government resolved to allocate at least 25 percent of government procurement of goods and services to the MSE sector, to give tax rebates and duty waivers plus to market MSE products in local and international markets through exhibitions, catalogues, trade fairs, the media and MSE websites. The government also established a Micro Finance Trust Fund to lend to MSEs through MFIs at affordable rates and strengthening the Micro Enterprise Support Programme Trust (MESPT). In addition, measures to enable MSEs access finance through the Nairobi Stock Exchange were to be put in place, promotion of the adoption of appropriate technology and innovation was to be initiated, duty waiver on equipment and machines was to be effected to improve the quality and value of MSE products, gender equality was to be promoted, application of standard safety, health, hygiene and environmental management principles was to be enforced to help improve the quality of jobs in the MSE sector (GOK 2005).

2.4.1 The Micro and Small Enterprises Act 2012 for the growth of MSEs in Kenya

The most recent effort by the government to spur the growth of MSEs in Kenya is the enactment of the MSE Act 2012. This is an Act of Parliament to provide a legal and institutional framework for the promotion, development and regulation of micro and small enterprises. It provides for the establishment of the Micro and Small Enterprises

Authority, the Micro and Small Enterprises Development Fund and the Micro and Small Enterprises Tribunal. Currently, there is no legal regime which is specifically tailored to regulate these enterprises, despite the fact that these enterprises play a significant role in the economic development of Kenya and are a key source of employment for a significant proportion of the population in Kenya.

The object and purpose of this Act is to provide a legal and institutional framework for the promotion, development and regulation of MSEs by: providing an enabling environment for MSEs to thrive and grow, facilitating access to business development services by MSEs, promoting an entrepreneurial culture, facilitating formalization and upgrading of informal MSEs and promotion of representative grassroots associations to actively lobby for the welfare of MSEs (The MSE Act 2012).

The following additional measures have been put in place in the MSE Act; the office of the Registrar of Micro and Small Enterprises shall be responsible for the registration of MSEs, MSE associations and umbrella organizations. The registrar will also be responsible for regulating change of officers of the associations or organizations and resolution of conflicts between the said officers. He will monitor adherence to the constitution or rules of the associations, keep the register of members, ensure that proper books of account are kept and inspected and that regular meetings are conducted.

According to the MSE Act (2012), the Micro and Small Enterprises Authority shall formulate and review policies and programs for MSEs. It will also monitor and evaluate the implementation of existing policies and programmes related to or affecting MSEs and advice the government on appropriate policies and course of action to be taken in the best interest of the entrepreneurs. The Micro and Small Enterprises Authority shall further, coordinate, harmonize and facilitate the integration of various public and private sector activities and programmes and development plans relating to MSEs. It will promote and facilitate research, product development and patenting in the MSE sector. It is envisaged in the Act that the Authority will promote the mainstreaming of gender, youth and persons with disabilities in all MSE activities and programs, mobilize resources for the development of the MSE sector, improve access to credit and other financial services by MSEs to spur their growth and graduation into medium scale enterprises. The Authority will work to promote access to markets by MSEs, promote innovation and development of products by MSEs and provide business development services to MSEs. It will Formulate capacity building programmes for MSEs, facilitate technology development, acquisition and transfer by MSEs and develop mechanisms, tools and programs for the collection of comprehensive disaggregated data to enable proper planning for the MSE sector.

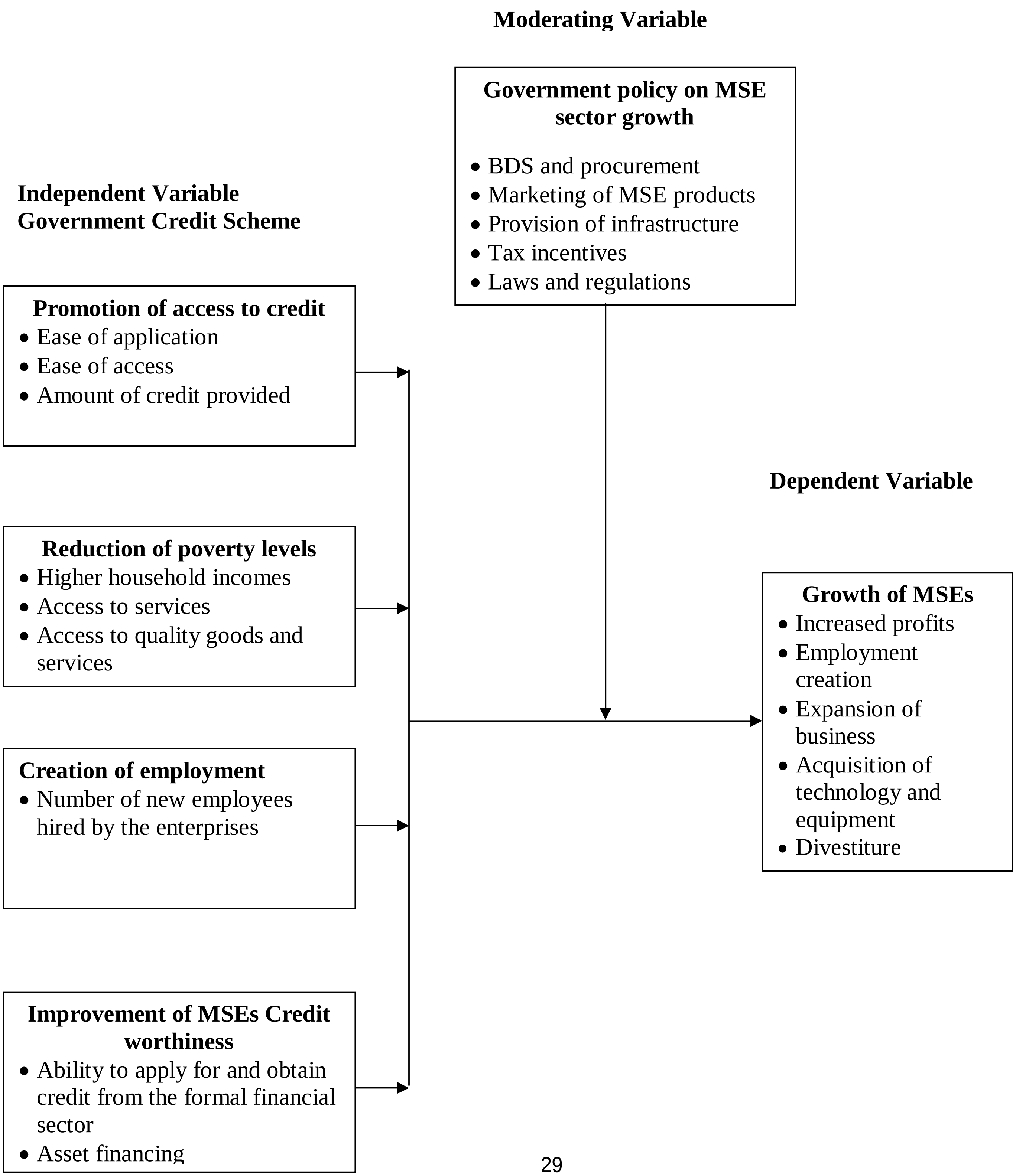
In addition the Authority shall advice on zoning and earmarking of land for the development of MSEs. The Authority shall also advice and facilitate the relevant government ministries and other agencies in developing the worksite management policy, provision of suitable infrastructure, social amenities, business information centers, model centers of excellence and other facilities for the development of MSEs. On the other hand the purpose of the Micro and Small Enterprises Development Fund shall be to: finance the promotion and development of MSEs by providing accessible and affordable credit to MSEs. The Fund will finance capacity building for MSEs and promote research, development, innovation and transfer of technology in the sector. The Micro and Small Enterprises Tribunal is the body that will be formed to solve commercial disputes involving MSEs, to enforce terms and conditions of allocation of worksites, elections and management of associations. The Tribunal shall additionally ensure compliance with the constitution or rules of MSE associations or organizations sort out un- procedural or illegal allocation, subdivision or sub letting of MSE worksites; mismanagement and misappropriation of funds (MSE Act, 2012).

2.5 Theoretical Framework

Penrose (1995) theory of the growth of the firm was adapted for this study. It postulates that there is something inherent in the very nature of the firm that both promotes its growth and limits its rate of growth. This theory treats profits as a necessary condition for expansion or growth. Profits are regarded as a cheap source of finance for the firm. Managers are seen as chiefly interested in profit. The theory further states that demand need not stifle the growth of the firm, because a firm or enterprise should always be on the lookout for opportunities to use its productive resources and knowledge more efficiently. Diversification is viewed as necessary because of shrinking markets or prospects of new more attractive markets. This theory of growth of the firm is developed first as mainly driven by internal growth devoid of mergers or acquisitions. The organization thus provides the reasons behind growth or stagnation.

2.6 Conceptual Framework

Figure 2.1 *Conceptual framework of the relationship between GCS, government policy framework and growth of MSES in Vihiga District*



2.7 Summary of reviewed literature

The reviewed literature covered the definition and importance of MSEs to the economies of many countries worldwide. The contribution of MSEs to national GDP, employment creation and reduction of poverty in African countries is also covered. The review turns the focus on Kenya and MSE sector's economic contribution and the challenges it faces. Theories of the growth of the firm are discussed. The poverty reduction strategies put in place by governments through national PRSP are outlined. The importance of the MSE sector to employment creation in Kenya is outlined. Additionally, the government policy intervention measures to spur the growth of MSEs are discussed and reviewed. The impact of these policies over the years is assessed. It was noted that the enactment of the MSE Bill 2012 is the single most important policy measure targeted at the sector by the Kenya government to date. This Act is reviewed in detail and its potential impact on the MSE sector in Kenya is analyzed.

2.8 Gaps identified in the literature

Even though a lot of information is available about MSEs and many studies have been carried out on this sector, none has documented the influence of GCS on the growth of MSEs in Vihiga District of Vihiga County. It is this gap that the study sought to fill.

2.9 Operational Definitions of Variables

In this study, the independent variable is Government Credit Scheme. On the other hand, the dependent variable is the growth of MSEs that had received funding from the GCS. The funds provided helped MSEs to grow through re-investment, acquisition of stock and equipment, expansion and increase in the number of employees. Overall, these funds led to increased profits, growth in employment, expansion of business, curbing rural-urban migration through creation of employment at the grassroots, improved credit rating of MSEs and reduction in poverty levels in Vihiga District. The growth of the financed MSEs was measured by using several parameters such as; increase in profits- had the enterprise realized an increase in profit as a result of the application of loaned funds? Creation of employment opportunities – in the last six months to one year after acquiring funding had the enterprise hired extra employees?

Expansion of business in terms of stock and opening new branches – had the stock in the business increased or was any new branch opened? Divestiture – had the enterprise diversified into other profitable ventures as a result of investing the funds? Acquisition of new technology- had the funds enabled the enterprise to acquire new technology or equipment? Transformation into medium size enterprises – is the business nearer to transforming into a medium size enterprise two years after acquiring funding? For GCS to succeed in promoting the growth of MSEs, the policy framework has to be conducive for the growth of the sector (intervening variable). Such policy measures include tax incentives, relaxation of the registration requirements and enhancing access to markets, good regulatory framework, providing business development services, provision of credit facilities and mainstreaming MSEs into the economic fabric of the country.

The indicators that were used to measure the Independent variable, Government Credit Scheme were as follows; access to credit was measured by the ease of application, ease of access and the amount of finance offered. Reduction in poverty levels was measured by increase or reduction of household incomes of the funded enterprises, acquisition of new household goods and access to better services in healthcare, education and housing. Creation of employment was measured by the number of persons who had been hired in the business since the funding was received within a period of six months to one year. Improved creditworthiness was measured by the number of successful applications for credit and asset financing from banking institutions.

On the other hand the indicators that were used to measure the Dependent variable, growth of MSEs included: percentage increase in profits after funding, number of new employees hired in the last one year, percentage increase in stock, number of new branches opened, number of new technologies adapted and new equipment acquired for the business. Lastly, the moderating variable, Government policy on the growth of MSEs in Kenya was not measured as monitoring and evaluating the impact of these policy interventions fell beyond the scope of this study. In addition the MSE Act 2012 that consolidates and harmonizes all legislation for the MSE sector was yet to be fully implemented as at the time of writing this report. However, the various policy interventions such as the Sessional Paper No.2 of 1992 on Small Enterprise and Jua Kali

Development in Kenya, Economic Recovery Strategy for Wealth and Employment Creation 2003-2007, Sessional Paper No. 2 of 2005 and the MSE Act 2012 have been reviewed and analyzed in view of their contribution to the growth of MSEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was applied in conducting the study. This encompasses: the research design; target population, sampling design and sampling procedures; research instruments for data collection; the research process; validity and reliability of the research instruments as well as data processing and analysis techniques.

3.2 Research Design

According to United Nations Centre for Regional Development UNCRD (2004), research design is a blue print of the research, it shows the tools required, the resources needed, the cost involved and the time schedule of anticipated progress. The research design helps enhance the validity of the research study findings by controlling potential sources of bias that may distort findings.

The study adopted a descriptive survey design with both quantitative and qualitative approaches. The goal of a descriptive study is to offer a profile or describe relevant aspects of the phenomena of interest to an individual, organization or even an industry, (Sekaran 2006). The descriptive survey design was most suitable because it can collect a varied range of information about the influence Government credit scheme has had on the growth of MSEs in Vihiga district.

Qualitative methods were used to collect data from the District Trade Development Office, Vihiga municipal council and some aspects of the indicators that could not render themselves to quantitative measurement. On the other hand the variables were divided into quantitative and measurable indicators that were captured, measured and verified through administering the study questionnaire. Quantitative methods were used to collect data pertaining to the independent and dependent variable. Participant observation was also applied. Non participant observation is a method where data are collected by an observer who is not a regular fulltime participant in the activities being observed (Mugenda and Mugenda 1999). Face to face interviews were used to collect relevant information from the staff at the District Trade Development office. An interview schedule was used in this regard. The survey research design was used to address objective one, two, three and four. Descriptive survey design was used to achieve objective one.

3.3 Target Population

There are many registered enterprises that fall under the bracket of MSEs in Vihiga district. In total there are 4000 MSEs registered by the Vihiga Municipal council. Another 1000 are registered by the county council of Vihiga. Out of these, 448 enterprises have accessed financing through Government credit scheme from 1995 when it was introduced in Vihiga District to the year 2012. The total amount advanced to these MSEs to date is Kshs.8, 413,471.80. For the study to realize its key objective, the influence of GCS on the growth of MSEs in Vihiga district, MSEs that had received credit from GCS were retrieved from the loan book at the office of the DTDO. A sample was drawn from that population for this study.

3.4 Sample size and sampling procedures

This section discusses sample size selected for this study and the sampling procedures used to select the sample for the study.

3.4.1 Sample size

Simple random sampling was used to select subjects for the study from the various strata as listed. In simple random sampling, every member of the population has a known and equal chance of being selected (Sekaran 2006, Mugenda&Mugenda 1999). The probability of any one of the subjects being chosen is equal. In addition, simple random sampling has the least bias and offers the most generalizability. If the target population is less than 10,000, the required sample size will be smaller in such cases; the final sample estimate (n*f*) is calculated using the following formula: (Ibid).

$$Nf = \frac{n}{1 + n)/N}$$

Where: n*f* = the desired sample size when the population is less than 10,000 n = the desired sample size when the population is more than 10,000

N = the estimate of the population size

Substituting the figures:

n = 375

N = 448 $\quad Nf = \dfrac{375}{1 + 375/448}$

$$= \frac{375}{1 + 0.84}$$

= 203. The sample size for this study is 203 enterprises.

3.4.2 Sampling procedures

All the 448 enterprises that had been financed were listed to form the population frame from which the sample was drawn. The population frame is a listing of all the elements in the population under study (Sekaran 2006, Mugenda&Mugenda 1999). For this study, Stratified random sampling was used. Stratified random sampling involves a system of segregation, followed by random selection of subjects from each stratum (Ibid). The enterprises were divided into mutually exclusive groups based on the sector of operation; that was meant to ensure the inclusion of sub-groups which could otherwise be excluded from the sample. The sectors were: Retail trade; including shops, drapery, mobile phone sale, fabrics, petroleum products retailing, charcoal dealers, electronics and hawking. Carpentry; including furniture shops and timber yards.Bookshops; including photo studios, music and video libraries. Tailoring; including dress making, laundry services, mitumba selling and boutiques. Bar and restaurant; including wines and spirits. Wholesale trade; including soda distribution and supermarkets.Posh mills; including cereals shops.Agribusiness; including poultry farming, agro vet, horticulture, tannery, mushrooms growing, dairy farming and groceries.Foodstuff/catering services; including hotels, food kiosks and butcheries.Chemists; including clinics, colleges, computer services, mpesa services and other professional services. Hardware; including brick making, bicycle/motorcycle repair, tinsmith, battery charging, welding, engineering works, glass dealers, garages and light manufacturing. The last stratum is Salon/beauty parlor. A stratum is a subset of the population that shares at least one common characteristic. To obtain the sample for each stratum (n1, n2, n3, n4…) the following formula was used:

$$n1 = \frac{n\,(N)}{P}$$

Where:

n1 = Stratum sample

N = Sample size

n = Stratum population

P = Total population

Table 3.1:- *How sample size of MSES for this study was established*

Sector	**No. of Enterprises**	**Selected sample**
Retail trade	223	101
Carpentry	24	11
Bookshops	16	7
Tailoring	42	19
Bar and restaurant	30	14
Wholesale trade	12	5
Posho mill	28	13
Agribusiness	8	4
Foodstuff/catering	16	7
Chemists/professional services	14	6
Hardware	30	14
Salon/beauty parlor	5	2
Total	**448**	**203**

3.5 Research Instruments

The proposed study applied three sets of instruments to collect data namely; self administered questionnaires, structured interviews and non-participant observation. Sekaran (2006) noted that questionnaires have the advantage of obtaining data more efficiently in terms of researcher time, energy and costs. Interviews on the other hand, offer the highest flexibility as the interviewer can adopt and change questions based on the reactions of the respondent as the interview proceeds. Government records were relied upon as a source of statistical data as they have the advantage of accuracy and comprehensiveness. These methods were selected because of accuracy, time constraints and cost effectiveness. Structured interviews were used to obtain information from the District Trade Development officer and his staff. Structured interviews are conducted with prior knowledge of the information that is needed, whereby the interviewer has a list of predetermined questions to be answered by the respondents personally or through other media (Sekaran 2006). The confidential business questionnaire was the main instrument for collecting primary data; consequently, the wording of the questions was selected carefully. Care was taken to categorize variables and scale them to facilitate the coding of received responses to minimize biases. Simple language that can be understood by MSE operators was used. The confidential business questionnaire is a blend of open ended and closed questions. Several measuring scales were also applied appropriately in the questionnaire.

3.5.1 Pilot testing

Pilot testing was used to gauge respondents understanding of the questions, wording and measurement of variables. The reactions of the respondents in the pilot study were used to address inadequacies and make adjustments accordingly. The pilot study enabled the reliability of the scales of measurement for the variables in the study to be tested. During this time also, the research assistants were trained on interviewing skills and the objectives of each question in preparation for the main study. The questionnaire was divided into six main parts. Part A was the bio data section that aimed to establish the name, address, location and the number of years the enterprise had been in operation. Part B tackled access to credit by assessing the application procedures and whether the amounts offered were adequate for the financial needs of the recipients. Part C was geared towards ascertaining if poverty levels in the households of the entrepreneurs had decreased and by what margin. Part D of the questionnaire was aimed at measuring the growth of the enterprise by asking the respondents the number of new employees hired by the business in the last one year. In part E, the creditworthiness of the enterprise was measured by asking the respondents whether they had been able to access finance or asset financing from mainstream financial institutions especially commercial banks. Part F was aimed to measure the firm's percentage growth in profits if any, after funding from GCS. This section also aimed at measuring employment trends by occupation, percentage increase in stock holding, new technology acquisition and purchase of new equipment. Part G, which was the last section gave the respondents an opportunity to give any other information that deemed to be relevant to this study. This research instrument was tested and refined in the pilot study which was conducted before the main study.

3.5.2 Validity of the instruments

According to Mugenda and Mugenda (1999), validity is measured by how accurately the data obtained in the study represents the variables of the study. If such data is true reflection of the variables, the conclusions based on such data will be accurate and meaningful. To ensure construct validity, the measurements for the concept of adequacy conformed to theoretical expectations. The study ensured content validity by the selecting a representative sample of indicators for the key concepts. To enhance external validity the selection of the sample of MSEs for the study was representative of all sectors and was selected through random sampling.

3.5.3 Reliability of instruments

Reliability is the extent to which a measure is without bias, in other words error free and hence ensures consistent measurement of a variable over time and across various items. Reliability therefore is an indication of stability and consistency of measurement of concepts (Sekaran 2006). A reliable research instrument will yield consistent results or data in repeated use. In this study, an effort was made to eliminate inaccuracy and errors of scoring. The test-retest method was used to ascertain the reliability of the questionnaire. The questionnaire was administered to a set of respondents during the pilot study and again to the same group at the end of one week. The scores of the responses from both testing periods were correlated to obtain a correlation co-efficient (test-retest co-efficient). This was assessed to establish the threshold of reliability of the questionnaire before administering it in the final study that followed afterwards.

3.6 Data collection methods

The process of developing this research project began with conducting an interview with the District Trade Development officer to find out more about the GCS in Vihiga district. The secondary data pertaining to the study was collected from government records, publications, journals and from the internet. Primary data was mainly collected from individual MSE operators, who were the key informants in the study. Structured interviews were used to obtain pertinent information from the Trade development officers at the Ministry of Trade, Vihiga District. Non-participant observation was also applied to gather information on loan application procedures at the District Trade Development Office. The research instrument was developed and tested before being used to collect data from the sampled MSEs.

3.7 Data Analysis techniques

The data that was collected was analyzed to fulfill the research objectives and provide answers to the research questions. Both quantitative and qualitative data processing and analysis techniques were applied to the data to process information which in turn led to inferences and conclusions being drawn. Sekaran (2006) identifies key steps preliminary to data analysis such as preparation of data, editing, testing the goodness of data and dealing with blank responses. Field editing of the data was carried out for clarity and in order to limit the occurrence of doubt later during the analysis. Inconsistencies were rectified at that stage. Where necessary, follow up calls were made to get the correct data in cases where there was of doubt. The data was then coded by assigning numerical codes representing measurement of variables or attributes. The data was further categorized according to the indicators of the study, then transformed analyzed and interpreted. Charts, tables, MS- Excel, SPSS and descriptive analyses were used to process the data. Qualitative data processing and analysis entailed daily briefs and preparation of interim reports which form part of the main study report.

3.8 Ethical considerations

Several ethical issues were addressed while collecting data in this study. The study was solely conducted for the purpose of gaining knowledge on the influence that the GCS has had on the growth of MSEs in Vihiga District. The confidentiality and privacy of the respondents was strictly observed. Furthermore, the self esteem and self respect of the respondents was preserved. No respondent was forced to participate in the study and there was no misrepresentation or distortion in the analysis and compilation of the received data. A research permit was obtained from the Ministry of Higher Education for the study before commencement. The District Education Officer and the District Commissioner gave authorization for the study to be conducted within the selected location after perusing the research permit and the questionnaire.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study under five major themes which are: access to credit, reduction of poverty levels, creation of employment opportunities, improved creditworthiness and growth of business. Each theme is analyzed in sub-themes which formed the variables that were under investigation in the study. Cross tabulations show the relationships between the independent and dependent variable.

4.2 Response Return Rate

The questionnaire return rate was 198 out of 203 enterprises that were sampled. This presents 97.54% response rate which is acceptable in research. This did not have any significant effect on the findings of the study. Of the 198 respondents in the study, 124 were male while 74 were female.

4.3 Gender distribution of MSE operators in Vihiga District

In this survey, it was deemed important to establish the gender distribution of the MSEs operating in Vihiga District. Table 4.1 gives information on the gender distribution of MSE operators.

Table 4.1:-*Gender distribution of MSE operators in Vihiga District*

	Frequency	Percent
Male	124	62.6
Female	74	37.4
Total	**198**	**100.0**

The information on table 4.1 indicates that a majority of enterprises in Vihiga Districtare owned and operated by men. However at over 74 (or 37.4%) of all enterprises, women entrepreneurs are coming up and in future the distribution of enterprises may hit the 50-50 mark. The female run enterprises may be concentrated in specific sectors but this was not a subject of this study. The male/female distribution of MSE operators traverses all age groups and almost all the sectors identified for the study. Most of the enterprises are located in the major towns of Vihiga District namely; Mbale, Majengo, Boyani and Mwichio. The MSE sector in Vihiga is beginning to pick up. With increased support in terms of finance, training, capacity building, BDS, marketing and construction of serviced sheds to serve as incubation centres, the sector can play an important role in reduction of poverty and creation of employment in the District.

4.4 Promotion of access to credit and growth of MSEs in Vihiga District

Promotion of access to credit is one of the objectives of the GCS in Vihiga District.It was necessary for the study to establish if indeed there was a positive correlation between access to credit and growth. 165 (or 83.3%) of enterprises had recorded varied growth in profit as a result of the funds pumped into their operations, 136 (or 68.7%) of these indicated that growth in profits was the most important aspect that the GCS had enabled their businesses to achieve.11 (or 5.6%) ranked growth in profits as the second most important aspect of business growth they could attribute to the GCS lending with 42 (or 21.2% saying that growth in profit as a result of GCS was moderately important and 9 (or 4.5%) said that growth in profit was less important to their business. From these findings it can be concluded that access to credit as an aspect of GCS had to a large extent influenced the growth in profit of 165 (or 83.3%) of MSEs. Only 33 (or 16.7%) of enterprises said they had not registered any growth in profit. The cross tabulation indicates how growth in profit was ranked by the individual enterprises.

*Growth in profits * Business has grown in profit in the last one year Cross tabulation*

		Business has grown in profit in the last one year		
		Yes	No	**Total**
Growth in profits	1	103	33	**136**
	2	11	0	**11**
	3	42	0	**42**
	4	9	0	**9**
Total		**165**	**33**	**198**

The study found that most of the respondents were content with the requirements for applying for a loan from the GCS. Some cited the requirement that the collateral required was a title deed. However, the applicant for the loan need not be the registered owner of the parcel of land used as collateral to obtain funding. The land title deeds are charged at the Lands office until the loan is repaid in full then the title is discharged. After repaying the loan in full an applicant can request additional funding if required. There is also no penalty for early repayment of the loan. 148 (or 74.7%) of the respondents said that the requirements for loan application were friendly whereas 50 (or25.3%) said the requirements were not friendly. This implies that the GCS terms are friendly to the applicants but the uptake remains low because of inadequate funding of the GCS. It can generally be said that the GCS has enabled MSEs acquire credit that would not be forthcoming from other sources because of stringent conditions.

4.4.1 Are the requirements for applying for a loan from GCS friendly?

The requirements attached to loan disbursement often debar MSEs from the credit market. Table 4.2 shows how the entrepreneurs rated the GCS loan application process.

Table 4.2:- *Ease of application for loans from GCS*

	Frequency	Percent
Yes	148	74.7
No	50	25.3
Total	**198**	**100.0**

4.4.2 Ability to receive funds applied for

The amount of money offered as loans to MSEs in Vihiga District was between Kshs. 20,000/= and Kshs. 100,000/= depending on the repayment capacity. Repayment capacity is in turn pegged on the profitability of the enterprise. The DTDO and his officers conduct vetting of the businesses to ascertain their profitability and hence ability to repay the loans before money is disbursed. The loan is advanced through the Kenya commercial bank and loan repayment is through the same bank. However, the beneficiaries are required to submit the banking slips to the DTDO’s office for receipting, once payment of the monthly installment has been made. The banking slips are used to update records on the loan book kept at the DTDOs office. The loan is repayable in 24 equal installments and the interest is calculated on reducing balance.

The interest charged is 12% per annum. On the issue of whether the amount of credit offered by the GCS was adequate, 87 (or 43.9%) of the entrepreneurs said they disagreed, 37 (or 18.7%) were undecided, while 74 (or 37.4%) said they agreed that the amount of finance was adequate. In terms of percentages, this means that 44% of all respondents felt that the amount offered as loans was lower than their required capital input. The undecided respondents stood at around 19%. This means that either these entrepreneurs are first time applicants or that their businesses were yet to reap the benefits of the funds received from the GCS. It could also mean that these particular MSEs do not keep proper books of account and are therefore unable to quantify the effect of the applied funds. Overall it was reported by the respondents that slightly less than half of them felt that the amount of finance offered by the GCS was not adequate to meet the financial needs of their businesses. This is in line with the findings of Cross (2013) who argued that there is a relationship between loans to small businesses and economic growth.

4.4.3 The amount offered is adequate

Table 4.3 shows the response obtained with regard to adequacy of funds offered by GCS to MSEs in Vihiga District.

Table 4.3:- *Adequacy of funds offered*

	Frequency	**Percent**
Disagree	87	43.9
Undecided	37	18.7
Agree	74	37.4
Total	**198**	**100.0**

4.5. Reduction of poverty levels and growth of MSEs in Vihiga District

Reduction of poverty levels is the second objective of the GCS in Vihiga District.In this study, reduction in poverty levels was measured in two ways, namely; through tracking increase in household incomes of the entrepreneurs that had received funds and through measuring the number of employment opportunities that were created by the enterprises. 173 (or 87.4%) of the entrepreneurs declared that their household incomes had increased since funding by GCS. Of these, 21 (or 10.6%) thought that hiring of more employees was the most important aspect of growth of their businesses that the GCS had made them to attain. 9 (or 4.5%) said it was important, 20 (or 10.1%) thought it was moderately important with 32 (or 16.2%) declaring that it was less important to hire more after funding while 91(or 46%) were of the opinion that hiring more employees was the least important aspect of growth accruing to their businesses as a result of the funding that they had received from the GCS. The cross tabulation shows that indeed, household income had increased as a result of the GCS loans and that even the entrepreneurs who said that their household income had not experienced any growth still thought that hiring more employees was important. Thus, the twin pronged effect of improving household income of the entrepreneurs and hiring more employees by the businesses caused by funds advanced by the GCS had helped reduce poverty levels to some extent in Vihiga District.

*Hire more employees * Has the income of your household increased since you obtained funding from the GCS Cross tabulation*

		Has the income of your household increased since you obtained funding from the GCS		
		Yes	No	Total
Hire more employees	1	21	1	**22**
	2	9	0	**9**
	3	20	12	**32**
	4	32	1	**33**
	5	91	11	**102**
Total		**173**	**25**	**198**

The other aspect that was to be investigated in the study was whether poverty levels had reduced in the households of the funded entrepreneurs. This was the second objective of this study. On the question of if household income had increased since funding by the GCS the respondents returned the following answers: 173 MSEs representing 87.4% said their household incomes had increased since obtaining credit. 25 (or 12.6%)

entrepreneurs said that their income had not improved. This could mean that these households were yet to feel the impact of funding by the GCS or the loan had no influence at all on the financial status of their households. It is more plausible to say that these households had not felt the impact of GCS funding because there are four funding cycles in the financial year in the months of March, June, August and November. A government financial year normally runs from July 1st to June 30th. An enterprise that was funded in say November, cannot record the same impact like one that was funded in March. A study by the International Labour Organization (2005) revealed that MSEs contributed to all or almost all of the income in 24 percent of households in Kenya and more than half of all household income in 17 percent of Kenyan households in both urban and rural areas. The report by the ILO estimated that 60 percent of those earning a living in the informal sector are self employed. In most instances, the micro-entrepreneur is the only person working for the business. Any increase in the productivity of the business solely depends on the actions of the entrepreneur, often with the assistance of family members and will translate directly into household income. This was found to be the case in this study.

4.5.1 Has the income of your household increased sinceyou obtained funding from GCS?

Table 4.4 relays information obtained about increase of household income of the MSEs that had succeeded to obtain credit from The GCS in Vihiga District.

Table 4.4:- *Increase in household income since funding*

	Frequency	Percent
Yes	173	87.4
No	25	12.6
Total	**198**	**100.0**

To further gauge how GCS had helped to reduce poverty levels in the households of the funded enterprises, the respondents were asked whether or not they had acquired any new household goods. The acquisition of new household goods would imply an increase in the disposable family income that can be attributed to the GCS funding.

4.5.2 Have you acquired any new household goods recently?

Acquisition of new household goods was selected as a parameter to gauge increase in disposable income of the MSE operators that had received funding from the GCS in Vihiga District during the survey. The results are as given in table 4.5.

Table 4.5:- Recent acquisition of new household goods

	Frequency	Percent
Yes	135	68.2
No	63	31.8
Total	**198**	**100.0**

Majority of MSE operators indicated that they had acquired new household goods in the recent past. This can point to two scenarios namely; the income levels of the households had increased or that the application of funds loaned by the GCS had enabled the households to upscale their living standards by buying new household goods. On the other hand, this may imply that some of the proceeds of the loan were used to buy household goods. This would be highly unlikely because 87 (or 44%) of respondents had already indicated that the amounts offered by the GCS were not adequate to cater for their businesses' financial needs. This question was closely related to the one that asked the respondents if they were currently accessing better services in health, education and housing than was the case before funding by the GCS. 119 respondents (or 60.1 percent) said yes they were able to access better social services than before whereas 79 (or 39.9 percent) said their access to social services status remained unchanged. This means that in terms of access to better healthcare, education and decent housing, the GCS had made a positive contribution to the business operators' households. This question was formulated bearing in mind that over half of Kenyans live below the poverty line and cannot be able to access quality healthcare, education and decent housing. Had the situation improved for the households of the 198 enterprises that had been funded through the GCS in Vihiga District?

4.5.3 Are you and your household able to acquire quality services in health, education and housing currently?

A large section of the population in Vihiga District is not able to receive quality services in healthcare, education and decent housing. This is because of the high poverty levels prevalent in the District. The study wanted to find out whether MSE operators that had been given loans were fairing any better. The results are indicated on table 4.6.

Table 4.6:- Access to quality social services

	Frequency	Percent
Yes	119	60.1
No	79	39.9
Total	**198**	**100.0**

Other than increase in household income, acquisition of new household goods and access to quality services, the fourth aspect that was used to measure the impact of GCS funding on the reduction of poverty levels in this study, was to measure the number of new employees hired in the enterprises in the last six months since accessing funding. This was important because it was designed to shed more light on the employment creation role of the MSEs operating in Vihiga District.

4.5.4 Have you hired extra employees in the last six months since securing funding?

It was important in this study to establish the extent to which the MSEs had contributed to alleviation of poverty through employment creation. On this particular variable, the respondents returned the following information as summarized on table 4.7.

Table 4.7:- *Hiring of extra employees*

	Frequency	Percent
Yes	62	31.3
No	136	68.7
Total	**198**	**100.0**

62 enterprises had hired new employees within the first six months since being funded. This represents 31.3% of all enterprises in Vihiga District. On the other hand 136 businesses (or 68.7%)did not hire extra employees since receiving funding. This means that the majority of enterprises use the loan proceeds to either increase stock, to expand or to buy equipment rather than hire new employees. Most of the enterprises sampled were found to be sole proprietorships run by owner managers which may explain why many of them did not hire new employees. Overall, the GCS contributed significantly to the reduction of poverty levels through creation of employment since at least 62 (or 31.3%) firms hired new employees who were able to access a regular source of income for their livelihood. The number of employees hired ranged from 1-4 per enterprise.

4.6 Creation of employment and the growth of MSEs in Vihiga District

The GCS aims to create employment as its third key objective. A cross tabulation of growth of business in terms of profit and people hired by the business shows that 71 (or 35.9%) had grown in profit and hired new employees at the same time in the duration of one year. 16 (or 8.1%) had not accrued any growth in profit but hired new employees all the same. The enterprises, it was found through the survey, had hired between 1-4 employees. On the other hand, 111 (or 56.1%) of the enterprises had not hired any new employees in a period of one year. Of these, 94 (or 47.5%) had nevertheless grown in terms of profit and 17 (or 8.6%) had not realised any growth in profitability as a result of the funding obtained from the GCS. This information indicates that generally speaking, the GCS had helped MSEs in Vihiga to grow their profits and recruit more employees. From these findings, MSEs in Vihiga District can be said to be a key contributor to the creation of jobs with its attendant benefits of reducing poverty levels and helping to reduce rural-urban migration of persons in search of employment. The magnitude of the contribution of MSEs to reduction of poverty levels in Vihiga District was not quantified however as this fell beyond the scope of this study.

*People hired in the business in the last one year * Business has grown in profit in the last one year Cross tabulation*

		Business has grown in profit in the last one year		
		Yes	No	Total
People hired in the business in the last one year	None	94	17	111
	1-4	71	16	87
Total		**165**	**33**	**198**

4.6.1 Persons hired in the in the last one year by MSEs in Vihiga District

In line with the third objective of the study, creation of employment, it was necessary to track employment creation trends among MSEs in Vihiga District. The respondents were asked to indicate the number of persons hired in the business in the last one year. The results recorded in the survey were as shown in table 4.8.

Table 4.8:- *Persons hired in the last one year*

	Frequency	**Percent**
None	136	68.7
1	25	12.6

	Frequency	Percent
None	136	68.7
1	25	12.6
2	12	6.1
3	25	12.6
4	0	0
Total	**198**	**100.0**

The results obtained were consistent with the earlier findings giving 62 or a percentage of 31.3 of all enterprises that had hired new employees in the last one year. The total number of persons hired by the 62 businesses in the last one year was found to be124. It can be concluded from the foregoing findings that on average, each of the businesses had hired two new employees in a period of one year.

4.7 Improvement of MSEs creditworthiness in Vihiga District and the growth of MSEs in Vihiga District

The fourth objective of the GCS is to promote the creditworthiness of the MSEs in Vihiga District by raising their credit profile. A cross tabulation of percentage growth in profit of the business and the businesses that had grown in profit elucidates the fact that 165 (or 83.3%) had grown in profits between 1% to over 40%. This finding points to an improvement in creditworthiness because with higher profits comes an enhanced repayment capability when seeking additional capital in the commercial credit market. Increased profitability also points to higher annual turnover that is usually the base indicator on which creditworthiness is computed. By helping the MSEs to improve their profitability, the GCS consequently raises their credit rating and in turn assists MSEs that may venture into the credit market to seek more finance for re-investment.

*Business has grown in profit in the last one year * Percentage growth in profit of the business Cross tabulation*

	Percentage growth in profit of the business	Total

		1-10%	11-20%	21-30%	31-40%	NA	
Business has grown in profit in the last one year	Yes	72	18	64	11	0	165
	No	0	0	0	0	33	33
Total		**72**	**18**	**64**	**11**	**33**	**198**

The fourth objective of the study was to measure how the GCS had helped improve the creditworthiness of MSEs in Vihiga District. To achieve this objective, the respondents were asked if they had applied for credit from mainstream commercial banks in the last one year. The duration of application was put within one year in order to ensure that indeed the business owners had sought credit from commercial banks after being loaned by the GCS. 82 entrepreneurs confirmed that they had applied for credit from a commercial bank. This represents 41.4% of all MSEs in Vihiga District. 116 (or 58.6%) of the businesses had not sought commercial bank credit. This can be said to be as a result of several factors. Earlier, 74 (or 37%) of business operators had indicated that the amount offered by GCS was adequate to cater for their funding needs and therefore they required no supplementary finance, while 37 (or 18.7%) were undecided. If the MSE operators who were found to be content with GCS funding are removed from the 116 that never sought extra funding i.e. 55 enterprises, this leaves 61 businesses that made no effort to seek commercial bank credit. Out of 61, 37 (or 18.7 percent) were undecided on whether the GCS was adequately funding their current financial needs. Not seeking credit from a commercial bank may therefore be because of being content with the funding received from the GCS, being undecided about financial requirements or other reasons such as having been denied credit earlier.

4.7.1 Applied for credit from a commercial bank in the last one year

In this study, creditworthiness was measured by ability to apply for and receive funding and asset financing from the mainstream commercial banks. Thus in the next question, the operators were asked to state if they had applied for additional credit from any commercial bank. The results that were obtained are summarized in table 4.9.

Table 4.9:- Application for credit from commercial bank

	Frequency	Percent
Yes	82	41.4
No	116	58.6
Total	**198**	**100.0**

4.7.2 Obtained the credit applied for from commercial bank

To explore the matter of credit application further, the MSEs operators that applied for credit were asked whether they had obtained the credit they applied for from commercial banks. This was aimed at establishing the credit rating of MSEs in Vihiga District. The results are shown in the table 4.10.

Table 4.10:- *Obtained credit sought from bank*

	Frequency	Percent
Yes	44	22.2
No	38	19.2
NA	116	58.6
Total	**198**	**100.0**

The information in table 4.10 shows that more enterprises that applied for finance from commercial banks were able to obtain the funds sought than those that were denied loans. Thesefindings point to the fact that the creditworthiness of these MSEs may have somewhat improved as a result of investing the money obtained through GCS. Essiet (2013) recognized the importance of funding of SMEs as a key of boosting economic growth and development in Nigeria. According to Essiet (2013) access to finance remains a key challenge to SMEs with some of them being turned down for lending and those that get approved voiced concern that the terms were often prohibitive. A cross tabulation of the results gives a clearer picture of the scenario of how MSEs applied for credit from commercial banks and obtained the credit applied for or were denied the credit for various reasons that are analysed in the study.

*Applied for credit from a commercial bank in the last one year * Obtained the credit applied for Cross tabulation*

		Obtained the credit applied for			
		Yes	No	NA	Total
Applied for credit from a commercial bank in the last one year	Yes	44	9	0	**53**
	No	0	29	116	**145**
Total		**44**	**38**	**116**	**198**

This tabulation shows that a total of 44 (or 83%) of entrepreneurs applied for and obtained credit from commercial banks in the last one year, 9 (or 17%) were denied credit and 29enterpreneurs had applied for credit in the period preceding a year ago and were denied, while 116 (or 58.6%) of MSEs did not apply for credit from any commercial bank. The respondents were further probed to establish the reasons for denial of credit by commercial banks. The results indicated that a combination of factors like lack of collateral, going for amounts beyond their repayment capacity, lack of land title deed and perceived high risk of default were among the key reasons given by banks in denying credit to MSEs in Vihiga District.

4.7.3 Reasons for being denied credit by Commercial bank

The study sought to find out the reasons why MSEs invariably had a low credit rating with banks preferring to lend to large established companies and salaried employees at the expense of these enterprises. Table 4.11 shows a summary of the reasons advanced by commercial banks for not extending credit to MSEs with the mean and standard deviation of each which shows the regularity with which each reason applied.

Table 4.11:- *Reasons for denial of credit by commercial bank*

	N	**Mean**	**Std. Deviation**
For Lack of collateral	198	2.80	.604

For lack of registration documents	198	2.90	.302
Do not qualify for the amount applied for	198	2.84	.494
For lack of repayment capacity	198	2.90	.302
For lack of land title deed	198	2.80	.604

In terms of ranking, lack of repayment capacity and lack of registration documents tied as the least common reasons why MSEs are denied credit by commercial banks. The second most common reason for rejection of funding applications from MSEs by commercial banks was that the MSEs do not qualify for the amounts they applied for. This means that according to the analysis, MSEs should be loaned small amounts probably lower than what is offered by the GCS. It also implies that the repayment capacity of MSEs in Vihiga District remains low. The first most commonly cited reason for reluctance to lend to MSEs by commercial banks was lack of collateral and lack of land title deed which both had a mean score of 2.80. Most MSEs may lack high value machinery or assets that can be used as collateral to apply for funding. At the same time many operators may not have land title deeds registered on their name because of the complex succession procedures.

4.7.4 Have you applied for asset financing from abanking institution?

To further assess if lending by the GCS had improved the creditworthiness of the sampled enterprises, the respondents were asked whether they had applied for asset financing from any commercial bank. Asset financing is an important parameter to measure creditworthiness because banks usually look at the monthly and annual weighted turnover before financing acquisition of high value assets. In addition, application for asset financing could paint a picture of expanding enterprises, ready to graduate to the next level.

Table 4.12:- Application for asset financing

	Frequency	Percent
No	**198**	**100.0**

Noneof the enterprises out of the 198 (or 100%) sampled had applied for asset financing. This shows that most enterprises are stuck at the lower end of the ladder and that they are unlikely to transition to medium level enterprises soon because they are not investing in capital machinery and equipment for growth. Most of the businesses were concentrated in retail trade with very few in agribusiness and value addition or manufacturing. The repayment capacity remained low because of lack of high value assets such as machinery and it may imply that the entrepreneurs are in business to survive. This confirms the argument by Daniels & Mead (1998) who in their study found out that MSEs in Kenya may essentially be survival activities that people undertake only because they have no better alternatives. Furthermore, ILO(2005) contends that most enterprises in developing countries consist of small “survivalist” activities that are operated by the poorer sections of the community.

4.8 Growth of business as a result of Government Credit Scheme in Vihiga District

On the variable of business growth several aspects were used to measure whether or not businesses had registered any growth as a result of funding by the GCS. Firstly, the respondents were asked if their business had recorded growth in profits in the duration of one year. The results were as indicated in the table 4.13.

4.8.1 Business has grown in profit in the last one year

Growth of business was the dependent variable in this study. The survey sought to establish whether indeed businesses had realised growth in profit as a consequence of being funded by the GCS.

Table 4.13:- *Grown in profit in last one year*

	Frequency	Percent
Yes	165	83.3
No	33	16.7
Total	**198**	**100.0**

Going by the findings, the GCS may have had a great impact on the growth of MSEs in Vihiga District because only 33 (or 16.7%) out of 198 surveyed indicated they had not recorded any growth in profit in one year. This represents a low 16.7% of all businesses. 83.3% said they had realized growth in profit since being funded by the GCS.

4.8.2 Percentage growth in profit of the business

The respondents who acknowledged some growth in profit were asked to quantify this growth in terms of percentages and this was the information that was received.

Table 4.14:- Percentage growth in profit

%	Frequency	Percent
1-10%	72	36.4
11-20%	18	9.1
21-30%	64	32.3
31-40%	11	5.6
NA	33	16.7
Total	**198**	**100.0**

From table 4.14, it is deduced that 72 (or 36.4%) of MSEs recorded a growth in profit of between 1-10% in the last one year.Those that recorded a growth of between 21-30 percent were next at 64 (or 32.3%) of the businesses followed by those that recorded no growth in profit at all at 33 businesses (or 16.7 percent). 18 (or 9.1%) of all business operators said they had grown in profit by between 11-20% while 11 (or 5.6%) of all the business persons said they had grown the profits of their enterprises by an impressive 31-40%. To measure whether the growth in profits necessarily translated into employment creation, it was deemed important to track the employee stocks and exits per enterprise over a period of 4 years from 2010 - 2013. In addition, this information was to be compared with the data received on hiring of new employees by the enterprises to taste consistency and accuracy. The business operators were asked to indicate the number of employees that they had in their businesses or stocks and to indicate the number that had left in two years, 2010-2011 followed by another two year period 2012-2013. Cross tabulations of employee stocks and exits were carried out to show the employment trends in the MSEs in Vihiga District. The cross tabulations compare the results that were obtained from the survey.

Table 4.15:- *Employee stocks and exits per enterprise 2010-2013 in Vihiga*

*Total number of employees in 2010-2011 (stocks) * Total number of employee exits 2010-2011 Cross tabulation*

		Total number of employee exits 2010-2011		
		1-4	1-2	Total
Total number of employees in 2010-2011(stocks)	1 -4	176	0	176
	5-10	0	22	22
Total		**176**	**22**	**198**

*Total number of employees in 2012-2013 (stocks) * Total number of employee exits 2012- 2013 Cross tabulation*

		Total number of employee exits 2012-2013		
		None	1-2	Total
Total number of employees in 2012-2013 (stocks)	1-4	176	0	176
	5-10	0	22	22
Total		**176**	**22**	**198**

*Total number of employees in 2012-2013 (stocks) * Total number of employees in 2010-2011(stocks) Cross tabulation*

		Total number of employees in 2010-2011(stocks)		
		1 -4	5-10	Total
Total number of employees inn 2012-2013 (stocks)	1-4	176	0	176
	5-10	0	22	22
Total		**176**	**22**	**198**

*Total number of employee exits 2010-2011 * Total number of employee exits 2012-2013 Cross tabulation*

		Total number of employee exits 2012-2013		
		None	1-2	Total
Total number of employee exits 2010-2011	0	176	0	176
	1-2	0	22	22
Total		**176**	**22**	**198**

From these cross tabulations, it is inferred that 176 (or 88.9%) of the enterprises sampled had 1-4 employees in 2010-2011 and in these enterprises there was no worker that exited the establishments. It can also be observed that there were 22 (or 11.1%) of the MSEs that had 5-10 employees and on average had 1-2 of them exiting. In 2012-2013 176 (or 88.9%) had employee stock levels of between 1-4 employees where none of them left and thoseenterprises with 5-10 employees were still at 22 (or 11.1%) with 1-2 employees exiting from the businesses. This information shows that exit and replacement occurred in a good number of the enterprises with more than 4 employees in their establishments. In the enterprises with 1-2 workers, apparently there were no exits but maybe only the hiring of an extra hand to ease the work burden when need arose.

The stock levels in 2010-2011 were at 1-4 in 176 (or 88.9%) of the enterprises in Vihiga District the same as 2012-2013. From the information that was obtained from the respondents, it can be concluded that stocks and exits level remained relatively stable in the four years under review.

4.9 Additional employees hired in the last one year

Secondly, to compute the number of new jobs created by enterprises in Vihiga District, the respondents were asked to indicate the number of new employees that they had hired inthe last one year. This was as a follow up to establish how many employees were hired by the 62 (or 31.3%) of enterprises that had earlier indicated that they had hired new employees.

4.9.1 How many additional employees have you hired in the last one year?

All the business establishments were asked to indicate the number of additional employees they had hired in the survey timeline of one year. The responses that they gave are as shown on table 4.16.

Table 4.16:- *Additional employees hired in one year*

Number	Frequency	Percent
1	12	6.1
2	38	19.2
3	0	0
4	0	0
0	148	74.7
Total	**198**	**100.0**

Given that enterprises had hired a total of 124 new employees and from the table 4.16, it can be deduced that a total of 88 new jobs were created; it can be concluded that the 36 employees may have been employed as replacement to the exiting employees or on a temporary basis. This finding is consistent with the earlier tabulation obtained from employee stocks and exits that shows a change in employee levels between the years 2010 – 2013 across the sampled MSEs.

4.10 Percentage increase in stock holding since funding by theGCS

Thirdly, on the aspect of increase in stock holding attributable to the GCS, the survey sought to find out if some of the loan proceeds were used to increase stock holding in the business establishments. The information that was obtained from the respondents on the variable of stock increase was as recorded in table 4.17.

Table 4.17:-*Percentage increase in stock*

% Increase	Frequency	Percent
10%	50	25.3
20%	37	18.7
30%	37	18.7

Above 30%	12	6.0
Total	**136**	**68.7**

136 (or 68.7 percent) of all businesses recorded an expansion in stock holding of between 10% and over 30% with 62 (or 31.3 percent) recording no increase in stock holding. Again because of the staggered funding cycle, this scenario could mean that these 62 (or 31.3%) of MSEs had just applied or received the finance and therefore it could have not been used to add stock yet. It can also be inferred that the proceeds of the loan may have been used to buy new equipment or acquire new technology instead of adding stock.

4.11 Expansion in terms of opening new branches of the business

Horizontal expansion was one of the indicators of enterprise growth identified for this study. Fourthly, to measure horizontal growth of the enterprises the respondents were asked to state if they had opened new branches of their businesses.

4.11.1 Opened new branches of the business

Opening new branches could have been done in the same town or in a different town or market centre. The results that were consequently obtained from the respondents when they were asked whether they had opened new branches of their business are as indicated in table 4.18.

Table 4.18:- *Expansion by opening new branches*

	Frequency	Percent
Yes	20	10.1
No	178	89.9
Total	**198**	**100.0**

Twenty enterprises (or 10.1%) had opened new branches with 178 (or 89.9%) not having expanded in terms of opening new branches. Fifthly, the respondents were asked whether they had acquired any new technology in their enterprises which could indicate expansion and growth in customer base. 124 (or 62.6%) out of 198 businesses had acquired new technology to improve efficiency and serve more clientele.

4.12 Acquired new technology for the business

In this study, acquisition of new technology was a one of the key indicators of growth that was identified. Accordingly, the Business operators were asked to state if they had invested in the acquisition of new technology. Table 4.19 gives a summary of the responses that were obtained regarding this variable.

Table 4.19:- *Acquisition of new technology*

	Frequency	**Percent**
Yes	124	62.6
No	74	37.4
Total	**198**	**100.0**

4.12.1 Technology acquired

The technology acquired ranged from computers, marketing skills, CCTV cameras, Mpesa, solar phone chargers, means of transport to brick making machines. The study found that 74 (or 37.4%) had not invested in acquiring new technology for the business. The other remaining 124 enterprises acquired new technology as follows: 11 (or 5.6%) bought brick making machines, 9 (or 4.5%), went for CCTV cameras 40 (or 20.2%) invested in computers, 9 (or 4.5%) of the entrepreneurs acquired marketing skills to boost their businesses, 22 (or 11.1%) acquired means of transport such as motorcycles and tuktuk taxis, another 22 (or 11.1%) installed mpesa services in their premises and finally, 11(or 5.6%) installed solar panels to mitigate the effect of regular power outages on their businesses. These findings are summarized in the table 4.20.

Table 4.20:- *Technology acquired by the enterprises*

Technology	**Frequency**	**Percentage**
None	74	37.4
Brick making	11	5.6
CCTV Cameras	9	4.5
Computer	40	20.2
Marketing skills	9	4.5

Means of transport	22	11.1
Mpesa	22	11.1
Solar panel	11	5.6
Total	**198**	**100.0**

4.12.2 Acquired new equipment for the business

As the sixth growth variable, the respondents were asked to explain if they had acquired new equipment for their businesses and if they had, they were requested to indicate the cost of such equipment in Kenya shillings. The response obtained was as presented in table 4.21. The value of the equipment acquired for the enterprises in Vihiga District as per the respondents in the study, ranged between Kshs. 13,500/= to Kshs. 120,000/=. The newly bought equipment included computers, brick making machines, cameras, photocopiers, printers, motorcycles, solar chargers, water dispensers and solar panels.

Table 4.21:- *Acquisition of new equipment*

	Frequency	Percent
Yes	71	35.9
No	127	64.1
Total	**198**	**100.0**

4.13 How the GCS has helped my business to grow

It was vital for this study to prove that indeed the growth accrued by the businesses was clearly attributable to the GCS. The respondents were asked to rank various aspects of how the GCS had helped their businesses to grow. They were to use a scale of 1-5 with the most important aspect ranked as1 and the least important as 5 to rank the following indicators of growth as identified for the study: growth in profit, hiring of more employees, expansion of stock and opening of new branches, acquisition of new technology and buying of new equipment. Table 4.22 shows how the six aspects were ranked by the 198 respondents.

Table 4.22:- *How the GCS has helped my business to grow*

	N	Mean	Std. Deviation
Growth in profits	198	1.62	.969
Hire more employees	198	3.93	1.365
Expand stock and open new branches	198	3.52	1.165
Acquire new technology	198	3.20	1.370
Buy new equipment	198	2.73	.915

From the information obtained, it can be concluded that most respondents thought that the GCS had helped their businesses to grow in profits as the most important aspectfollowed by buying of new equipment, acquiring new technology, expansion of stock and opening new branches and hiring more employees in that order.

How the GCS has helped Businesses to grow in Vihiga District and how various aspects were ranked by respondents in order of importance (Given in percentages)

Aspect	Very Important	Important	Moderate	Less Important	Least Important
Growth in Profits	68.7	5.6	21.2	4.5	0
Hire more Employees	11.1	4.5	16.2	1.67	51.5
Expand stock and Open new branches	11.1	10.6	4.5	62.6	11.1
Acquisition of new technology	9.1	31.3	16.7	16.2	26.8
Buy new equipment	0	41.4	48.0	0	10.6

Most entrepreneurs in Vihiga District appreciated that the GCS had helped their businesses to grow in profits with 68.7% saying that this was the most important aspect of growth that they had realized through the GCS funding.Still, 5.6% ranked growth in profits as an important aspect while 21.2% felt it was moderately important with only 4.5% of the respondents rating growth in profits as less important as an aspect to their establishments. None of the respondents gave growth in profits the least important rating as a phenomenon of enterprise growth.

When it came to identifying the second most important aspect of growth of their enterprises achieved through the GCS, buying new equipment was ranked number two. 41.4% rated acquisition of new equipment as an important growth variable achieved through the GCS. 48% thought it was moderately important while none of the respondents rated acquisition of new equipment as less important to their enterprises but 10.6% thought it was the least important growth variable under GCS.

The variable rated third was acquisition of new technology. This growth parameter was rated as very important by 9.1% of MSEs, 31.3% said it was important, with 16.7% saying it was moderately important to them. 16.2% others thought it was less important and 26.8% considered acquisition of new technology as the least important aspect of the growth of their business establishments.

Ranked fourth was expansion both in stock and opening of new branches. 11.1% of entrepreneurs rated this aspect of growth as very important, 10.6% as important, 4.5% said it was of moderate importance while 62.6% felt it was less important to the growth of their enterprises and 11.1% rated expansion as the least important matter in their growth strategy.

The business operators rated the hiring of more employees as the fifth in importance in their growth strategy. 51.5% of all respondents thought increasing manpower was of the least concern. Conversely, 11.1% rated hiring more employees as very important to their establishments, 4.5% said it was important to hire more, 16.2% thought it was moderately important, 1.67% listed hiring of more employees as less important as a business growth strategy. Form this information that was given by the respondents, it is salient that the GCS had helped grow businesses in Vihiga District. All the entrepreneurs sampled had applied the funds in five key areas to grow their businesses. The investment of the funds seemed to be in line with the priorities of the particular MSE. Ultimately this led to an increase in profits through buying new equipment, acquiring new technology, increasing stock, opening new branches of the business and hiring more employees.

4.14 Additional information

When the respondents were requested to give any additional information that they thought was important to be considered, the following issues took precedence. Efficient services by the officers at District Trade Development office, the amount of finance should be increased to at least 250,000/= and cooperation between entrepreneurs and the government. The highest number of operators who responded to this item wanted the funding to be increased to enable their enterprises reap more benefits from the Government Credit Scheme.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings set out in line with the objectives of the study. It includes the conclusions and the contribution of the study to the body of knowledge. It concludes with recommendations and areas identified for further research.

5.2 Summary of Findings

The purpose of the study was to investigate the influence of GCS on the growth of MSEs in Vihiga District of Vihiga County. The study established that the requirements for applying for a loan from the GCS are friendly and that the scheme had enabled MSEs to access vital credit they could not receive from other sources such as commercial banks. The loan applicants were invariably able to receive the funds they sought except for very few exceptions. Thus the objective of enhancing access to credit through the GCS had been achieved. On the objective of helping to reduce the poverty levels in the households through the GCS, the study established that the income of the households of the entrepreneurs had indeed increased. 173 (or 87.4%) of respondents averred that their household incomes had increased. Most of the households of the entrepreneurs that received funding had also recently acquired new household goods. This would point to improved lifestyle for their families. The sampled enterprises indicated that they their households were able to access better healthcare, education and housing currently which implies that the funding had had a positive impact on their lives. 62 MSEs had hired new employees in the last six months which proves a positive contribution to poverty reduction in the households of the newly hired as these jobs give them a source of regular income. In one year, the 198 sampled enterprises had created 124 jobs. On the question of if the GCS lending had improved the creditworthiness of MSEs, the study established that 82 (or 41.4%) of 198 businesses had sought credit from commercial banks in a period of one year. The creditworthiness of the enterprises that had received financial support from the GCS had indeed improved because out of the 53 (or 26.8%) that applied for commercial bank credit within the course of one year 44 (or 83%) were successful with only 9 (or 17%) being unsuccessful. The main reasons why commercial banks were unwilling to advance loans to MSEs included: lack of registration documents, lack of repayment capacity, inability to qualify for the amounts sought because of low annual turnover, lack of collateral such as motor vehicles and machinery and lack of land title deeds. Though the GCS may have militated against some of these factors and raised the profile of MSEs, none of them went for asset financing from the banking institutions implying a state of stagnation. On growth, the study established that a majority of enterprises had experienced growth in profits as a result of accessing and using more finance availed by the GCS. A whopping 165 (or 83.3%) were positive that their businesses had realized growth. An in depth analysis proved that the percentage of enterprises whose profits had grown was even higher though some respondents were neither willing to acknowledge it upfront nor quantify the growth. The growth achieved ranged from 1 percent to over 30 percent. A total of 88 new jobs were created. Furthermore the study established that 136 (or 68.7) of the 198 businesses recorded an increase in stock levels of between 10 and over 30 percent. In terms of horizontal expansion, a minimal 20 (or 10%) of all enterprises had opened new branches. It was established through this study that over 124 (or 62.6%) of MSE operators used the loan proceeds obtained from the GCS to upgrade technologically with 71 (or 35.9%) purchasing new equipment such as computers.

5.3 Conclusions

From the findings of the study, it is concluded that the GCS has been able to achieve the objectives for which it was set up. It has contributed positively to enabling MSEs to access credit, contributed to poverty reduction through employment creation and increased household incomes and helped improve the creditworthiness of micro and small enterprises by raising their financial profile. It was established from the study that indeed MSEs that had been financed through the GCS had experienced growth on several fronts including; growth in profits, expansion of stock and opening of new branches, creation of new jobs, acquisition of new technology and equipment plus a higher credit rating that enabled some of them to apply for finance from mainstream commercial banks. The GCS is an important intervention that has helped sustain enterprises. However, the GCS has not enabled MSE to rapidly transition into medium or large scale enterprises. The reasons underlying this could be many. The study concluded that the most common reason as per the sampled entrepreneurs was inadequate funding. Many operators eluded to the fact that business development services offered were far in between. In view of these, the government should upscale its training and capacity building programmes to bring on board as many business people as possible. The frequency of such interventions it was also concluded should be increased and the entrepreneurs should be given an opportunity to participate in training that is relevant to their needs.

5.4 Recommendations

The study makes recommendations as follows: the credit offered should be increased from a maximum of Kshs. 100,000/= to at least Kshs. 500,000/= to enable MSEs to acquire assets and machinery for expansion. The repayment period should be increased from the current two years to a maximum of five years. This will enable the MSEs to qualify for more money. The GCS should be expanded in terms of funds from 6 million to 20 million so as to be able to reach more enterprises. In addition the government through the Ministry of Trade should look into the possibility of granting a grace period of one or two months to the successful applicants before commencement of repayment to enable the entrepreneurs to plan their financial matters effectively. The training offered to the successful applicants should be up scaled. It should cover such important themes such as business management, record keeping, financial literacy and entrepreneurship. The Ministry should initiate more follow up strategies and promote the provision of Business Development Services on an ongoing basis. The BDS should form a key component of the service offered especially after the disbursement of funds. As part of the sharing of experiences and best practice, the Ministry should consider exchange programs between entrepreneurs from different parts of the country by organizing forums in which the participants can exchange ideas and learn from each other. The low transition rate of MSEs should be addressed. What is the reason underlying the low transition rate? The Ministry should find ways of addressing stagnation in the MSE sector and find ways of increasing the transition rate from Micro and small to medium and large enterprises. The enterprises operating in the value addition, manufacturing and agribusiness should be encouraged and supported as they have the greatest potential for growth. The enterprises in this sector offer a higher potential for creating more jobs and possess untapped export potential.

5.5 Contributions of the study to the Body of Knowledge

TABLE 5.1 *Contribution to the body of knowledge*

Objective of the study	**Contribution to the Body of Knowledge**
1.To determine the extent to which access to credit as an aspect of GCS influence the growth of MSEs in Vihiga District ofVihiga County.	The study has established that the GCS has played an important role in enabling MSEs access credit. The application process and terms are friendly but the loan amount offered needs to be increased. The finance had helped MSEs grow in profits, increase stock, open new

	branches, acquire new technology and equipment.
2. To examine how reduction in poverty levels as an aspect of GCS influence the growth of MSEs in Vihiga District ofVihiga County.	The study informs readers that lending by the GCS has led to increased household income, acquisition of new household goods and access to better social services by the households of the fundedMSEs.
3. To establish the extent to which creating employment as an aspect of GCS influence the growth of MSEs in Vihiga District of Vihiga County.	The study established that the enterprises created 124 jobs within one year. With financing, more jobs can be created.
4. To assess how improvement of credit-worthiness as an aspect of GCS influence the growth of MSEs in Vihiga District ofVihiga County.	The study informs readers that the GCS had improved the creditworthiness of MSEs in Vihiga by raising their profitability and financial profile. These MSEs were able to apply for and receive additional finance from other sources.

5.6 Suggestions for Further Research

A similar study should be carried out in another District preferably in another part of the country to compare its findings with the findings of this study.

It is suggested that a study should be conducted on the causes of the low transition rate from micro and small to medium and large scale enterprises.

Sectoral gender distribution of MSEs should be studied to inform future financing of startups by lending agencies such as the Youth Enterprise fund and the Women Enterprise fund.

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APPENDICES

Appendix I: Letter of Transmittal

GEORGE M. OMENGE

P.O BOX 1369-50300

MARAGOLI

TEL. 0720841698

RE: INFLUENCE OF GOVERNMENT CREDIT SCHEME ON THE GROWTH OF MICRO AND SMALL ENTERPSISES IN VIHIGA DISTRICT

I am a Masters student from the University of Nairobi pursuing a Master of Arts in Project Planning and Management. My current undertaking is to conduct research on the above captioned topic; ***Influence of Government Credit Scheme on the Growth of Micro and Small Enterprises in Vihiga District of Vihiga County, Kenya.*** It is my humble request, for your accompaniment in this study by giving true and accurate information that could assist me in the research.

The information required is purely for academic purpose and will be treated with utmost confidentiality.

Yours sincerely,

GEORGE M. OMENGE

STUDENT/RESEARCHER

UNIVERSITY OF NAIROBI

Appendix II: Interview Schedule for the District Trade Development Officer and Staff at the District Trade Development Office

1. In which year was the Government Credit Scheme started in Vihiga District?
2. What is the amount of money that has been lent through GCS since inception in Vihiga district?
3. What are the objectives of the GCS?
4. How many entrepreneurs have benefitted from GCS in Vihiga District?
5. What are the conditions for obtaining credit from GCS?
6. What are the amounts of finance offered?
7. Have your loaned MSEs been able to access credit from financial institutions?
8. In your opinion, has GCS enabled MSEs to grow?
9. What should be done to improve GCS in Vihiga District?
10. Do you keep up to date records on loaned MSEs such as location, nature of business and repayment status?
11. Have you had MSEs that come for credit more than once after repaying their loans in full?
12. Do you conduct any vetting before lending to MSEs?
13. Other than offering credit, what can be done to spur growth of MSEs in Vihiga District?

Appendix III: Confidential Business Questionnaire

This questionnaire is designed to study the Influence of Government Credit Scheme on the Growth of Micro and Small Enterprises in Vihiga District of Vihiga County. The information obtained from you will enable us understand the influence that this scheme has had on your business. You are requested to respond to the questions frankly and honestly. Your response will be strictly confidential. Thank you for your time and cooperation.

Part A: Business details

Name of business…………………………………………………………………………

Address (If available)……………………………………………………………......

Telephone…………………………………………………………………………………

Location………………………………………………………………………………..

Year Started……………………………………………………………………………

Sector of operation…………………………………………………………………..

Part B: Access to credit

1. Are the requirements for applying for a loan from the Government Credit Scheme friendly? Yes ☐ No ☐
2. Are you able to receive the funds applied for? Yes ☐ No ☐
3. Is the amount offered adequate? Indicate the extent to which you agree or disagree by circling the appropriate number using the scale given below.

Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
1	**2**	**3**	**4**	**5**

Part C: Reduction of poverty levels

4. Has the income of your household increased since you obtained funding from the Government Credit Scheme? Yes ☐ No ☐

5. Have you acquired any new household goods recently? Yes ☐ No ☐

6. Are you and your household able to acquire better quality services in health, education and housing since receiving funding from GCS? Yes ☐ No ☐

7. a) Has the poverty levels in your household reduced since receiving funding from the Government Credit Scheme? Yes ☐ No ☐

   b) If yes, by what margin? Tick whichever applies.1. Slightly 2.Moderately 3. Highly

Part D: Creation of employment

8. How many people have you hired in your business in the last one year? Indicate the number in the box provided put zero if none were hired. ☐

Part E: Improved creditworthiness of MSEs

9. a) Have you applied for credit from a commercial bank or finance institution in the last one year or before? Yes ☐ No ☐

   b) If yes, specify the month and the year ……………… If no, skip to question 10(a).

   c) Did you obtain the credit applied for? Yes ☐ No ☐

   d) If no, what were the reasons? Tick the ones that apply.

   1. Lack of collateral ☐

   2. Lack or registration documents ☐

   3. Does not qualify for amount applied for ☐

   4. Lack of repayment capacity ☐

5. Lack of land title deed ☐

6. Any other reason ☐

10. a) Have you applied for asset financing from a banking institution? Yes ☐ No ☐

b) If yes, what was the asset? ______________________________

Part F: Growth of business

11. a) Has your business grown in profit in the last one year? Yes ☐ No ☐

b) If yes, in what percentage has it grown? Tick on the percentage growth that applies

1-10% ☐ 10-20% ☐ 20- 30% ☐ 30- 40% ☐ over 50% ☐

12. Indicate the total number of employees in this enterprise in each respective year.

Employees by occupation	2013		2012		2011		2010	
	Stocks	Exits	Stocks	Exits	Stocks	Exits	Stocks	Exits

13. How many additional employees have you hired in the last one year? Circle the option that represents the number of employees hired.

1. None 2. One 3. Two 4. Three 5. Four 6. More than four

14. What is the percentage increase in your stock holding since funding by the Credit Scheme?...

15. Have you opened any new branches of your business? Yes ☐ No ☐

16. a) Have you acquired any new technology in your enterprise? Yes No

b) If yes, which one?____

17. a) Have you acquired any new equipment for your business? Yes ☐ No ☐

b) If yes, what was the cost? Kshs.______________________

18. Rank the following characteristics in terms of how the Government Credit Scheme has helped your business to grow. You should rank the most important as 1, the next in importance as 2 and so on, until you have ranked each of them 1, 2, 3, 4, or 5.

The Government Credit Scheme has enabled my business to:

1. Grow in profits ___
2. Hire more employees ___
3. Expand stock and open new branches___
4. Acquire new technology ___
5. Buy new equipment ___

Part G: Additional information

Indicate additional comments relevant to this study.

____

____

____

____

Thank you for taking time to fill this questionnaire. Please check to ensure that you have answered all the questions accurately and return the duly completed questionnaire as instructed.