INFLUENCE OF MICROFINANCE SERVICES ON THE GROWTH OF SMALL AND MICRO BUSINESS ENTERPRISES IN SOUTH GUCHA SUB COUNTY, KISII COUNTY

BY:

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DECLARATION

This research project report is my original work and has never been presented for a degree or any award in any other university.

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This project report has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this Project report to my dear Husband Alex Migika; my Children Cynthia Moraa, Nevin Monene, Myra Bonareri, Amara Waridi and Alex Migika Junior for their unwavering , constant support and encouragement during my studies. I also wish to appreciate my Mother, Martha Ngeneke Mutunga my brothers and sisters.

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First and foremost I thank our God the almighty for the opportunity and the patience he has granted me to pursue my education up to this point. Second, I wish to sincerely thank all those who contributed to the success completion of my studies. I am particularly indebted to my supervisor Mr. Joseph Oluoch Awino for his endless guidance and encouragement during the preparation of this research report. He provided guidance and positive criticism on this work that I greatly count on in the entire work. I wish to thank my lecturers who moulded me into a researcher through their challenging critiques, Dr. Mwanda Samuel, Dr. James Mwangi, Dr. Wilson Nyaoro, and Mr. Yona Sakaja. My appreciations extend to my husband Alex Migika for having stood by me during the hard and soft times of my studies. I appreciate Mr.Samuel Kennedy Ong'ondi the head teacher Nyango Mixed Secondary School for having granted me ample time while undertaking my studies. I wish to thank my colleagues in the Masters class of 2011 for their moral support, peer review and general academic company they accorded me during my studies. I recognize the many informal contributions my colleagues made in the work place on the issues that I was studying and which, in my opinion, added value to the findings of this study. I also appreciate the efforts of my research assistants, Edgar Mogaka and Naphtally Nyakundi for collecting data professionally and on record time that enabled timely analysis. I am greatly humbled to thank my employer for giving me the opportunity and time to undertake my studies over the two years period and beyond. Besides, I thank all the respondents who provided information honestly and Objectively. To all of you, I once again say a big "THANK YOU".

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

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LIST OF ABBREVIATIONS AND ACRONYMS

ADC	:	African Development Cooperation
BFSA	:	Banking and Financial Services Act
BoZ	:	Bank of Zambia
BSC	:	Balanced Score Card
CBS	:	Central Bureau of Statistics
ERP	:	Enterprise Resource Planning Systems
FSDP	:	Financial Sector Development Plan
KNES	:	Kenya National Economic Survey
KWFT	:	Kenya Women Finance Trust
MFIs	:	Micro Finance Institutions
NBFIs	:	Non-Bank Financial Institutions
NGOs	:	Non-Governmental Organization
MSBs	:	Micro and small scale businesses
SIDA	:	Swedish International Development Agency
UN	:	United Nations
USAID	:	United States Agency for International Development

ABSTRACT

This study sought to investigate the influence of microfinance products on the growth of small and medium enterprises in South Gucha Sub County, Kisii County, Kenya. It was guided by the objectives: to investigate the influence of credit facilities, training of entrepreneurs, savings and conditions of service on the growth of small and medium enterprises in South Gucha Sub County. This study was grounded on the basic assumptions that respondents would be willing to give information objectively, sample drawn being representative of the target population and that the data collection instruments would be valid and reliable. On research methodology, a descriptive survey research design was adopted, targeting a population of 1200 entrepreneurs upon which a sample size equivalent of 10% of the target population was drawn (120). Stratified sample selection technique was used in which the population was stratified on the basis of distinctive business categories. Data was collected using questionnaire, whose validity and reliability were ascertained. Instruments validity was assured through adequate coverage of the research objectives; peer review and experts' judgement, while reliability was ascertained using split halve reliability method. Descriptive statistics in the form of frequencies and percentages were used in data analysis. The study revealed that credit was not easily available to the SME entrepreneurs in South Gucha Sub County and when available the amount of credit required was rarely obtained. But among those who obtained requisite amounts of credit, business growth was found to be enhanced. Moreover, lending conditions instituted by most micro finance institutions for the SMEs were found to be a major challenge and therefore adversely affected the business growth. Aspects of training provided to the SMEs were found to have significant influence on business growth, such that, with higher and relevant skills acquisition, enterprises grow than when levels of training are low. The study recommends that the ministry of trade should develop policies that are favorable to initiation of small and medium enterprises in the country for purposes of engaging the youths in economic development. Besides, the government, through the ministry of education should formulate policies that strengthen the study of the entrepreneurship and small business management in schools at all levels, so that whoever stopped schooling, would have acquired sufficient knowledge in business and the government should formulate policies that encourage the youths to engage in entrepreneurship such as increasing the allocation for the youth enterprise funds, women enterprise funds and Uwezo funds to enable them access soft loans, as well as the banking sector instituting policy changes that make credit facilities within reach of the small business entrepreneurs to access funds for investment in order to register growth of these ventures.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Microfinance products refer to a variety of financial services that target low-income clients, who also happen to be engaged in small scale business enterprises. According to Patrianila (2013), SME sector has often failed to register exponential growth due to absence of refinancing capital, as these enterprises hardly meet the lending conditions set up by banks, hence this gap is currently being filled by the entry of microfinance institutions.

Reporting from the survey undertaken in Singapore based on the influence of micro finance products on the growth of the SME sector, Bolivia (2012) noted that micro finance comes in packages of credit, savings and training on entrepreneurial skills to the clients in small businesses. He observes that these products significantly influence growth of these enterprises as the entrepreneurs gain skills necessary for managing business.

One of the important roles of SMEs in this context includes poverty alleviation through job creation. For instance, in the Netherlands, SMEs account 98.8% of all private sector companies, contribute 31.6% to Gross Domestic Product (GDP), and employ 55% of total workforce (EIM Business & Policy Research, 2009).

In the United States of America, Jandaya (2013) indicates that micro finance institutions have expanded and generally focus on SME sector for its clients who have often been ignored by large commercial lending institutions and this has facilitated the growth of the SME sector. He further observes that the products commonly offered to SME clients range from loans, savings, information and aspects of training on entrepreneurial best practices.

According to Beliah (2014), basing her study on the influence of financing on growth of SMEs in Zambia, low income business entrepreneurs normally encounter challenges of growth due to lack of adequate funding, often borrowed from friends and relatives because they lack collaterals for bank loans. She notes that this reality has led to the emergence and popularity of micro finance institutions giving soft loans calculated against ones savings.

According to Onani (2010), small and medium business enterprises are steadily turning around the economy of most of the West African countries through job creation and poverty alleviation and this growth is attributed to the various products tailored by the micro finance sector to the needs of the SME domain. He further lists the crucial products micro finance institutions advance to the low income entrepreneurs as credit, saving, training and overdrafts.

In Uganda, small scale business entrepreneurs often turn to local community informal lending outfits that charge exorbitant interests, just because mainstream banks have terms and conditions of lending generally met by large business ventures. This is has led to low growth of the SME sector. Recently, micro finance organizations have emerged to reverse this trend to ensure that, in this age of massive unemployment, more opportunities are created in the business sector, Mololo (2011).

In the Kenya National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million micro and small scale business enterprises employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the micro and small scale business enterprises receive credit and other financial services as the formal banking sector in Kenya has over the years regarded the informal sector as risky and not commercially viable, Ndinya, Cole, Goldberg and White (2010).

The demand of basic financial services by the poor is evidently huge worldwide. Based on the estimates by the World Bank (2010), over 2 billion people are need of credits for business start-ups and growth. In 2008, there were 2.8 billion people worldwide living on less than 2 dollars a day, 50 million Micro-finance Institutions (MFIs) and 700 million of microfinance beneficiaries (Afrane, 2008).

The provisions of financial services to the low-income households and small scale business enterprises provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation (Malonza, 2007). Widespread experiences and research have shown the importance of savings and credit facilities for the poor and small scale business enterprises. This puts emphasis on the sound development of microfinance as a vital ingredient for investment, employment and economic growth.

Studies in the Kenyan economic sector have shown that enterprises with poor access to credit tend to be less productive and are unable to operate efficiently, Mwamba (2009). However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative, and pro-poor modes of financing low-income households and small scale business enterprises based on sound operating principles are being developed in Kenya, Komala (2013).

In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been important sources of credit for a large number of low income households and small scale business enterprises in the rural and urban areas of Kenya, Akilo (2012).

In South Gucha Sub County, micro finance institutions have been established targeting small business entrepreneurs, yet the rate of uptake of these services has remained less impressive, Morara (2014). According to the South Gucha Sub County SME status Report (2015), small business entrepreneurs continue to face discrimination on access to credit facilities from the main banks, which in turn has adversely affected their growth. While reporting from his survey based on factors influencing growth of SMEs in Kisii County, Mageto (2014) indicated that small business enterprises promise to create economic hope to the people of Kisii County due to the emergence of micro finance institutions offering affordable financial services.

1.2 Statement of the problem

In South Gucha Sub County, micro finance institutions have been established targeting small business entrepreneurs, yet the rate of uptake of these services has remained less impressive, Morara (2014). According to the South Gucha Sub County SME status Report (2015), small business entrepreneurs continue to face discrimination on access to credit facilities from the main banks, which in turn has adversely affected their growth. While reporting from his survey based on factors influencing growth of SMEs in Kisii County, Mageto (2014) indicated that small business enterprises promise to create economic hope to the people of Kisii County due to the emergence of micro finance institutions offering affordable financial services. It is in the interest of this scenario that this study sought to investigate the influence of micro finance products on the growth of small and medium enterprises in South Gucha Sub County.

1.3 Purpose of the study

The purpose of this study was to investigate the influence of microfinance products on the growth of small and micro business enterprises in Gucha South Sub County.

1.4 Objectives of the study

The study was guided by the following objectives:

1. To investigate the influence of credit facilities on the growth of small and micro business enterprises in South Gucha Sub County.
2. To evaluate the extent to which entrepreneurial skills influence the growth of small and micro business enterprises in South Gucha Sub County
3. To explore how savings influence the growth of small and micro business enterprises in South Gucha Sub County.
4. To determine the influence of conditions of service on the growth of small and micro business enterprises in South Gucha Sub County.

1.5 Research questions

The study sought to offer responses to the following research questions:

1. What is the influence of credit facilities on the growth of small and micro business enterprises in South Gucha Sub County?
2. How do entrepreneurial skills influence the growth of small and micro business enterprises in South Gucha Sub County?
3. What influence do savings have on the growth of small and micro business enterprises in South Gucha Sub County?
4. To what extent do conditions of service influence the growth of small and micro business enterprises in South Gucha Sub County?

1.6 Significance of the study

Unemployment among the youths with its consequential manifestations in the form of petty crimes and other acts of lawlessness, must be addressed in order to achieve social cohesion; a pre requisite for sustainable development. In this respect, the study would be significant, basically to the youths, both in business and those not yet engaged in entrepreneurship to embrace such initiatives as alternative opportunities of employment.

The study would also inform entrepreneurs in the SME sector in general on the influence of micro finance services on growth of such ventures. Moreover, the micro finance institutions and other established lending institutions would also gain by developing policies that are favorable to small business entrepreneurs in order to access funds for business investment. Besides, the study would also be significant in providing relevant information to the government, especially the ministry of youths and sports, trade and industries, on formulation of policies that would be favorable to the growth of entrepreneurship in the country.

In addition, the study would also be helpful to the micro-financial institutions in adopting suitable financial strategies that would continue to spur economic development through promotion of small and medium business

1.7 Delimitations of the study

The study was based on influence of micro finance products on the growth of small and micro business enterprises in South Gucha Sub County. It focused on the entrepreneurs in the SME sector engaged in such business categories as whole sale, retail, hawking, general vendors and service sector.

1.8 Limitations of the study

The study was limited by several factors such as suspicion among some respondents who were unwilling to give information. Being conducted in South Gucha at the onset of long rains, weather conditions proved to be unfavorable to the study, moreover insufficient availability of funds for developing research instruments as well as general research-related expenses was also experienced.

However, the research assistants explained to the respondents that the purpose of the study was purely academic and that the information given would be treated confidentially. Weather challenges were addressed by visiting the respondents at about noon, just when the ground had stabilized and before the afternoon downpour. The cost- related limitations were addressed by drawing a sample that was relatively large to be representative of the target population, yet not too large to have a constraint on the budget.

1.9 Basic Assumptions of the study

The study was grounded on the basic assumptions that the sample drawn would be as representative to the target population as much as possible to an extent that the study findings would be generalized to the target population. Moreover, the study was also anchored on the assumptions that the data collection instruments would be reliable and valid in measuring the intended outcomes, and that the respondents would provide information honestly and objectively.

1.10 Definitions of significant terms

Microfinance: describes the concept for the provision of small loans (microcredit) or savings services for people excluded from the established commercial lending institutions.

Credit facilities: various loan products offered to clients by the microfinance institutions for investment in small scale business enterprises.

Service conditions: refer to the terms upon which financial products are offered to the clients such as, interest and levies, as well as processing procedures.

Entrepreneurial skills: competencies developed in the domain of business management such as credit management, record keeping, stores management and acquisition of information.

Micro finance institution: informal sector or small scale financial institution that offers low interest financial products to small business entrepreneurs.

Savings : regular deposits into the accounts of the small business clients with the hope that such accumulations would boost borrowing capacities.

1.11 Organization of the study

The study is organized in five chapters. Chapter one presents the background of the study, statement of the problem, purpose of the study and objectives of the study, basic assumptions of the study as well as limitations and delimitations of the study. Moreover significant terms as used in the study are also captured.

Chapter two captures in details the literature review on the studies that are related to this research. Besides, theoretical framework and conceptual framework of the study are also featured. Chapter three focuses on the research methodology outlining the research design, target population, sample size and sample selection. It also features data collection instruments, instruments validity and instruments validity.

Moreover, data collection procedures, methods of data analysis, operationalization of the variables, as well as ethical considerations in research are also outlined. Chapter four highlights data analysis, presentation and interpretation as chapter five gives study summary, conclusions and recommendations.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter is a detailed reflection of literature review on studies that depict significant relationship with this area of study. On this account, it introduces the major study variables against the backdrop of what other scholars have established, consequently revealing knowledge gap that study sought to fill. It also puts to perspective the theoretical framework and the conceptual framework of the study.

2.2 Overview of Micro-finance products on growth of SMEs

Microfinance products refer to a variety of financial services that target low-income clients, who also happen to be engaged in small scale business enterprises. According to Patrianila (2013), SME sector has often failed to register exponential growth due to absence of refinancing capital, as these enterprises hardly meet the lending conditions set up by banks, hence this gap is currently being filled by the entry of microfinance institutions.

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2.3 Influence of credit facilities on growth small business enterprises

Access to capital is obviously one of the typical obstacles to the start-up of new businesses, not least in developing economies with weak credit and venture capital institutions. Several empirical studies have concluded that the lack of access to capital and credit schemes and the constraints of financial systems are regarded by potential entrepreneurs as main hindrances to business innovation and success in developing economies (Marsden, 1992; Meier & Pilgrim, 1994; Steel, 1994).

Potential sources of capital may be personal savings, extended family networks, community saving and credit systems, or financial institutions and banks. Robinson (1993) found that informal sources of credit, though with high interest rates, constitute very substantial contributions to business start-ups in developing countries, where the capital to labour ratio is normally low and small amounts of capital may be sufficient for a business start-up.

In developed economies with efficient financial infrastructure, access to capital may represent similar restrictions to individuals' perception of entrepreneurial options because of the high entry barrier ensuing from high capital to labour ratios in most industries. As aforementioned, lack of capital is of problems faced by Indonesian MSEs (Kementerian KUKM & BPS, 2004). A more recent study among Vietnamese MSEs revealed that of internal limitations that hinder MSEs to succeed is capital shortage (Swierczek& Ha, 2003). Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure.

Generally, microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (United Nations 2005). More broadly, microfinance is a movement that envisions a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers (Chen and Snodgrass, 1999).

According to a United Nations concept paper 2000, microcredit is one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include: The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life, the realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans, the observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor, the view that microfinance is viable and can become sustainable and achieve full cost recovery, the recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health.

Because of the collateral requirements from the formal commercial banks, microfinance tends to provide to the poor people financial services exclusive of these conditions (Carter, McNulty and Verbrugge, 2004). For these financial services, the poor people are willing to pay for because of the added advantage they receive for not collateralizing anything.

Microfinance has allowed millions of households usually excluded from classical financial services to begin their own economic activities or to reinforce existing efforts and become micro entrepreneurs (Dunford, 2001).

Microfinance refers to a variety of financial services that target low-income clients, particularly women. The main characteristic of microfinance is providing small loans to micro and small scale businesses.

According to Dunn and Gordon (2001), microfinance has several characteristics which include: Issuing small amounts of loans and requiring small savings; loans issued are on short- terms (usually up to the term of one year); payment schedules are attributed to frequent installments (or frequent deposits); installments made up of both principal and interest, which is amortized over the course of time; higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time; easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status; application procedures are simple; short processing periods (between the completion of the application and the disbursements of the loan); the clients who pay on time become eligible for repeat loans with higher amounts; the use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. For larger loans, instead of collateral, microfinance intermediaries use alternative methods, such as the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

During the last two decades, micro-credit approach has been increasingly incorporated in the development discourse. Specially the credit is given to the micro and small scale business enterprises and the popular belief is that micro and small scale business enterprises are benefited and empowered and are being acknowledged for having a productive and active role and thus it is the gateway of gaining freedom for themselves (Liedholm and Mead, 2007).

Such programmes have reversed conventional top down approach by creating livelihood opportunities for the poorest citizen, especially for the small scale business enterprises who are about 94 percent of their client (Thente, 2003). Microcredit is now considered the effective development tool of poor people especially in rural areas. Micro and small scale business enterprises have become more empowered and play important role in generating income in the rural areas of Kenya (Johnson, 1999).

Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.

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Approximately 99% of all enterprises in Indonesia operate in small-scale sectors, absorbing 88.66% of the workforce (Urata, 2000). Those small-scale and household industries use only 10% of the total circulating money, but they contribute 49% to the Gross Domestic Product. The term small scale business enterprises has been given different definitions and these definitions vary from one country to another, sector to sector and even one industry to another. But most often, the definitions have however been in terms of either capital employment or number of persons engaged. In Kenya, small scale business enterprises have mostly been defined by the number of persons engaged. Steel and Webster (1991) defined small scale business enterprises as productive unit with hired labour that involved enough investment in capital or skills to constitute a barrier to entry but small enough to be managed by one person. This definition indicates the small scale business enterprises are usually very small business with simple organizational structures employing very little capital.

International Labour Organization (1970) defines small scale business enterprises as a sector whose entry by new enterprises is comparatively easy; enterprises in this sector rely on indigenous resources and are family-owned; they operate on a small scale in unregulated and competitive markets, are labour-intensive and use adopted technology. Their workers usually have skills acquired outside the formal schooling system.

National Board for Small – Scale Industries (NBSSI) in 1992 also defined small scale business enterprises as production units that are engaged primarily in small scale trades, value addition, manufacturing, functioning outside the residential premises with an investment in machinery equipment and tools of not more than Kshs.50,000 and or which engaged between 1 and 10 people (Steel and Webster, 1991).

2.4. Influence of entrepreneurial skills on growth of small businesses enterprises

A research by Charney and Libecap (2000) found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business. Also, the study revealed that entrepreneurship education of employee increases the sales growth rates of emerging firms and graduates' assets.

Similarly, Sinha (1996) who analysed the educational background of the entrepreneur revealed that 72% of the successful entrepreneurs who had a minimum of technical qualification, whereas most (67%) of the unsuccessful entrepreneurs did not have any technical background. She summed up that entrepreneurs with business and technical educational background are in a better position to appreciate and analyze hard reality and deal with it intuitively, which seems to play a critical role in entrepreneurial effectiveness.

As long as Small scale business enterprises continue to lack social resources such as access to education they will only be able to make limited use of the financial resources they have obtained. As Cheston and Kuhn (2002) observe:

The ability of a woman to transform her life through access to financial services depends on many factors, some of them linked to her individual situation and abilities and other dependent upon her environment and the status of small scale business enterprises as a group.

Since education and credit sources are important determinants of the level of credit, the training by the MFI picks up their impact. Small scale business enterprises enjoy a high success rate regarding positive response and amounts received if they are well trained by the MFI. These high success rates suggest near perfection in the self-selection and application targeting processes. Variations in success rates run across activities, spatially, across the formality/informality divide and credit sources (Dunford, 2001). The term self-efficacy, derived from Bandura's 1977 social learning theory, refers to a person's belief in his or her capability to perform a given task. According to (Ryan, 1970), self-perception plays an important role in the development of intention. Intentions and their underlying attitudes are perception-based, which should mean that they are learned and can be continuously influenced, and not fixed by personality traits formed in early childhood. Accordingly, they will vary across historical and cultural contexts.

(Cromie, 2000) stated that self-efficacy affects a person's beliefs regarding whether or not certain goals maybe attained. The attitude provides the foundation for human motivation (Pajares, 2002) and personal accomplishment: unless people believe that their actions can produce the outcomes they desire, they have little incentive to act or to persevere in the face of adversities (Pajares, 2002).

(Bandura, 1977) pointed to the fact that 'people's level of motivation, affective status and actions are based more on what they believe than on what is objectively true'. An individual's perception of self-efficacy has a strong influence on how he or she will act and how the available knowledge and skills was utilized. Consequently, people behave according to beliefs about their capabilities rather than on real facts based on their competence and capabilities.

2.5 Influence of savings growth of small businesses enterprises

According to the definition on "Microfinance Gateway" an MFI is the organization that offers financial services to the low-income people (Microfinance gateway, 2008). There is a wide range of micro financial institutions in Kenya today. These

MFIs provide micro credit and micro finance services too. Many MFIs provide other financial services along with microfinance. Similarly some commercial banks also provide microfinance along with their routine financial activities. As a result of these micro finance services which are quite bit part of the whole of the activities of these commercial banks we can also cluster them as microfinance institutions (Rehman, 2007).

There are some other MFI´s that can be considered in the business of micro finance. These institutions are the community based financial intermediaries such as credit union; cooperative housing societies and some other are owned and managed by the local entrepreneur and municipalities. These type of institutions vary from country to country (Rehman, 2007).

There are now nearly 70 million poor people who are getting benefits from 2500 micro finance institutions in over 100 countries by microfinance (Sengupta, Aubuchon, 2008). This fact shows how microcredit is important and useful as a huge number of people are facilitated by the microfinance institutions.

As a result, microfinance has gained importance as an effective tool of social mobilization and poverty alleviation. It has become a major tool of development, and it is fast developing as an international industry, with its own associations, dedicated finance, training and other support organizations. Estimates show that microfinance serves approximately a million African households, with aspirations for significant further expansion.

(Dunn et al, 2001) notes that, the upsurge in interest has been accompanied by attention to the sustainability of the microfinance services provided by nongovernmental organizations, through charging commercial rates of interest and using sound business practices. This type of microfinance institution offers smallsized loans and may also provide business development services, health and nutrition education, and other types of services.

Chen and Snodgrass (1999) stated that, most of the clients of micro finance hover around the poverty line, slightly above and below it and that MFIs provide a valuable source of credit for these households. Some programs reach the very poor, but they are not normally the main group accessing the services.

Recent impact studies by (Sebstad and Cohen, 2011) have documented the positive impact of MFI programs, but the impacts have tended to be more modest in scale than often assumed. According to (Sebstad and Cohen, 2010), microfinance strives to "scale up" to serve as many households as possible. Among the range of possible micro-financial services, micro-credit has predominated, on the assumption that it will deliver higher incomes and increased assets to the poor through micro-enterprises. Indeed injecting capital into existing micro enterprises or creating new ones may enhance that their poor owners face. Thomas *et al*., (2002) argues that, by delivering financial services at a scale, and by mechanisms appropriate to them, micro-credit can reach poor people. By providing the poor people with credit for micro-enterprises it can help them work out their own way and by providing loans rather than grants the micro-credit provider can become sustainable by recycling resources over and over again.

However, to (Hulme and Mosly, 1996) far less attention has been paid to the need to reduce the risk, perhaps the most pressing need especially for the poorest households. They argue that, a proportion of micro-credit clients have become worse off after accessing micro loans. The need to reduce risk is why poor people would prefer regular wage labour than managing their own micro-enterprise, if only such opportunities were available (Ibid, 1999).

Micro-credit alone is not enough service to empower the people economically. (Rutherford, 2000) elucidate that, It is paramount to look beyond micro-credit and frame it in terms of including micro-financial services other than credit for micro enterprises: savings, consumption loans and insurance in particular. A range of those financial services are important to meet the needs of poor people, both protecting them from fluctuating incomes and livelihoods. While microfinance providers emphasize investments of working or fixed capital in micro-enterprises, the reality is that many clients use the credit for consumption, smoothing, especially as most funds are fungible within a household. Such consumption-smoothing can allow households to cope more effectively, but it also runs the risk of pushing them further into debt if they cannot repay the loan out of enhanced income streams. More appropriate financial products for this purpose are savings, insurance and loans to allow poor people to repay the loans and interests. And yet these have received far less attention than micro-credit for micro-enterprises (Rutherford: 2000).

With strong focus on micro-credit for micro-enterprises, it is perhaps surprising that less attention has also been paid to linking poor people to the growing market opportunities and to enhancing control they can exercise over their economic environment. In terms of greater control within the economic environment, the ownership of assets in particular significantly reduces risks to households in the face of fluctuating incomes or expenditure demands. However as individual micro entrepreneurs, most micro-credit clients remain as vulnerable to economic circumstances as they were before taking any micro-loan (Ibid, 1999).

The formal segment of Kenya’s financial sector is dominated by a few commercial banks. Some of the banks have roots in the colonial period and were historically oriented towards meeting the financial needs of external trade and large-scale commerce. These banks do not therefore have a track record of lending to small enterprises and smallholder agriculture.

Perhaps in recognition of this shortfall, the government of Kenya backed initiatives such as the Small Enterprise Finance Company, the Kenya Industrial Estates and other alternatives to formal banks to fill the financing gap. However, these government-backed schemes and development finance initiatives performed unsatisfactorily and in retrospect may have distorted the evolution of financial markets in the country.

Studies show that when credit is advocated as the primary remedy for low level productivity or when loans are used to stimulate growth, these strategies often lack mechanisms for excluding risky borrowers (von Pischke, 1992). As a result, many borrowers fail to repay and the credit programmes are left with a progressively drying pool of funds for lending.

This phenomenon, referred to as the exit problem of credit programme, has been evident in Kenya. In the 1980s, Savings and Credit Co-operatives (SACCOs) and non-bank finance institutions (NBFIs) expanded rapidly to fill the gap created by commercial banks, but were only useful for salaried employees for whom the lending and borrowing entitlements were clearer.

The continuing gap in the MSE sector attracted the attention of non-governmental organizations (NGOs), including the Kenya Rural Enterprise Programme (K-REP), the Kenya Small scale business enterprises Finance Trust (KWFT), FAULU and PRIDE Africa. These entire programmes attract support from the donor community and are potentially exposed to the exit problem.

Kenya also boasts a wide range of informal institutions that extend financial services to different segments of the community. The most widespread are the rotating saving and credit associations (ROSCAs) which are found almost everywhere in the country and act as conduits for converting small regular savings into lump sums, especially among Small scale business enterprises. These associations are based on trust and close familiarity that is, in turn, based on social institutions such as kinship. Entrepreneurs also rely on friends, relatives, customers and suppliers of materials and provisions as sources of working capital. These divergent credit sources are therefore important components of the financial/credit markets in Kenya.

2.6 Influence conditions of service on growth of small businesses enterprises

The government of Kenya's awareness of the need for credit by micro and small scale business enterprises has facilitated several credit programs to assist these business enterprises in accessing credit, (Weidmann, 1992). Yet, the terms of payment stipulated by the microfinance institution has also been found to be a crucial factor that affects the acquisition of credits by the small scale business enterprises. These programmes change the commercial rate of interest to cover costs and to ensure suitability. These programmes are intended to influence welfare of household, reach directly the poorest of the economically active to make sure that in mixed groups, micro and small scale business enterprises are not left out.

The credit-seeking decision is a three-stage process. Entrepreneurs first decide on whether or not they need credit. Once that decision is affirmative, a further decision has to be made regarding the appropriate credit source (Maddalla, 1997). An additional decision relates to the level of credit to seek out and how well the entrepreneur was informed about the terms of borrowing and repayments. But even when enterprises feel a need for external credit, they may not borrow if their perceptions on the costs of applying for a loan outweigh the expected receipts (Mei Qiang, 2002). They may also lack enough cash to meet the application costs. Enterprises may also shy away from borrowing due to a poor collateral position and lack of requisite information about the capital borrowed, which requires quite a high level of training from the micro-finance institutions. Collateral requirements imply that there would be enterprises that prefer external funds but are unable to apply for such funds (Mookherjee, 1999).

Studies have shown that most Small scale business enterprises perceive borrowing as necessary for business and the impact of borrowing on business performance as positive (Mwenda, 1993; Rogaly, Fisher and Mayo, 1999; Moyi, 2000), yet they have weak training in the utilization of the borrowed capital resulting collapses of the loan use. Among the small group of applicants, there are gender, enterprise location, business activity and formality status differences, which must be well factored in during the loan borrowing by the business enterprises. Traders appear more inclined to borrow than entrepreneurs in other activities and the incidence of loan application is greater among female proprietors and urban based enterprises (Scully, 2004).

Informal enterprises are dramatically more likely to apply for a loan as do those that are larger and older as well as those owned by older entrepreneurs, if they are provided with novel methods of proper loan utilization. The life expectancy of small scale business enterprises is generally short so that most do not live long enough to build contacts and reputation necessary in seeking out credit (Sebstad and Monique, 2001).

Smallness is also a major impediment to effective participation in the credit markets. Not only is the proportion of small scale business enterprises that borrow low, but those who borrow request for small amounts. Amounts borrowed also vary across activities and the gender of the proprietor (Chen and Snodgrass, 2001).

In other words, although female entrepreneurs are more inclined to borrow, their male counterparts borrow more. The proportion of male entrepreneurs borrowing from commercial banks is more than twice that of small scale business enterprises. On the other hand, a greater proportion of female entrepreneurs borrow from NGOs and non-bank finance institutions. The difference in amounts applied for by formal and informal enterprises is great, the latter borrowing only a fraction of the amounts borrowed by the former (Chen and Snodgrass, 2001).

Informality represents low productivity, poor access to infrastructure services and poor property rights over business premises, making credit markets out of reach for most such enterprises (Kimuyu, 1997).

Borrowers unable to access credit from commercial banks are therefore unlikely to borrow significant amounts. Urban located and larger enterprises also borrow more. A positive correlation between enterprise size and credit is in order, since demand for working capital increases with enterprise size (Daniels and Mead, 2010).

Most credit providers are urban located so that lower levels of credit use by rural enterprises are also evidence of a credit supply constraint (Daniels and Mead, 2010). Membership in a support group increases the level of credit sought for, so that such groups have a strong network side effect.

Despite all the efforts channelled towards assisting micro and small scale business enterprises, they are faced by diverse challenges as far as repayment of the credits. For many micro finance providers, the reason they focus on small scale business enterprises clients is mainly of a practical nature. Repayment rates are typically higher for small scale business enterprises than for many enterprises because of the risks of borrowing to the Small scale business enterprises and the tendency to have fewer alternative sources of finance (Malonza, 2007). Small scale business enterprises are also seen as more compliant and reliable. They are perceived to have a higher sense of responsibility and to be more affected by social pressure than men, (Harper, 2003, Simanowitz, 2002).

Repayment of loans a scheduled is not an accurate indicator that funds were used to invest in successful productive activities. Even when a borrower repays a loan in time the source of income is not necessarily from revenues generated by investing the loan in productive activities, (Gallup, 2003) at times repayment is often delivered from general family income rather than the activity for which loan has been provided. Control over loans is by itself not a good indicator of Small scale business enterprises independence in management of an enterprise. Thirty seven percent of loan retention may already be a significant achievement in a gendered society (Cheston and Kuhn, 2002). Indeed cooperation between Small scale business enterprises may already be a form of empowerment it can also be considered an improvement if management of such enterprises would previously have taken the decision on business by themselves thus control of the enterprise by Small scale business enterprises. Such Small scale business enterprises may find it difficult to make decisions pertaining to their businesses. Several scholars have had a lot of interest on impact of repayment conditions of the micro finance loans on the performance of Small scale business enterprises. It is evident that many scholars have prescribed microfinance loans as a panacea for all the problems bedevilling Small scale business enterprises. It is imperative that microfinance loans have had positive impact on the performance of small scale business enterprises, but whether these loans result into significant business growth is yet to be established. It is not yet known however how Small scale business enterprises go about making repayment decisions and how to invest the money and the factors that influence such decisions since Small scale business enterprises entrepreneurs are not independent entities but rather operate as members of households.

Oketch (1991) found in analysis of 126 successful micro enterprise credit recipients in Kenya that 24% of the borrowers diverted portions of their loans to unspecified items not specified on the loan application and therefore it was difficult to repay. Goetz and (Sen Gupta, 1996) however found out that Small scale business enterprises do not actually fully control their loans. Their findings cannot however be generalized to the Kenyan situation due to major cultural and religious differences of the 2 countries. (Amendariz, 2005) in a study of two Grameen replications in the Philippines found that most clients found it difficult to repay their loans. In a survey of clients in repayment arrears and clients who had exited the program Faulu Kenya a local MFI found that 74% of their clients had diverted their last loan and therefore failed to repay. If credit meant for business development is diverted to consumption needs, the borrowers still have to repay the loans. Consequently the business does not expand and it cannot therefore service subsequently higher loans. Loan repayments may require the borrower to forego the gratification of basic needs or to default. It is important however to find out why loans are diverted leading to non-payment.

Over time, the payment history of a loan customer accumulates and the firm develops a "private reputation" with its lender (Mintzberg, 2003). In contrast, much bank lending is transactional rather than based on private information collected through long-term relationships with firms. For example, many large banks, and some smaller banks, lend to small firms using credit scoring models, basing their loan decisions on information that can be quantified rather than on private, more qualitative information acquired through direct interaction with the firm. Rather than making more subjective judgments based on direct interactions with a small firm ("soft" information), credit scoring applies statistical methods to "hard" data, summarizing borrower characteristics to produce a "score" that can be used to evaluate the likelihood of the loan applicant repaying the loan (Mei Qiang, 2002).

Lending to large firms, on the other hand, is quite different, since larger firms are more established, and lenders typically can evaluate more precisely the credit risk of the firm by using public information (Mookherjee, 1999). Some of this is a consequence of large firms' access to national debt and equity markets, for example, arising from credit rating agencies, equity analysts, and filings with the Securities and Exchange Commission (SEC). Furthermore, due to the relative transparency of large firms compared to small ones, these large firms typically can borrow from multiple banks under less restrictive loan contract terms (Moyi, 2000). Thus, financial statement lending to large, relatively transparent firms is unlikely to be a source of economic rents to the lender. Similarly, other transactions-based lending technologies, such as fixed-asset lending, are unlikely to earn the lender substantial rents due to asymmetric information, since the technology for valuing collateral is relatively straightforward. Rather, the benefits accruing to the lender would be related primarily to economies of scale.

Out of the foregoing discussion, it follows that there is scanty empirical data on credit repayment among small scale business enterprises entrepreneurs in Kenya. Given the disparities among countries may not readily apply to Kenya. A country's specific study of the kind proposed herein is quite wanting.

2.7 Theoretical framework

This study was based on the balanced scorecard theory of (Kaplan and Norton, 1996). The balanced scorecard is a performance planning and measurement framework, with similar principles as management by objectives. The balanced score card (BSC) began as a concept for measuring whether the smaller scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy by focusing not only on financial outcomes, but also on the human issues, the balanced score card helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long term interests.

The strategic management system helps managers focus on performance metrics while balancing financial objectives with customers, process and employee perspectives, measures are often indicators of future performance. Balanced score card is a tool to execute and monitor the organizational strategy by using a combination of financial and non-financial measures. It is designed to translate vision and strategy into objectives and measures across four balanced perspectives. It gives a framework ensuring that the strategy is translated into a coherent set of performance measures.

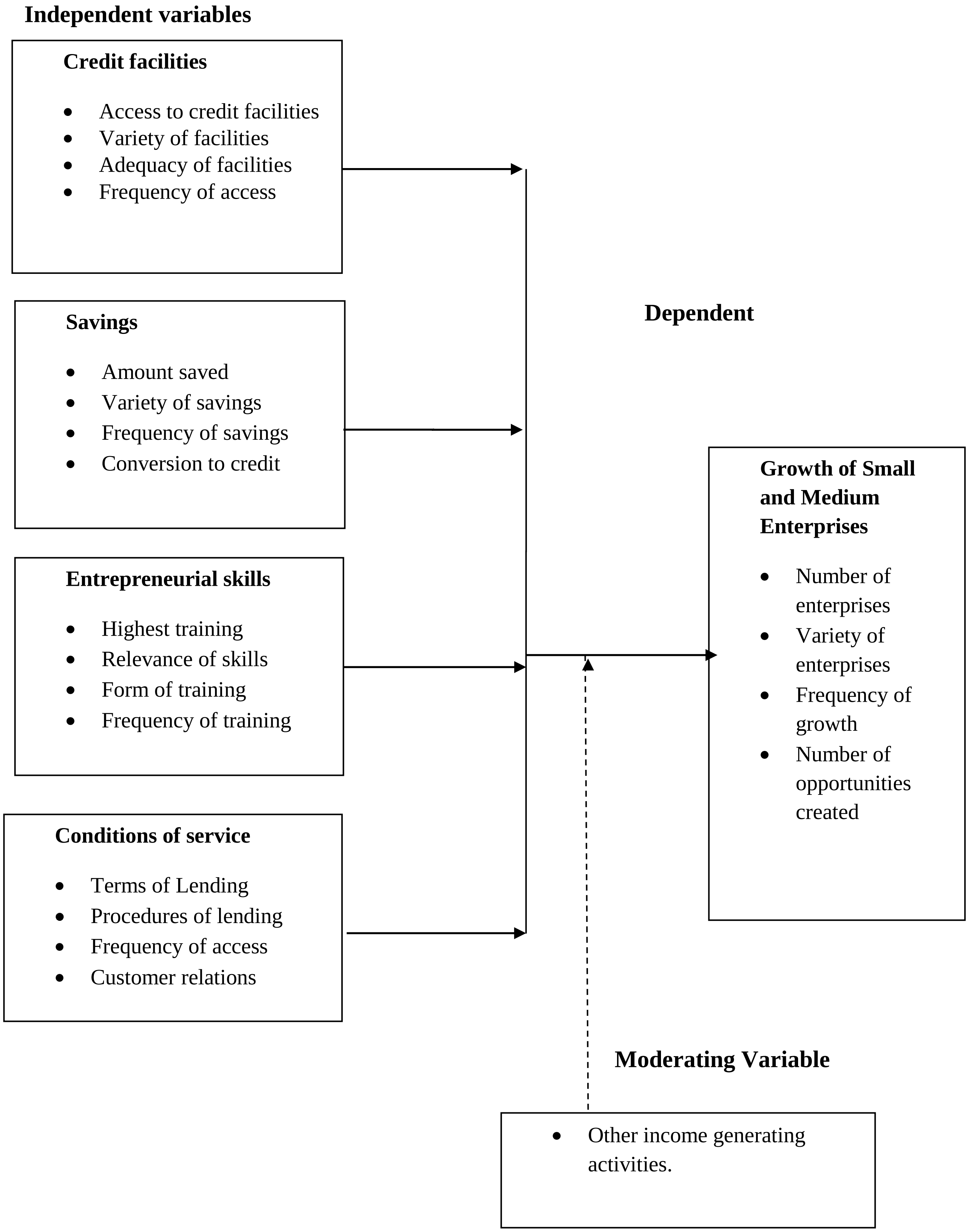
Balanced score card theory is based on for perspectives, financial perspective, customer perspective, Internal process perspective, learning and growth perspective

This theory is relevant to the present study because the finance is one of the most important factors that is crucial to determining the growth of the small scale business enterprises. The correct use of the four perspectives will increase business assets stock of the business, which will result in increased sales, customers, profits etc. This will trickle down to increased customer satisfaction and the smooth running of the business which eventually will lead to growth of the business.

2.8 Conceptual framework

A conceptual framework of a study refers to a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation, Kothari (2005). The conceptual framework attempts to explain the relationship that occurs between the study variables and this is illustrated in figure 2.1.

Figure 2.1: Conceptual Framework



2.9. Summary of literature review

This chapter reviewed the literature on access to credit by the small scale business enterprises and how the microfinance can be used to alleviate poverty. The review proceeded from the general global and historical context of MFI and access to credit by Small scale business enterprises from the financial institutions until it narrowed to Kenya. Both quantitative and qualitative studies have illuminated a number of challenges as contributing to the persistence of accessing credits by the small scale business enterprises. The issues discussed in the literature review are important in determining the roles of MFI in poverty alleviation through growth of small scale business enterprises. This chapter on literature review leaves no doubt that all the factors affecting performance Small scale business enterprises should be perceived as a unit within a system for successful business performance and enhanced poverty alleviation. What is quite apparent is that these factors are quite many and it is only by delineating them well can specific data be obtained and analyzed. In this chapter, it has been clearly indicated that there is a greater need for more information on the access to credit by the small scale business enterprises and how micro-credit can be enhanced to the Small scale business enterprises in Kenya thus alleviating poverty in slums.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the general research methodology that was employed in the study. The study adopted the quantitative research paradigm adopting a descriptive survey research design. Captured in this chapter are research design, target population, sample size and sample selection. Moreover, data collection instruments, instruments validity and instruments reliability are also highlighted.

Included in this chapter are also instrument pre-testing, data collection procedures, methods of data analysis, operationalization of the study variables and ethical considerations in research.

3.2 Research Design

The study was based on investigation of the influence of microfinance products on the growth of small and micro businesses enterprises in Gucha South Sub County. On this account a descriptive survey research design was employed, as the study targeted a large population of entrepreneurs geographically spread in the entire sub county. Kothari (2007) states that descriptive survey designs are used when the objective is systematic or description of facts and characteristics of a given population are of interest factually and accurately.

It gathers data at a particular point in time with the intention of describing the nature of the existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that exists between specific events (Orodho, 2005).

3.3 Target Population

A target population refers to the accessible population from where a study sample is drawn and upon which the results are generalized, Kothari (2005). Jaccard (1983) defines a population as the aggregate of all cases to which one wishes to generalize. In this study, all the registered business entrepreneurs in South Gucha Sub County were targeted for study. These entrepreneurs were selected from the various small business categories such as whole sale, retail, hawking, general vendors and service sectors. According to South Gucha Sub County Business Registration Report (2015), there are 1200 registered small business entrepreneurs.

3.4 Sample size and sample selection

3.4.1. Sample size

A sample is a subset of particular population, Mugenda and Mugenda (2003). Generally, the sample size depends on factors such as the number of variables in the study; the type research design, the method of data analysis and the size of the accessible population. Gay in Mugenda and Mugenda (2003) Suggests that for correlation research, 30 cases or more are required; for descriptive studies, 10 percent of the accessible population is enough and for experimental design, at least 30 cases are required. In this study, a sample size equivalent of 10% of the target population (1200) was drawn, giving rise to 160 respondents.

3.4.2. Sample selection

According to Kothari (2003), sampling is defined as the selection of some part of the aggregate or totality on the basis of which a judgment or inference about the aggregate is made. Trochhum (2006) views sampling as a process of selecting units from a population of interest so that by studying the sample, we may fairly generalize our result back to the population from which they were chosen. This study adopted probability sampling design involving assigning items into the final sample using the random sampling procedures. In light of this, stratified sampling technique was used in which the entrepreneurs were stratified on the basis of distinctive business categories- whole sale, retail, hawking, general vendors and service sector.

3.5 Data collection Instruments

In this study, questionnaire was prepared add used to collect data from the small business entrepreneurs. In attempt to ensure that the questionnaire solicited the desired response, even among the illiterate literacy diversity was put into consideration by engaging the research assistants who helped in completing the instrument on a one-on-one basis with the respondents while being supervised by the researcher.

The questionnaire was the researcher's preferred data collection instrument as it ensured that many respondents were reached promptly and the required data obtained within the stipulated study time frame. It contained both open ended and closed ended items, a structure that allowed collection of maximum data from the respondents in readiness for data analysis.

3.5.1 Instruments pretesting

Piloting refers to the pre-testing of research instruments to a selected sample which is identical to the actual sample to be used in the study, Orodho (2005). Pretesting is a preliminary or mini study undertaken in order to establish the effectiveness of the data collection instruments, Mugenda and Mugenda (2003). it helps to detect deficiencies in the research instrument such as insufficient space, ambiguous questions, and helps reveal if anticipated analytical techniques are appropriate.

According to Mugenda and Mugenda (2003) a pre-test sample should be between 1 percent and 10 percent depending on the sample size, and in this study, 10% of the study sample size was used as the pre-test sample.

3.5.2 Instruments Validity.

Validity is a measure of the degree to which the differences found with a measuring instrument depict the true differences among items measured, Kothari (2005). In the view of Mugenda and Mugenga (2003, an instrument is validated by proving that its items are representative of the skills and characteristics that it is purported to measure. To ascertain the validity of the research instrument, adequate coverage of the research objectives was emphasized as a matter of priority and this was confirmed through pilot survey in which content of the questionnaire was found to be representative.

Moreover, validity was also ascertained through both peer review and experts judgment. It was also assured through randomization that helped to check the influence of the extraneous variables. This was done by randomly selecting items from the target population into the final sample. Randomization was found suitable by the researcher for it is the best technique of ensuring that the sample drawn is representative of the target population, Opudo (2011).

3.5.3 Reliability of research instrument

Reliability of a test instrument is a measure of consistency with which a test instrument produces the same result when administered to the same group over time intervals, Kothari (2005). Mugenda and Mugenda (2003) hold that, reliability is a measure of the degree to which a measuring instrument yields consistent results or data after repeated trials.

In this study, split-half reliability method was used to measure reliability of the investment in which the questionnaire was divided in two parts. The two halves were arrived at by grouping the questionnaire items into odd and even appearances and the pearson's coefficient of correlation (r) between the two halves was calculated. Using the slit-halve method, reliability of the questionnaire was established and an alpha value of 0.76 obtained, proving the accuracy of the interference made in the study, Fraenkel and Wallen (2000). This method of ascertaining the reliability of the instrument was preferred for it required only one testing session that was crucial in eliminating chances of error.

3.6 Data collection procedures

According to Kothari (2005), data collection procedure comprises of the steps and actions necessary for conducting research effectively and the desired sequencing of these steps. The researcher embarked on the process of collecting data from the field upon preparation of a research proposal which was also approved by the supervisor and examined by the panel of assessors from the University of Nairobi.

Consequently, the researcher presented two corrected copies of the proposal to the National Council for Science and Technology, applying for a research permit. Presenting the permit to all relevant authorities, the researcher hit the road collecting data using two well trained and motivated research assistants.

3.7 Methods of **Data Analysis.**

Data analysis deals with the process of data coding, data entry and analysis in order to interpret information gathered in the context of the key study objectives. It deals with the statistics to be used to analyze data that is the organization, interpretation and presentation of collected data (Oson and Onen 2005). Owing to the fact that the study was descriptive in its major characteristics, descriptive statistics were used as main methods of data analysis aided by computers software, SPSS (Statistical Packages for Social Scientists). Such descriptive statistics included frequencies and percentages and data was presented using frequency distribution tables.

3.8. Operationalization of the study variables

Operational definition of the study variables is a technique in which the researcher describes the indicators upon which the variables are measured and table 3.1 illustrates this concept.

In this study, the independent variable credit facilities was measured on the basis of the presence the amount of loans often obtained from the micro finance institutions, variety of loans available, frequency of access and ease of access. Savings was measured on the grounds of the amount of savings held in the accounts with the micro finance institutions, variety of savings, frequency of deposits and the rate of conversion into loans.

Moreover, an entrepreneurial skill was considered upon the highest training an entrepreneur obtained, relevance of the skills to entrepreneurship, form of training and frequency of training. In addition, conditions of service were measured on the basis of loaning requirements, customer relations, lending procedures and frequency of access.

3.9. Ethical considerations in research

According to Resnik (2011), norms promote the aims of research, such as knowledge, falsifying or misrepresenting research data, promote the truth and avoid error. Moreover, since research often involves a great deal of cooperation and coordination among many different people in different disciples and institutions, ethical standards promote the value that are essential to collaborative work, such as trust, accountability, mutual respect and fairness.

Given the importance of ethical issues in several ways, the researcher avoided taking any ones work and where someone’s work was included, such were acknowledged. In the process of data collection, respondent’s identities were concealed and any information obtained was treated with utmost confidence. No harm of any nature was meted out on any respondent, aspects of privacy were observed and any cruelty avoided.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATIONS AND DISCUSSION

4.1 Introduction

This chapter features aspects of data analysis, interpretation and presentation in which the influence of micro finance products on the growth of small and medium enterprises was investigated.

4.2. Questionnaire response rate

Response rate refers to the percentage subjects that respond to the questionnaire. Response rate of 50% is deemed adequate for analysis and reporting, a response rate of 60% is good and a response rate of 70% and above is considered very good, Mugenda and Mugenda (2003).

In this study, the researcher administered 172 copies of the questionnaire to the respondents and questionnaire return rate is depicted table 4.1

Table 4.1: Questionnaire return rate

Target population	Sample	Return Rate
1200	**120**	**120**

Table 4.1 indicates that, out of the 120 copies of the questionnaire administered to the respondents, all were received back completely field up, returned, giving rise to a questionnaire response rate of 100%. In this respect, the study is deemed to have returned an excellent response rate.

4.3 Demographic characteristics of the respondents

This section features the demographic characteristics of the respondents who took part in the study. Such features include, age, sex, marital status, area of business operation and level of education. These characteristics were considered to be of great significance to the study, for they influence the distribution of various personalities in particular ventures.

4.3.1: Age characteristics of the respondents

The ages of the respondents were considered important to the study, for it would reveal the period in which the SME entrepreneurs become active in putting up personal business ventures as an alternative to formal employment. The respondents were asked to complete the questionnaire stating their ages and table 4.2 illustrate their responses.

Table 4.2: Age characteristics of the respondents

Age	Frequency	Percentage
Under 19	02	01.66
19-21	04	03.33
22-24	10	08.33
25- 27	43	35.83
28- 30	51	42.50
Above 30	10	08.33
Total	**120**	**100.00**

The table 4.2 indicates that, out of 120 respondents who filled the questionnaire, 2(1.66%) were under 19 years, 43(35.8%) were between 19-21years, 10(8.33%) were between 22-24years) 43(35.8) fall in the age of between 25-27years, 51(42.5%) were between 28-30years and 10(8.33%) were above 50 years.

Between ages 28 – 30 years, most business entrepreneurs have taken up the role of fending up for the family having married hence must look for initiatives for income generation. This is also the same age within which young people become aggressive in meeting their childhood dreams. However, below the age of 27years, many young people are still held up in schools and colleges and hence are less compelled to the start up personal ventures owing to the fact that they also depend on their parents and guardians for up keep.

4.3.2: Characteristic of the respondents by gender

This characteristic was believed to be significant to the study, as gender variations influence decision to enter into particular careers and business ventures. Males chose certain careers that are different from those taken up by females due to social roles they have been orientated to in the society. The respondents were asked to complete the questionnaire indicating their gender and their responses are illustrated in the table 4.3

Table 4.3: Gender variations of the respondents

Gender	**Frequency**	**Percentage**
Male	34	28.33
Female	86	71.67
Total	**120**	**100.00**

Table 4.3 indicates that, out of the 120 respondents who completed the questionnaire 34(28.33%) were males and 86(71.67%) were females. According to Oule (2010) in his study focusing on factors influencing growth of SMEs in Vihiga district, SMEs

worldwide appear to be a preserve of women. He observes that a visit to most open air markets in Kenya reveals that several participants in small business are women. In concurrence with Oule works, this study revealed that more women than men in South Gucha Sub County engaged in SMEs. This implies that as men look for better paying formal employment opportunities in urban centers; women remain at home engaging in small businesses to supplement earnings of their male spouses.

4.3.3 Marital status of the respondents

Marital status was considered to be of great significance to the study, for SMEs was considered as alternatives to formal employment and economic ventures for obtaining live hood. In this light, more married people than single ones would be expected to venture into SMEs as means of providing for the family upkeep. The respondents were asked to complete the questionnaire stating their marital status and their responses were illustrated in the table 4.4.

Table 4.4 Marital status of the respondents

Marital status	**Frequency**	**Percentage**
Single	10	08.33
Married	100	83.33
Widowed	02	01.67
Divorced	08	06.67
Other	00	00.00
Total	**120**	**100.00**

Table 4.4 reveals that, out of the 120 respondents who filled the questionnaire, 10(8.33%) were single, 100(83.33%) were married, 2(1.67%) were widowed and

8(6.67) were divorced. The implication of the above statistics is that more married entrepreneurs engaged in themselves in SMEs as alternative means of employment for generating income. Owing to the fact that the burden of providing for the family is put on married people , single ones on the other hand still depend on the parents for upkeep hence the reasons for such marital variations in SMEs engagement in South Gucha Sub County.

4.3.4 Level of education of the respondents

Level of education was considered to be of great significance to the study, with an underlying assumption that highly educated people complete for formal opportunities, leaving the less educated ones in simple activities that rarely require sophisticated skills. In this light, the respondents were asked to fill the questionnaire indicating their level of education and table 4.5 depicts their responses.

Table 4.5 Level of education of the respondents

Level of education	**Frequency**	**Percentage**
Primary and below	61	50.08
Secondary	32	26.67
Tertiary	21	17.50
University	05	04.16
Other	00	00.00
Total	**120**	**100.00**

Table 4.5 indicates that, of the 120 respondents who completed the questionnaire, 61(50.08) had attained education at primary level and below, 32(26.67%) had

secondary education, 21(17.5) had tertiary level of education and 05 (04.16%) had university education.

The above statistics are indicative that SMEs in South Gucha Sub County had not attracted the highly educated lot. This is because a higher percentage of the respondents in SMEs had attained education at a humble level of primary. Such individuals, lacking in necessary knowledge and skills of business management, were less equipped to run such enterprises effectively. There seemed to be an inverse relationship between level of education and engagement in SMEs, such that the higher the level of education, the less inclined to SMEs the individuals are.

4.4 Influence of entrepreneurial experience on growth of SMEs

This variable was believed to be of great significance to the study, given that the acquisition of skills of entrepreneurship plays a crucial role in running a business enterprise. Ordinarily, accumulation of skills and knowledge is directly related to the level of experience of an individual. This variable was measured on the basis of the length of duration on the running of an enterprise, the number of people engaged in an enterprise and the varieties of business enterprises operated before.

4.4.1 Duration of running an enterprise

This aspect of managerial of experience was considered important to the study, because it was a strong indicator of presence of, or lack of experience of management exhibited by the entrepreneur. Being in business for sometimes exposes an entrepreneur to various challenges which must be addressed from time to time to achieve business growth. The respondent were asked to complete the questionnaire stating the duration of being in business and their responses were capture as illustrated in the Table 4.6.

Table 4.6 Duration of running an enterprise

Duration	Frequency	Percentage
Less than 1 year	52	43.33
1-2	43	35.83
3- 4	20	16.67
5 years and above	05	4.67
Other	00	0.00
Total	**120**	**100**

Table 4.6 indicates that, out of the 120 respondents who completed the questionnaire on the duration of time they had been in business, 52(43.33%) stated having been in business for less than a year, 43(35.83) cited having been in business for a period of between 1- 2 years, 20(16.67) mentioned being in business for a period between 3-4 years and 5(4.67%) stated having been in business for 5 years and above.

Indicative of the above statistics is that most of the entrepreneurs in South Gucha Sub County who were in the business did not have substantial managerial experience since they had been in business for less than one year and those who had seen their first anniversaries in business had hardly operated beyond 2 years.

One would have expected the number of business started to continue operating, as this is an indicator of business growth. The figures above therefore paint a worrying trend, raising a red flag that the entrepreneurs who start such SMEs sooner leave such enterprises because of the glaring challenges of management.

4.4.2 The number of people engaged in the enterprises

The number of people who are engaged in a business enterprise was of a great significant to the study. This was because growth of an enterprise can be determined by the increased activities to be undertaken by additional human labor. The respondents were asked to fill the questionnaire and their responses captured as illustrated in the table 4.7

Table 4.7 The number people engaged in an enterprise

Number of People	Frequency	Percentage
One person	62	51.67
2-3	48	40.00
4-5	06	05.00
6-7	03	02.50
Above 7	01	00.83
Total	**120**	**100.00**

Table 4.7 reveals that, out of the 120 respondents who completed the questionnaire on the number of people engaged in their enterprises, 62(51.67%) stated operating with one person, 48(40%) cited engaging between 2-3 people, 6(5%) mentioned having engaged between 4-5 people, 3(2.5%) stated engaging between 6-7 people, and 1(0.83%) indicated having engaged above 7 people.

The above statistics imply that most of the SMEs in South Gucha Sub County were operating with few people, a sign that such did not register substantial growth. Having many people working in an enterprise also indicates that the entrepreneur has the necessary managerial skills and experience to be able to maintain many people in an enterprise. Table 4.7 therefore proves that most of the entrepreneurs reached did not reflect substantial managerial experience and therefore were unlikely to have such enterprises grow.

4.4.3 Variety of enterprises operated before.

This aspect of managerial experience was considered to be of great significance to the study, because having run other enterprises before could indicate having acquired meaningful managerial experience. The respondents were therefore asked to fill the questionnaire indicating the variety of business ventures run before and their responses captured as illustrated in table 4.8.

Table 4.8 Variety of enterprises operated before

Variety	Frequency	Percentage
0-1	88	73.33
2-3	28	23.33
4-5	04	03.34
Above 5	00	00.00
Total	**120**	**100.00**

Table 4.8 indicate that, of the 120 respondents who completed the questionnaire on the variety of business enterprises having been operated before, 88(73.33%) stated having operated between 0-1 enterprise, 28(23.33%) mentioned having operated between 2-3 enterprises, 4(3.34%) cited having run between 4-5 enterprises and none had operated above 5 enterprises.

The implication of the above figures is that managerial experience was seen to be inadequate among the entrepreneurs, in South Gucha Sub County, for most of them had not run business enterprises before.

4.5 Influence of Entrepreneurial skills on growth of SMEs

This variable was considered to be of great significance to the study in the sense that running any business enterprise requires knowledge and skills which one can only obtain through training. The variables was measured on the ground of the highest professional training attained by the entrepreneurs, the field in which the training was done, the frequency of engaging in regular training and the form of training normally preferred.

4.5.1 The highest professional training on growth of SME

The level of professional training would portray the degree of having acquired specific knowledge and skills necessary for effective performance of tasks. Low level of professional achievements could depict display of a relatively low grasp of the rudiments of performing tasks. The respondents were asked to complete the questionnaire and table 4.9 illustrates their responses.

Table 4.9 Level of professional training growth of SME

Level of Training	Frequency	Percentage
Certificate and below	94	78.33
Diploma	21	17.50
Degree	5	4.17
Other	0	0.00
Total	**120**	**100**

Table 4.9 indicates, that of the 120 respondents who filled the questionnaire, 94(78.33%) stated having attained a professional qualification at a certificate level and below, 21(17.5%) mentioned having acquired diploma training and 5(4.17%) cited having attained a training at a degree level.

The above figures imply that a large percentage of the entrepreneurs in South Gucha Sub County had just attained a humble training that did not properly equip them with the capacity to grow their enterprises. It appears that SMEs only attracted the entrepreneurs who did not train beyond certificate level, with those who acquired superior education competing for other formal engagement in other sectors.

4.5.2 Field of Training on growth of SME

The field training was considered vital to the study, since one may have acquired a given training which was not relevant to the field of operation. Training equips individual with skills and knowledge that enhance their abilities to perform certain activities effectively. In this respect, the study sought to establish the relevance of the trainings received to their business engagements. The respondents were asked to fill the questionnaire and table 4.10 illustrates their responses.

Table 4.10 Field of training and business development

Field	**Frequency**	**Percentage**
Business management	04	03.33
Entrepreneurship	04	03.33
Human resource management	02	01.67
Public relations	02	01.67
Other	108	90.00
Total	**120**	**10.00**

Table 4.10 reveals that, of the 120 respondents who filled the questionnaire 4(3.33%) stated having trained in business management, 4(3.33%) indicated having studied entrepreneurship 2(1.67%) stated having studied human resource

management and public relations and 108(90%) cited the ‘other’ category, being representative of those who did not have any relevant training in business.

These statistics imply that majority of the youths who engaged in SMEs in South Gucha Sub County did not actually train in areas that are relevant to business management. The entrepreneurs who had higher professional training in business despised engaging in small business enterprises performing other competitive occupations.

4.5.3 Frequency of engaging regular training on growth of SME

Frequency of embracing training was considered to be of great significance to the study, as because business environment is characterized by continuous changes necessitating business entrepreneur to train regularly to keep abreast with such changes. The respondents were asked to fill the questionnaire and their respondents are illustrated in the table 4.11

Table 4.11 Frequency of training on growth of SME

Training Intervals	**Frequency**	**Percentage**
Frequently	12	10.00
Less frequently	14	11.67
Other	104	78.33
Total	**120**	**100**

Table 4.11 reveals that, of the 120 respondents who completed the questionnaire stating the frequency of engaging in training, 104(78.33%) stated the ‘other’ category, representative of those who did not train, 14(11.67%) mentioned training less frequently and 12(10%) stated training frequently.

These statistics imply that many youths who engaged themselves in SMEs in South Gucha Sub County did not believe that continuous training was important to the growth of their enterprises. Only few of them were able to train frequently to keep abreast with changes in the business environment. This means that most of the enterprises are not expected to grow and before long, many will close as they will not withstand competition.

4.6 Influence of access to credit facilities on SME of SMEs

Engagement in business enterprises cannot be effective without proper mobilization of resources. SME, like any other economic activity, is an investment that heavily depends on capital. For an enterprise to develop, more resources must be displayed in key business operation. This variable was measured on the basis of variety of credit facilities obtained from micro finance institutions, adequacy of credit facilities and frequency of access.

4.6.1 Variety of credit facilities on growth of SME

In an attempt to effectively operate an enterprise, various financial resources are required, since with inadequate resource base, attaining growth remains a mirage. The respondents were asked to complete the questionnaire indicating the variety of credit facilities obtained from micro finance institutions and table 4.12 illustrates their responses.

Table 4.12 Variety of credit facilities on growth of SME

Variety	Frequency	Percentage
Personal loans	110	91.67
Business loans	06	05.00
Refinancing	04	03.33
Other	00	00.00
Total	**120**	**100.00**

Table 4.12 revels that of the 120 respondents who completed the questionnaire on the variety of credit obtained from micro finance institutions for use in their enterprises, 110(91.67%) state personal loans, 6(5%) mentioned business loans and 4(3.33%) indicated other. From the table, it is realized that most of the entrepreneurs engaged in SMEs in South Gucha Sub County did not obtain variety of credit facilities, as most accessed personal loans and not business loans. This means that such businesses were still facing challenges of growth given that credit remained scarce to access.

4.6.2 Influence of adequacy of credit on growth of SME

Credit obtained from micro finance institutions to be used in an enterprise may be significant to growth if it is adequate for the business operations. This dimension of accessibility to adequate credit was therefore considered very important to the study and respondents were asked to complete the questionnaire and their responses captured in table 4.13

Table4.13 Adequacy of credit facilities on growth of SME

Adequacy	Frequency	Percentage
Strongly agree	06	05.00
Agree	00	00.00
Neutral	00	00.00
Disagree	38	31.67
Strongly disagree	76	63.33
Total	**120**	**100.00**

Table 4.13 reveals that, of the 120 respondents who completed the questionnaire stating how adequate credit facilities were, 76(63.3%), strongly disagreed, 38(31.67%) disagreed, 6(5%) strongly agreed and none either disagreed or neutral. The above statistics imply that credit facilities obtained from micro finance institutions by the entrepreneurs in South Sub County were too inadequate to invest in their enterprises to register meaningful growth.

4.6.3 Frequency of access of credit facilities on business growth

Given that credit facilities are crucial to business growth, obtaining funds once from the lending institutions may not adequately address all the financial requirements of a business venture. On the basis of this, the frequency of accessing the credit facilities by the entrepreneurs would promise regular stream of funds culminating into faster growth. The respondents were asked to fill the questionnaire indicating the frequency of accessing credit facilities and table 4.14 displays their responses.

Table 4.14 Challenges in accessing resource

Rate	Frequency	Percentage
Very frequently	03	02.50
Frequently	12	10.00
Indifferent	54	45.00
Less frequently	51	42.50
Total	**120**	**100.00**

Table 4.14 indicates that, of the 120 respondents who filled the questionnaire stating the frequency of obtaining credit facilities, 54(45%) stated being indifferent, 51(42.5%) stated obtaining credit less frequently, 12(10%) mentioned frequently, 3(2.5%) stated very frequently.

The above statistics imply that the entrepreneurs who engaged in SMEs in South Gucha Sub County did not access credit facilities from the micro finance institutions. This means that such enterprises would continue to encounter challenges of resources mobilization hence are unlikely to grow.

4.7 Influence of lending conditions on growth of SME.

Conditions upon which credit facilities are given to the clients often determine the amount of funds obtained and even the rate of borrowing, so that more funds are availed for investment in business ventures to realize growth. This variable was measured on the basis of lending terms, procedure of processing, individuals and the changes of lending conditions.

4.7.1 Influence of lending requirements on growth of SME.

Lending requirements describe all the conditions considered by the micro finance institution before funds are advanced to the clients, and should these terms be considered as difficult to meet, people often shy away from taking the loans. The respondents were asked to fill the questionnaire stating the extent to which they agreed or disagreed that lending conditions had significant influence on access to credit and subsequent business growth and table 4.15 shows their responses.

Table 4.15. Influence of lending requirements on growth of SME.

Lending requirement	**Frequency**	**Percentage**
Strongly disagree	38	31.67
Disagree	76	63.33
Neutral	06	05.00
Disagree	00	00.00
Strongly disagree	00	00.00
Total	**120**	**100.00**

Table 4.15 reveals that, out of the 120 respondents who filled the questionnaire indicating the extent of agreement or disagreement that lending conditions formulated by micro finance institutions influence growth of SMEs in South Gucha Sub County, 38(31.67%) stated they strongly agreed, 76 (63.33%) mentioned they agreed and none displayed any form of disagreement.

Implied by these statistics is that most entrepreneurs in SME were unable to access credit facilities from the micro finance institutions due to stringent lending requirements and hence were unlikely to expand their enterprises.

4.7.2 Influence of processing procedures on growth of SME

Small business entrepreneurs are individuals with less experience in business operations and often lack tangible identity to attract substantial credit facilities from lending institutions. This reality places micro finance institutions to formulate measures that would ensure that the credit given is recovered with minimal default, if any. In this respect, the respondents were asked to fill the questionnaire stating the credit processing procedures and table 4.16 shows their responses.

Table 4.16 Influence of processing procedures on growth of SME.

Procedure	Frequency	Percentage
Guarantors	110	91.67
Individuals	06	05.00
Security	04	03.33
Other	00	00.00
Total	**120**	**100.00**

Table 4.16 revels that of the 120 respondents who completed the questionnaire on the procedures of processing credit obtained from micro finance institutions for their enterprises, 110(91.67%) stated processing through guarantors, 6(5%) mentioned individual processing and 4(3.33%) indicated processing against security.

From the table, it is realized that most of the entrepreneurs engaged in SMEs in South Gucha Sub County were commonly accessing credit facilities through guarantors, as most of them lacked substantial collaterals as security for the loans. This means that such businesses were still facing challenges of growth given that inadequate credit could hardly run the business operations.

4.7.3 Influence of changes of lending conditions on growth of SMEs

It was the interest of the researcher to establish how changes in the lending conditions could influence borrowing power of the entrepreneurs for business growth. More often, review of lending conditions are done with the purpose of improving the banks financial ratings and rarely done to the advantage of the client. The respondents were asked to fill the questionnaire indicating the extent to which they agreed or disagreed that changes of lending conditions by micro finance institutions favored them and table 4.17 illustrates their responses.

Table 4.17 Influence of changes of lending conditions on growth of SME

Number	Frequency	Percentage
Strongly agree	00	00.00
Agree	00	00.00
Neutral	00	00.00
Disagree	06	05.00
Strongly disagree	114	95.00
Total	**120**	**100.00**

Table 4.17 reveals that, of the 120 respondents in Gucha South Sub County who filled the questionnaire disclosing the extent to which they agreed or disagreed that changes of lending conditions favored their borrowing needs, none stated any form of agreement , with majority 114 (95.00%) in strong agreement and 06 (05.00%) disagreeing.

Implied by these figures was that changes in micro finance lending were often done in favour of the lending institutions and rarely to the advantage of the clients, hence inadequate funds could hardly lead to meaningful business growth.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, conclusions from such findings and recommendations for policy formulation and further research.

5.2 Summary of findings

In this study, the researcher administered 120 copies of the questionnaire to the respondents; all were received back completely field up, giving rise to a questionnaire response rate of 100%. In this respect, the study is deemed to have returned an excellent response rate.

5.2.1 Demographic characteristics of the respondents

Demographic characteristics of the respondents considered in the study included, age, sex, marital status, area of business operation and level of education. The ages of the respondents were considered important to the study, for it would reveal the period in which the SME entrepreneurs become active in putting up personal business ventures as an alternative to formal employment.

It was established that between ages 28 – 30 years, most business entrepreneurs have taken up the role of fending up for the family having married hence must look for initiatives for income generation. This is also the same age within which young people become aggressive in meeting their childhood dreams. However, below the age of 27years, many young people are still held up in schools and colleges and hence are less compelled to the start up personal ventures owing to the fact that they also depend on their parents and guardians for up keep.

Gender variations influence decision to enter into particular careers and business ventures. Males chose certain careers that are different from those taken up by females due to social roles they have been orientated to in the society. Observed was that as men look for better paying formal employment opportunities in urban centers; women remain at home engaging in small businesses to supplement earnings of their male spouses.

Marital status was considered to be of great significance to the study, for SMEs was considered as alternatives to formal employment and economic ventures for obtaining live hood. In this light, more married people than single ones would be expected to venture into SMEs as means of providing for the family upkeep.

The study revealed that more married entrepreneurs engaged in SMEs as alternative means of employment for generating income. Owing to the fact that the burden of providing for the family is put on married people, single ones on the other hand still depend on the parents for upkeep hence the reasons for such marital variations in SMEs engagement in South Gucha Sub County.

Level of education was considered to be of great significance to the study, with an underlying assumption that highly educated people complete for formal opportunities, leaving the less educated ones in simple activities that rarely require sophisticated skills.

The study noted that SMEs in South Gucha Sub County had not attracted the highly educated lot. This is because a higher percentage of the respondents in SMEs had attained education at a humble level of primary. Such individuals, lacking in necessary knowledge and skills of business management, were less equipped to run such enterprises effectively. There seemed to be an inverse relationship between level of education and engagement in SMEs, such that the higher the level of education, the less inclined to SMEs the individuals are.

5.2.2 Study variables

The variable managerial experience was measured on the basis of the length of duration on the running of an enterprise, the number of people engaged in an enterprise and the varieties of business enterprises operated before. Being in business for sometimes exposes an entrepreneur to various challenges which must be addressed from time to time to achieve business growth.

The study noted that most of the entrepreneurs in South Gucha Sub County who were in the business did not have substantial managerial experience since they had been in business for less than one year and those who had seen their first anniversaries in business had hardly operated beyond 2 years.

One would have expected the number of business started to continue operating, as this is an indicator of business growth. The figures above therefore paint a worrying trend, raising a red flag that the entrepreneurs who start such SMEs sooner leave such enterprises because of the glaring challenges of management.

The number of people who are engaged in a business enterprise was of a great significant to the study. This was because growth of an enterprise can be determined by the increased activities to be undertaken by additional human labor.

It was noted that most of the SMEs in South Gucha Sub County were operating with few people, a sign that such did not register substantial growth. Having many people working in an enterprise also indicates that the entrepreneur has the necessary managerial skills and experience to be able to maintain many people in an enterprise. Table 4.7 therefore proves that most of the entrepreneurs reached did not reflect substantial managerial experience and therefore were unlikely to have such enterprises grow.

This aspect of managerial experience was considered to be of great significance to the study, because having run other enterprises before could indicate having acquired meaningful managerial experience. Moreover, managerial experience was seen to be inadequate among the entrepreneurs, in South Gucha Sub County, for most of them had not run business enterprises before.

The level of professional training would portray the degree of having acquired specific knowledge and skills necessary for effective performance of tasks. Low level of professional achievements could depict display of a relatively low grasp of the rudiments of performing tasks. It was noted in the study that a large percentage of the entrepreneurs in South Gucha Sub County had just attained a humble training that did not properly equip them with the capacity to grow their enterprises. It appears that SMEs only attracted the entrepreneurs who did not train beyond certificate level, with those who acquired superior education competing for other formal engagement in other sectors.

The field training was considered vital to the study, since one may have acquired a given training which was not relevant to the field of operation. Training equips individual with skills and knowledge that enhance their abilities to perform certain activities effectively.

Besides, majority of the youths who engaged in SMEs in South Gucha Sub County did not actually train in areas that are relevant to business management. The entrepreneurs who had higher professional training in business despised engaging in small business enterprises performing other competitive occupations. Frequency of embracing training was considered to be of great significance to the study, as because business environment is characterized by continuous changes necessitating business entrepreneur to train regularly to keep abreast with such changes and it was realized that many entrepreneurs who engaged themselves in SMEs in South Gucha Sub County did not believe that continuous training was important to the growth of their enterprises. Only few of them were able to train frequently to keep abreast with changes in the business environment. This means that most of the enterprises are not expected to grow and before long, many will close as they will not withstand competition.

Engagement in business enterprises cannot be effective without proper mobilization of resources. SME, like any other economic activity, is an investment that heavily depends on capital. For an enterprise to develop, more resources must be displayed in key business operation.

In an attempt to effectively operate an enterprise, various financial resources are required, since with inadequate resource base, attaining growth remains a mirage.

It was realized that most of the entrepreneurs engaged in SMEs in South Gucha Sub County did not obtain variety of credit facilities, as most accessed personal loans and not business loans. This means that such businesses were still facing challenges of growth given that credit remained scarce to access.

Credit obtained from micro finance institutions to be used in an enterprise may be significant to growth if it is adequate for the business operations. The study established that credit facilities obtained from micro finance institutions by the entrepreneurs in South Sub County were too inadequate to invest in their enterprises to register meaningful growth.

Given that credit facilities are crucial to business growth, obtaining funds once from the lending institutions may not adequately address all the financial requirements of a business venture. On the basis of this, the frequency of accessing the credit facilities by the entrepreneurs would promise regular stream of funds culminating into faster growth. It was also noted that the entrepreneurs who engaged in SMEs in South Gucha Sub County did not access credit facilities from the micro finance institutions. This means that such enterprises would continue to encounter challenges of resources mobilization hence are unlikely to grow.

Conditions upon which credit facilities are given to the clients often determine the amount of funds obtained and even the rate of borrowing, so that more funds are availed for investment in business ventures to realize growth. This variable was measured on the basis of lending terms, procedure of processing, individuals and the changes of lending conditions.

Lending requirements describe all the conditions considered by the micro finance institution before funds are advanced to the clients, and should these terms be considered as difficult to meet, people often shy away from taking the loans. It was observed that most entrepreneurs in SME were unable to access credit facilities from the micro finance institutions due to stringent lending requirements and hence were unlikely to expand their enterprises. Moreover, it was realized that most of the entrepreneurs engaged in SMEs in South Gucha Sub County were commonly accessing credit facilities through guarantors, as most of them lacked substantial collaterals as security for the loans. This means that such businesses were still facing challenges of growth given that inadequate credit could hardly run the business operations.

It was the interest of the researcher to establish how changes in the lending conditions could influence borrowing power of the entrepreneurs for business growth. More often, review of lending conditions are done with the purpose of improving the banks financial ratings and rarely done to the advantage of the client and observed was that changes in micro finance lending were often done in favour of the lending institutions and rarely to the advantage of the clients, hence inadequate funds could hardly lead to meaningful business growth.

5.3 Conclusions

From the study, conclusions based on the findings were drawn. It can be concluded that business growth was hard to realize as a result of various challenges that the SME entrepreneurs encountered in South Gucha Sub County. Accessibility to resources to be invested in these enterprises remained a challenge as most of the entrepreneurs had failed to access funds from the financial institution citing lack of sufficient collaterals and poor credit history. This gap was gradually being filled by the emergence of microfinance institutions that were rolling out affordable products to the clients.

These micro finance institutions packaged their products in the form of savings, credit facilities, entrepreneurial skills and favorable terms of service. Training in the field of entrepreneurship and small business management as well as training in other related fields were found to be inadequate. This means that most of the SME entrepreneurs in South Gucha Sub County did not recognize the importance of gaining knowledge and skills in order to effectively operate their business enterprises.

It is trough regular training that the entrepreneurs are better placed to address the emerging challenges in the business environment that places them in a position of strength to compete and grow their business. Lending procedures were slightly being improved by the micro finance institutions, as the established lending organizations had the most stringent terms.

5.4 Recommendations

On the basis of findings of the study, recommendations were made on two dimensions; recommendations for policy formulation and recommendations for further research.

5.4.1 Recommendations for policy formulation

The study revealed that most entrepreneurs in SMEs in South Gucha Sub County did not have substantial experience in business operations. The study recommends that the ministry of trade should develop policies that are favorable to initiation of small and medium enterprises in the country for purposes of engaging the youths in economic development.

Besides, the study also revealed that training was actually wanting among the entrepreneurs in SME. This did not place the entrepreneurs in a position to effectively manage their enterprises to register growth. The study recommends that the government, through the ministry of education should formulate policies that strengthen the study of the entrepreneurship and small business management in schools at all levels, so that whoever stopped schooling, would have acquired sufficient knowledge in business.

Moreover, the study revealed the accessibility to credit facilities to be invested in the enterprises remained a challenge to the entrepreneurs. The study recommends that the government should formulate policies that encourage the youths to engage in entrepreneurship such as increasing the allocation for the youth enterprise funds, women enterprise funds and Uwezo funds to enable them access soft loans.

Banking sector also needs to institute policy changes that make credit facilities within reach of the small business entrepreneurs to access funds for investment in order to register growth of these ventures.

5.4.2 Recommendations for further research

From the findings of the study, gaps were identified that should form the platform for further research. The following areas should therefore be considered;

1. What other factors influence growth of small and medium Enterprises in South Gucha Sub County?
2. What is the influence of socio cultural issues on the growth of small and medium enterprises in South Gucha Sub County?
3. To what extent do micro finance products appeal to small and medium business entrepreneurs in Kenya?
4. How do government policies influence growth of small and medium business enterprises in other parts of the country?

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APPENDIX I: THE RESERCH QUETIONNARE

This research questionnaire is developed to assist in obtaining data for the study on influence of micro finance products on growth of SMEs in South Gucha Sub County. It is divided into two sections, with section a seeking the information about the demographic characteristics of the respondents, while section B solicits for data on the study variables.

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

1. State your age in years
   a) Under 19
   b) 19 – 21
   c) 22 -24
   d) 25 – 27
   e) 28 – 30

2. Give your sex
   a) Male
   b) Female

3. Indicate your marital statues
   a) Single
   b) Married
   c) Divorced
   d) Widowed
   e) Other (specify)
   ………………………………………………………………………….............
   …………………………………………………………………………..

4. What is your highest educational level?
   a) Primary
   b) Secondary
   c) Post- secondary
   d) University
   e) Other(specify)
   ………………………………………………….................................
   ……………………………………………………………………………
   ……………..

5. For how long have you been in business?
   a) Less than 1 year
   b) 1 - 2
   c) 3 – 4
   d) 5 years and above
   e) Other
   (specify)………………………………………………...................................
   ....
   ……………………………………………………………………………
   ……………...

6. How many people are engaged in your business enterprise?
   a) One person
   b) 2 – 3 people
   c) 4 – 5 people
   d) 6 – 7 people
   e) Above 7 people

7. Apart from this business, have you ever run any business before?
   a) Yes
   b) No

8. If yes, indicate the business (es) you have run before?
   …………………………………………………………………………………
   …………………………………………………………………………………
   ………………………...

9. Explain the influence of managerial experience on development of SMEs?
   …………………………………………………………………………………
   …………………………………………………………………………………
   ……………………………..

10. Indicate your highest professional qualification?
   a) Certificate
   b) Diploma
   c) Degree
   d) Other (specify)
   …………………………………………………………………………
   ....
   ....

11. In which field have you trained?
   a) Business management
   b) Entrepreneurship
   c) Human resource management

d) Public relations
e) Other (specify)
....
....

12. Do you normally engage in continuous training?
a) Yes
b) No

13. If yes, how often do you train?
a) Frequently
b) Less frequently
c) Other (specify)

14. Explain the influence of training on growth of SMEs?
………………………………………………………………………………………
…

………………………………………………………………………………………

15. Which form of training do you normally prefer?

a) Formal training
b) Informal training
c) Seminars and workshop
d) Use of training software

16. Identify the resource you commonly use in your enterprise?
a) Financial resource
b) Material resource
c) Human capital
d) Other (specify)
……………………………………………………………………………….
....
....
.....

17. Which strategies do you use in mobilizing for resources to be use in your enterprise?
a) Personal contribution
b) Borrowing from family and friends
c) Loans from financial institution
d) Donation from well wishers

18. Which challenges do you experience in resource mobilization from financial institution?
a) Inadequate collateral [ ]

b) Lack of credit history
c) Complex documentation
d) Delays in loan processing
e) Other (specify)

…………………………………………………………………………….
………………………………………………………………………………
………...

19. Would you prefer bank loans?

a) Yes [ ]
b) No [ ]

20. If yes or no, explain why?

………………………………………………………………………………
……………………………………………………………………………

21. Explain the influence of credit facilities on growth of SMEs

………………………………………………………………………………
………………………………………………………………………………
………………………………………………………………………………
………………………………………………………………………………
……………………………...

APPENDIX II: LETTER OF TRANSMITTAL

Mutunga Nancy

Ndanu,

P.O Box 1920-

40200,

Kisii.

Date20/10/2014

Dear Sir/Madam,

RE: REQUEST TO PARTICIPATE IN THE STUDY

I am a postgraduate student of the University of Nairobi pursuing an M.A degree in Project Planning and Management. I am conducting a research study on influence of Micro finance products on growth of small and medium enterprises in South Gucha Sub County – Kisii County which is an academic research.

You are kindly requested to participate in answering the questionnaire. Be assured that the information obtained will be held in strict confidence and will be used for academic purpose and not any other reason.

I am hereby seeking your permission to obtain data from you.

Thank you in advance.

Yours sincerely,

Mutunga Nancy Ndanu