

**EFFECT OF MICROFINANCE SERVICES ON THE GROWTH OF WOMEN  
OWNED SMALL AND MEDIUM ENTERPRISES IN RUIRU SUB-COUNTY**

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## DECLARATION

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

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## **DEDICATION**

This research project is dedicated to my husband Samuel, children Harriet Obedi and George for their immense support and my sister Jane for her encouragement.

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## **ABBREVIATIONS**

CAMCCUC	-	Cameroon Credit Cooperative Union
CBN	-	Central Bank of Nigeria
GDP	-	Gross Domestic Product
IFGs	-	Informal Groups
KADET	-	Kenya Agency for Development Enterprises and Technology
MDG	-	Millennium Development Goals
MFIs	-	Micro Finance Institutions
SHGs	-	Self Help Groups
SMEs	-	Small and Medium Enterprises

## ABSTRACT

Women in developing economies are the highest contributors towards economic growth through the economic activities they engage in. The failure of most of these women entrepreneurs especially in the rural and semi-urban areas is largely due to the inability to fully exploit the Microfinance Institution services offered to them. The objective of the study was to establish the effect of microfinance services on the growth of women owned small and medium enterprises in Ruiru Sub County. To achieve this objective, the study focused on three MFI services including Micro credit, Business Management Training and Group savings. Each variable was analyzed to determine its effect on the growth of SMEs which was measured in terms of percentage growth in sales. The study adopted descriptive research approach and targeted a population of 467 women owned SMEs in Ruiru Sub County. A random sample of 47 SMEs was taken, being the 10% as recommended in Mugenda and Mugenda. Questionnaires were sent and the fully filled and returned ones were analyzed using spss computer software package. Regression and correlation analysis was done. The study established that women needed collaterals to qualify for micro credit facilities, while loan application procedures were long and interest rates on micro loans were high. The study also established that business training services were offered to a very small extent, attendance was not regular and there was no follow up on implementation advisory services offered during such training. The study also established the women SME owners highly engage in group savings, that level of group savings influence the amount of micro credit given. The study also revealed that there was a strong positive correlation between group savings and growth of women owned SMEs, while there was a weak correlation between micro credit and growth of women owned SMEs and also a weak correlation between training and growth of women owned SMEs in Ruiru Sub County. The study recommended that; Microcredit should be tailored to meet specific needs of women owned SMEs so as to accept alternative collaterals and interest rate be designed to be friendly. The study also recommended that Business Management training hours be increased and regular follow up on implementation by SME trainees be made and closely monitored. Group savings should also be encouraged to improve group synergy. In summary, it was noted that most 32 (68%) of the female entrepreneurs were of the view that micro credit services were valuable, but conditions for obtaining microcredit were restrictive. They also agreed that a greater portion of their training needs are not met by MFI services due to few hours of training and lack of follow up. They agreed that group savings is a key tool in spearheading business growth.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Fostering entrepreneurship of women is important for the economic growth of every country, and access to financial services is a critical component in starting and growing a business for women entrepreneurs (World Bank, 2012). Small businesses have been the means through which innovation, accelerated growth and rapid industrialization have been achieved (Koech, 2011). A study on the impact of microcredit on women owned small and medium enterprises in Kenya established that microcredit industry has supported more than 3 million small and medium enterprises for more than 30 years. (Rambo, 2013). They concluded that access to microcredit has positive effect on the growth of women owned enterprises.

Maalu (1999), discussed the role of Micro and Small Enterprises on the economy of Kenya and recognized the important role it has played and continues to play. In addition to innovation, employment creation, income generation and improvement of social welfare, the study noted other roles such as production of goods and services and development of skills. A study by (Cooper, 2012) on the impact of microfinance services on the growth of SMEs in Kenya found a strong positive relationship between microfinance services and the growth of SMEs. The Kenya Government's commitment to foster the growth of SMEs emerged as one of the key strategies in 1986 report. It was reinforced as a priority in 1989 report, a document that set out the mechanisms for eradicating constraints to growth of SMEs sector. In 1992, the Government published SMEs report. This report was reviewed in 2002, leading to a new policy framework that provided a balanced focus on SMEs development in line with the Millennium Development Goals and the national goals of

fostering growth, employment creation, income generation, poverty reduction and industrialization Kenya Agency for Development of Enterprises and Technology (KADET).The Kenya vision 2030 also emphasized the importance of Micro and Small Enterprises as critical catalyst for achieving the vision 2030.

### **1.1.1 Microfinance Services**

Robinson (1998) defines microfinance as a development that grants or provides financial services and products such as very small loans, savings, micro leasing, micro insurance and money transfer to assist the extremely poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance. Microfinance can also be defined as provision of financial services to the low income clients including the self-employed. Financial services generally include savings and credit, though some provide insurance and payment services, in addition to financial intermediation, services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of a group, (Ledgerwood, 1999). According to Maleko. et; al (2013), there are a variety of financial services that can be provided by microfinance institutions in order to catalyze the growth of small and Medium Enterprises in an economy. These includes;

**Financial intermediation.** This is the provision of financial products and services such as savings, credit, insurance, credit cards and payment systems which should not require ongoing subsidies. This will ensure constant working capital availability and better risk management for an enhanced growth. Literature supports the fact that women SMEs owners especially in developing countries do not have easy access to credit for their entrepreneurial activities due to lack of collaterals, poverty, unemployment low household and business income , unfair cultural practices and inability to save.(Akinyi, 2009). Women

entrepreneurs especially in developing countries lack the ability to save, yet savings are needed to protect income, act as a security for loans and could be reinvested in the business.(Akanji, 2006). Savings as a micro finance service enables people with few assets to save since they can make weekly savings as well as contribute to group savings which are then mobilized by MFIs for further lending to other clients.(Mkpado, 2007)

**Enterprise development services.** These are non-micro financial services of micro entrepreneurs including skills development, business training, marketing and technology services and subsector analysis. This enables the microenterprises to retain their market share and survive the heat of competition from the large enterprises. Women entrepreneurs especially in developing countries, Kenya included, lack training and entrepreneurial process is a vital source of human capital and also plays a crucial role in providing learning opportunity for individuals to improve their skills, attitudes and ability.(Shane, 2003). Training is a very important micro finance service for women entrepreneurs as it provides the skills and experience needed for business. (Akanji 2006)

**Group Synergy.** (Gatotoh and Kariuki, 2012) concluded that group synergy on savings, credit accessibility partnerships and experience sharing is a behavioral thrust for growth of women owned SMEs. Group savings can be a major source of initial capital for women entrepreneurs. In informal group financing, loans and savings are often tied, enabling individuals to increase their access to credit by improving their amount of savings. Participation in group related activities also enables women to improve their overall status in the society in addition to business. Women also gain knowledge on non-business issues that affects businesses indirectly like health, family, and conflict management from such interactions, which is a boost in mitigating risk of business collapse. Social Intermediation is the process of building human and social capital needed for sustainable financial

intermediaries for the poor. This will enhance small but continued growth of the SMEs. A satisfied workforce is the greatest asset to an enterprise. Social services are non-financial services that focus on advancing the welfare of micro entrepreneurs, including education, health, nutrition and literacy training by microfinance institutions. MFIs are therefore seen as a roadmap to achieving Millennium Development Goals (MDGs).(MalekoG. N, 2013)

### **1.1.2 Growth of Women owned Small and Medium Enterprises**

Growth in a broad sense refers to continued and overall improvement in all dimensions of a proposed activity. O’Gormoma (2001) found out that there is no single measure of growth. Growth can be measured in many ways such as turnover, profits and number of employees, investment activities, asset base and technology. The performance of an enterprise is its ability to reach and maintain equilibrium with its environment as per the preset standards of accuracy, completeness, cost and speed.

According to Marry (2014), the growth of an enterprise is reflected in increased sales, new and improved products, and increase in market share. (1999)Asserted that women business performance is measured by increased investment in innovation that enables their businesses to successfully enter into new product market domain and consequently enhance their sales growth. The competitiveness literature links advantages of dominance and business ability to compete over time, to their innovation capabilities.(Terry, 2012)

Bindley and Ritchie (1999) established that entrepreneurs are concerned with maximizing profits, growth and innovative behavior.(Timms, 2000)asserts that business growth is a function of owner characteristics and behaviors such as planning and response to the elements in the community and industrial environments. It is further argued that majority of those who pursue new businesses are less likely to change in long term planning, with very few developing business plans beyond the first financial year(Katerina, 2004).

The growth literature is still characterised by a debate as to whether growth is a function of management choices or environmental forces.(Cathy, 2003). The assumption in the growth literature is that business growth is the outcome of managerial decisions and actions. The literature reveals that a number of other theoretical perspectives may also have a bearing on the size and growth issues. For instance, some researchers have found out that personal goals appear to have more dominant influence than business goals, when it comes to expansion of women owned businesses (Still and Timms, 2000)

(Matt)(Riebe, 2003) argued that while the use of growth and economic measures is appropriate ,given the entrepreneurial stage, the underuse of other business measures such as business performance and organizational effectiveness raises the risk that there are some important insights in the success of a business that owner may be missing. The emphasis on financial outcomes and growth may indicate access to opportunities, suppliers and occupational experience. For the purpose of this study, growth of SMEs will be measured in terms of sales volume, net profit, Employment, Innovation, and Assets base.

### **1.1.3 Microfinance Services and Growth of Women Owned SMEs**

According to(Kaneyama, 2001) sound financing by MFIs will lead to steady growth of SMEs. If there is no interruption of the business of SMEs, microfinance services will promote growth of SMESs, while the lender gets profits to lend to other SMEs, thus enhancing availability of microcredit and possible subsequent growth. He also asserted that growth of SMEs also depend on the business successability, which also depends on non-interruption by natural disasters and business accidents. Thus risk hedging schemes like insurance is necessary. Macro factors like inflation affects consumer behavior and may have negative impact on SMEs growth.

Women entrepreneurs have low business performance compared to their male counterparts and this has been attributed to factors which normally affect entrepreneurial performance such as lack of credit, savings, education and training, and social capital. Ochola et al (2013). One of the significant factors impacting on the ability of women-owned SMEs access to commercial bank finance is steep collateral requirements. In Ethiopia for example, regulations require that 85% of all loans disbursed by commercial banks must be collateralized (Kipnis, 2013). Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy like many other developing countries because it employs about 85% of the Kenyan workforce (about 7.5 million Kenyans of the current total employment). The current constitutional framework and the new Micro and small Enterprise Act 2012 (SMEs Act 2012) provides a new window of opportunity through which evolution of SMEs can be realized through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional frame work inclined to support SMEs in an economy.(Ongolo D and Odhiambo, 2013)

Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issue of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending by SMEs. Limited access to formal finance due to poor and inefficient capacity to deliver financial services by SMEs continues to be a constraint in growth and expansion of the sector. Formal financial institutions perceive SMEs as high risk and commercially unviable. As a result, only a few SMEs access credit from formal financial institutions in the country. Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable. (Development(IEA/SED), 2001). Several organizations including business associations and no-governmental organizations have set up programs to enhance the



factors that influence development of SMEs, especially as it relates to enterprise growth and development. Despite the large number of assistance programs, the growth and development of SMEs has not been satisfactory. Ventures have collapsed as soon as assisting organizations pull out of the project and remaining ones have remained small.(Memba & Karanja, 2012)

#### **1.1.4 SMEs in Ruiru Sub-county**

The study will be conducted in Ruiru town in Kiambu County. Ruiru town is a cosmopolitan town with several industries concentrated in town while the environment is highly populated with low income groups. The majority of small businesses in Ruiru were started as micro businesses by laborers who were initially employed in the rolling mills, textile industries and several other industries that existed at that time. In the period 1990s to early 2002, most industries had collapsed due to cheap imports, leading to massive loss of jobs. The retrenches resorted to micro and small businesses with little startup capital requirements. Women aggressively ventured into small businesses, got experience and today, they form majority of the owners of small businesses. From their business incomes they are able to save through Merry Go Rounds and end expanded their businesses, though at a low rate due lack of management skills, education on credit management and lack of access to formal financial institutions. Several microfinance institutions identified the gap, and today there are more than 10 deposit taking MFIs and numerous non deposit taking MFIs.

#### **1.2 Research Problem**

According to Kaneyan (2001), sound financing by microfinance Institutions will ensure steady supply of microcredit which is greatly needed to fund the activities of SMEs. This will in turn lead to steady growth of SMEs. He also asserted that growth of SMEs also depends on successability of such enterprises, which also depends on non-interruption of

their business activities by natural disasters and business accidents. There is therefore the need to hedge business risks through insurance so as to promote business growth. (Morduch 2010) asserted that provision of microcredit alone is not enough, but borrowers must be trained on the use of such credit and management of the SMEs to ensure sufficient growth and further circulation of funds amongst the borrowers. Maleko (2013) also established that provision of microfinance services like social intermediation, and enterprise development services leads to growth of SMEs.

A study by (Ochola et al; 2013) revealed that micro financing in sufficient quantities will have a greater effect on profitability, productivity and growth and expansion of women owned enterprises. Sufficient effort has also been put in by the government to establish and regulate the operations of MFIs through the Microfinance Amendment Act 2013. Several initiatives have been taken by government's donors and non-government (NGOS) both, local and internationally to improve the growth of women micro finance and small enterprises in Kenya (Loyce&Annette2005). Even with the influx of microfinance institution that are regulated women enterprises largely remain micro and small, with very few women having growth oriented enterprises. The study however does not define what comprises sufficient quantities and so takes a general approach.

Mwewa, (2013) researched on the effects of microfinance service on the growth of SMEs in Machakos County and found out that there was a relationship between predictor variable; micro credit, micro insurance and training and response variable annual growth in turnover, yet social growth indicators like employment and asset base were not considered which may lead to bias.

Lesiiyo, (2012) also conducted a study on the effect of small and medium enterprises in Narok county. The study established that the MFIs service has contributed to the development of SMEs through provision of credit. The study however forecasted on credit and ignored other important aspects of credit management and other microfinance factors. He also focused only on the financial performance which is only one aspect of growth.

Cooper, (2012) studied the impact of microfinance services on the growth of SMEs in Kenya, and concluded that microfinance services have a strong positive impact on the growth of SMEs in Kenya. In all the above studies, no researcher has focused specific attention on the specific microfinance services and women owned SMES. This research is therefore going to focus on the effect of specific micro finance services on the growth of women owned SMES.

### **1.2.1 Objective of the Study**

The objective of the study is to find out the effect of microfinance services on the growth of women owned small and medium enterprises (SMEs) in Ruiru Sub County.

### **1.3 Value of the Study**

The study is significant in the following ways;

The findings of the study are of significance to the government. The government is committed to setting up specific management policies that enhances effectiveness and sustainability of SMEs in Kenya. Potential investors in the microfinance sector as well as entrepreneurs willing to start SMEs shall find this study relevant to them. The findings will shed light in to future of micro finance institutions and SMEs thus enabling potential investors to make sound decisions.

The findings of the study will enable micro finance institutions to better understand their role in the growth of SMEs in Kenya in order to implement better and effective programs. The study will also expose possible areas of improvement in micro financing activities in Kenya. Most finance students tend to focus their study on long and well established theories of finance, neglecting the practical aspects. The study will thus help finance students to appreciate challenges facing borrowers and any possible solutions. Finally, this study will contribute to the future development of this area of research, particularly in a developing country like Kenya.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews various studies that have been conducted in the area of micro financing and SME. Section 2.2 reviews micro financing and the theories of micro finance. It also looks at SMEs and the situation in Kenya and reviews micro finance services and small entrepreneurs. Section 2.3 and 2.4 consists of empirical literature review both from global and local perspectives. Section 2.5 summarizes the chapter.

Micro finance institutions can offer their clients who are mainly men and women slightly below or above poverty line a variety of products and services. The most prominent of these services financial that are often rendered to their clients without tangible assets and these clients commonly live in the rural areas a majority of whom may be illiterate. Formal financial institutions do not often provide these services to small informal businesses run by the poor as they are considered unprofitable investments.

#### **2.2 Theoretical Framework**

According to Murdoch (1999) microfinance has been recognized as an effective tool for poverty eradication, through provision of financial services and products such as small loans, saving opportunities, micro leasing, micro insurance and money transfer to assist both rural and urban poor to establish their businesses.

Robin, (1998) points out that other than financial intermediation, some micro finance organizations provide social intermediation services such as formation of groups, development of self-confidence and training of members in that group on financial literacy and management.

A study by Faith, et al(2013) asserted that provision of financial services for women entrepreneurs has become component of microfinance programs because supporting entrepreneurship of women is seen as having important trickledown effect on wider poverty alleviation and gender inequality.(Faith, M. T., 2013)

### **2.2.1 Women Empowerment Theory**

According to this theory money is the driving force, without which the women cannot do any business(Khun, 2002) discusses the theory of empowerment, the theory indicates that women account for nearly 74% of the 19.3 million of the world's poorest, who could not afford collateral required by formal banks and are now being served by microfinance institutions. Most of those women have no access to credit, which they can invest in their small business. In spite of their daily hardships, they have kept moderate standards of living and have remained faithful in repayment thus availing more funds for growth and development.

Financial self-sustainability: the main focus in program design is provision of financially self-sustainability microfinance services to larger population of small microenterprises. Moderate interest rates are set to cover cost, save microfinance from other interventions, enhance separate accounting and expand programs so as to cover economies of scale and to use group to decrease cost of delivery. Overall low cost will lead to low cost operating the small business thereby enhancing their growth opportunities.

Poverty alleviation: According to a study by Isidore, the main considerations are poverty reductions among the poorest increased well-being and community development. The focus is on small savings and loans, provision of consumption and production, group formation etc. This paradigm justifies some levels of subsidy for programs working with particular clients, group or particular context.

Some programs have developed effective methodologies for poverty, targeting and operating in remote areas. Poverty alleviation and women empowerment are considered to be the two sides of a coin. The assumption is that increasing women access to micro finance will increase household income, improved well-being and opportunities to grow small businesses.

### **2.2.2 The Uniting Theory of Microfinance**

The uniting theory microfinance emphasizes on joint liability. (Guinnane, 1999) reviewed the key mechanism proposed by various theories through which joint liability could improve repayment rates and the welfare of credit constrained borrowers. They concluded that all theories have in common the ideas that joint liability can help alleviate the major problems facing lenders through screening monitoring, auditing and enforcement by utilizing the local information and social capital that exists among borrowers under explicit joint liability, when one borrower cannot repay a loan, group members are contractually required to repay instead. Such repayments can be enforced through the threat of common punishment particularly the dismissal of future credit to all members of the defaulting group or by drawing on a group saving funds that act as collateral. Also, the perception of joint liability can be implicit in that borrowers believe that if a group member defaults, the whole group will become ineligible for future loan even if the lending contract does not specify this punishment. The uniting theory therefore proposes eradication of defaults thereby ensuring steady growth and availability of finances which can be accessed by small businesses for further growth.

### **2.2.3 Financial Sustainability Theory**

This theory asserts that long term survival and sustainability is critical for a MFI in being able to reach its target clientele and cover administration and other costs. While social goals of reaching the poorest and poverty alleviation are valid, sustainable independence is as true for low income households receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposits and savings mobilization, financial performance, staff motivation, loan administrative cost and others, while external in terms of availability of funds for loan disbursements, grant for community organizing etc. Morduch (2002). Financial sustainability theory therefore focuses on long term availability for lending and further growth.

### **2.2.4 Poverty Alleviation Theory**

The pressing need especially in the rural economy is to create jobs for a large unemployed labor force. It is customarily argued that jobs can be created either by generating wage employment or by promoting self-employment in non-firm activities. Creation of employment requires investment in small working capital. Unfortunately, income from other sources is so low that they cannot generate investible surplus on their own. Thus obtaining credit under certain circumstances can help the poor accumulate their own capital and thus improve their living standards through the income generated from investments. (Wahid, A. 1994)



### **2.3 Other Microfinance Services that Affect Growth of SMEs**

According to Maleko. et; al (2013), a variety of financial services that can be provided by MFIs in order to catalyze the growth of small and Medium Enterprises in an economy.

These include;

**Social Intermediation.** This is the process of building human and social capital needed for sustainable financial intermediaries for the poor. This will enhance small but continued growth of the SMEs.

**Services Social.** These are non-financial services that focus on advancing the welfare of micro-entrepreneurs, including education, health, nutrition and literacy training by microfinance institutions. MFIs are therefore seen as a roadmap to achieving Millennium Development Goals (MDGs).(MalekoG. N, 2013). Other services provided by non-deposit taking MFI includes marketing and technological services, business training, production training and sub sector analysis and interventions(Ledgerwood, 1999)

Enterprise development services can be categorized into two; the first enterprise formation which is offering of training to person to acquire skills in a specific sector such as hairdressing as well as persons who start their own business. The second category of enterprise development is services rendered to its clients as the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in tens of production and marketing (Yunus, 2007)

#### **2.3.1 Global Empirical Evidence**

A number of studies have been conducted on impact of microfinance services:(Copstake, 2000) did a study on the impact of micro credit on poverty in Zambia. The program was run on one third of the clients who were below national poverty line. Those who graduate

from their first to second loan experienced higher notable growth in their profits and national income as compared with otherwise similar business operators. These borrowers also diversified their business activities more rapidly. Some borrowers who left the program after receiving only one loan became worse off.

Alarpe, (2007) did a study to examine the impact of consumers participating in enterprise programs on operational efficiency and growth of small businesses in Nigeria. The study was a cross sectional analysis on the impact of exposure on owners or managers of small businesses on their performance, operational efficiency and growth rate. The data source was both primary and secondary and both descriptive and inferential statistics were employed for the analysis. The findings were small businesses whose owners, managers had experience of participating in entrepreneurial programs exhibited superior managerial practice, had higher gross margin and higher growth rate than small businesses whose managers did not have superior experimental learning. This had a practical implication that there is no need to improve managerial practice of small businesses through exposure of owner manager to entrepreneurship programs in order to enhance their performance.

Olu, (2009) conducted a study on the impact of micro finance on entrepreneurial development of small scale enterprises that are yearning for growth in a strained economy of Nigeria. The study used a questionnaire as an instrument of primary data collection. Tables and simple percentages were used in data presentation. The study revealed that micro finance institutions are evident tools for entrepreneurship development due to the various services they offer and the role they play towards the development of the economy. Despite the challenges that affect microfinance, in operations the current banking operations introduced by the Central Bank of Nigeria (CBN) governor is a welcome more as its employment is set to fortify the micro institutions world over and especially in Nigeria which will be the key players in the finance industry. The study further established that the

micro finance institutions have a positive relation with the Nigerian economy represented by expanded GDP. Although interest rate is not significantly influential, the result of the findings of the study can be summarized that microfinance institutions and their activities go a long way in determination of the pattern and level; of economic activities in the development of the Nigerian economy. In the above study, questionnaires were used at the crucial stage of data collection. However questionnaires could give biased reports and some respondents may not have understood the questions, considering the level of education and their exposure. There is also a possibility of not returning the questionnaires, thus reducing the sample respondents.

Brian and Woller, (2010) carried out a study to establish the effects of microfinance in India. They concluded that microfinance has brought better psychological and social empowerment than economic empowerment. The study further recommended that the impact of microfinance is suitable in promoting self-confidence, courage, peace in the family, reduction in poverty, improvement in rural savings, managerial and decision making skills and group management. In other variables, the impact is moderate. They observed that as a result of interaction under micro finance, there is an improvement in managerial skills, psychological well-being and social empowerment. It is also recommended that self-help groups (SHGs) be granted status to enhance their performance.

Nelson (2010) conducted a study to establish the impact of microfinance institutions (MFIs) on the development of small and medium size enterprises (SMEs) in Cameroon. The study adopted a case study approach that involved Cameroon credit cooperative union (CAMCCUC) and concluded microfinance as an important asset to developing countries as it is able to cater for the financial needs of the very poor in the society.

According to Isidore et al (2010), women play a key role in economic development of their families and communities, but certain obstacles such as poverty, unemployment, low household income and societal discrimination mostly in developing countries have hindered their effective performance of that role. Their study involved a survey using structured questionnaires and in depth interview. They established that women entrepreneur's especially in developing countries do not have access to microfinance factors for their entrepreneurial activities, leading to low business performance than their men counterparts whereas their rate of participation in informal sector of the economy is higher than the males and microfinance could have a positive effect on enterprise performance. Ekpe, (2010)

Ahiabor (2013) assessed the impact of microfinance on small and medium enterprises (SMEs) in Ghana. He used a case study of Ledzovkuku-Krowor Municipal assembly. Simple random sampling technique was employed in selecting 70 SMEs and 30 Microfinance Institutions. Structured questionnaire was used to acquire relevant data, descriptive statistics involving simple percentage graphical charts and illustrations were applied in data presentation and analysis. The findings revealed that a number of SMEs have the knowledge of existence of MFIs and some acknowledge positive contributions of MFIs loans towards promoting their growth. The study however did not emphasize on the need by MFIs to give professional advice to SMEs so they can correctly determine their true growth, manage credit and work within the policies of microfinance to avoid conflicts, and initiate more development programs to win the confidence of SMEs.

Yusuf, S. A.(2014) conducted a study to examine the effects of micro-credit on small scale enterprises in Osun State, Nigeria. Descriptive statistics and Econometrics (regression

analysis were employed as tools of analysis. The results showed that out of the 120 respondents that were sampled, 105 were credit users. The average age of respondents was 40 years and about 61% were female .About 85% of the respondents were married with an average family of 6..A few number of respondents had tertiary education. The average monthly income of the respondents engaged in trade was the highest. The regression analysis revealed that loan repayment period, family size, and experience in business were the key determinants of business turnover. On the other hand, volume of credit available to respondents is affected by the repayment period, number of sourced and repayment period. The study is however silent on the level of training and its impact on the growth of the SMEs.(Isidore Ekpe, 2010)

### **2.3.2 Local Empirical Evidence**

Memba et al, (2012) conducted a study to establish the impact of venture capital of growth of SMEs in Kenya. The study used 200 SMEs that have been financed by venture capital as the target population. The SMEs were drawn from various major urban centers in Nairobi. The SMEs were stratified according to their locality and random sampling was carried out by assigning numbers to each stratum. Samples of 100 firms were picked randomly, from which data was collected using semi-structured questionnaires the main tool for data collection. Data was analyzed using descriptive statistics with the help of SPSS computer software. The variables used to measure growth were sales per annum, and number of workers among others. They were analyzed before and after the use of venture capital. The study established that SMEs made significant growth after accessing the financing and recommended that other SMEs should follow suit if the country has to achieve its vision 2030. It was argued that lack of finance has been one of the reasons for SMEs poor performance in most developing countries.(Memba S.F, 2012).

Mwobobia (2012) Conducted a study on challenges facing small scale women entrepreneurs in Kenya, and the initiative put in place to counter the challenges. The study

employed desktop research. SMEs baseline survey revealed that women in micro and small enterprises (SMEs) in Kenya accounted for 47.4% of all the SMEs. The study showed that women tend to operate enterprises associated with traditional women roles such as hairstyling due to their limited capital sources. The study also revealed that stake holders from both public and private sectors are helping to empower women entrepreneurs in Kenya; such as formation of Women Enterprise funds, establishment of Women University of Science and Technology Formal and Informal support and donor initiative among others. Microfinance has made a step, but has to do more to ensure steady growth of women owned enterprises. The study however tend to neglect the role of innovation in the growth of the women owned small and medium enterprises.

Gatotoh and Kariuki (2012) carried out a research on how group synergy on saving, credit accessibility, partnerships and experience sharing influence women enterprise growth in Kibera slums in Kenya. They carried out a descriptive survey of 25 informal groups (IFGs), being the 10% of the population of 245 informal groups. They applied the triangulation method i.e. questionnaires, focused group discussions and interviews. The instruments were tested using Chrombachs Alpha Reliability Test and score of 82 was achieved. They concluded that group synergy on savings, credit accessibility, partnerships and experience sharing is a behavioral thrush for micro entrepreneurial growth for women, especially those in informal settlements in the face of reluctant and bureaucratic formal banking system. It encouraged savings as a major source of initial capital to women entrepreneurs. In the informal group financing, loans and savings are often tied, enabling individuals to increase their access to credit by improving their amount of savings. Participation in group related activities is also essential for women in order to improve their overall status in the society in addition to business. Women also gain knowledge on non-business issues like health, family and conflict management from their interactions. Management of group synergy is an important practice in mitigating risk of collapse. Mwangi and Gatotoh (2012). The study

however fails explore the negative effects of group synergy like the red tape that may slow operations and subsequent profitability of SMEs.

Ochola et, al (2013) carried out a study to determine effect of finance on productivity, profitability and growth and expansion of women owned enterprises in Kisumu City. They applied clustering, simple random and purposive random sampling to pick a sample of 341 out of a population of 3000 registered women businesses. Primary and Secondary data was used and quantitative data analyzed using both descriptive and inferential statistics. They concluded that micro financing in sufficient quantities would have greater effect on profitability. Productivity and growth and expansion of women owned enterprises. The study does not however detail parameters of sufficient quantities.

## **2.4 Summary**

Microfinance organizations provide financial services like savings and credit services to finance the informal sector in developing countries. They provide access to capital on smaller scale and enable the poor people to engage in productive economic activities. The relationship between microfinance services and the growth of SMEs has been investigated for more than a century. From the above empirical studies, there is a strong positive relationship between micro finance services and growth of women owned SMEs. The general problem is that available literature does not explore the specific quantities of microfinance serviced that will cause growth of SMEs Available literature dwells on factors hindering financial performance of SMEs, which is not an absolute measure of growth. The specific focus of this study therefore is to find out how micro finance services affect growth of SMEs in Ruiru sub-county.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research design, methodology, population and sample design, data collection, validation and data analysis.

According to Copestake (2007), microfinance is a powerful tool to fight poverty. It can help the poor to raise income, build their asset and cushion themselves against external shocks, it is however evident that availing funds is not absolute solution to challenges facing SMES.

#### **3.2 Research Design**

Research design is the plan and structure of investigation so conceived so as to obtain answers to research questions. A descriptive study is concerned with determining the frequency in which something occurs or the relationship between variables (Cooper and Schindler, 2003). For the purpose of this study, the researcher employed descriptive research design. This approach was found to be appropriate for this study since the researcher collected detailed information through descriptions which is useful for identifying variables and hypothetical constructs. The research applied descriptive methods to study the effects of microfinance services and the growth of women owned SMEs in Ruiru Sub County whereby both quantitative and qualitative approaches to analyzing the data was employed. Questionnaire were the main instrument of collecting data. This instrument was preferred because of its low cost even when the population is large, it's free from biases of the interviewers, and respondents have more time to give well thought answers. Kothari (1984). It also saved time on part of the researcher and follow up was made in case of non-response.



### **3.3 Population and Sample Size**

#### **3.3.1 Population**

According to Cooper and Schindler (2003), a population is the total collection of elements about which we wish to make some inferences. The idea is not far from Mugenda & Mugenda's view as they define a population as the entire group of individuals, events or objects having a common observable characteristic. The target population consisted of the 465 women owned SMEs operating in Ruiru Sub County. (*Source; Ruiru sub-county council, Business licensing department*). The SMEs in Ruiru are not homogeneous and thus stratified sampling was used. The strata are the business categories from which the sample was selected.

#### **3.3.2 Sample Size**

Sample size is a given number of members or cases from the accessible population which is carefully selected so as to be a representative of the whole population with the relevant characteristics. A sample is therefore a smaller group obtained from the accessible population. Mugenda and Mugenda (2003). The researcher used simple random sampling to pick 47 SMEs that were involved in the study. This number was considered appropriate due to time and cost constraints. The simple random sampling procedure was preferred because this concept allows unbiased sampling and accords research work more scientific feature, therefore making the validity of the research findings more concrete. Sample size in each business category was determined by the proportion of the total in each category to the total population (with slight sample error)

**Table 3.1 Sample Size Selection from each Category**

	<b>Business category</b>	<b>Business code</b>	<b>Population</b>	<b>Sample size</b>
<b>Trade</b>	100	101,102,103,104	100	10
<b>Services</b>	200	201,202,203	180	18
<b>Transport</b>	300	301,302	120	12
<b>Manufacturing</b>	400	401,402,403	50	5
<b>Agriculture</b>	500	501,502	15	2
<b>TOTAL</b>			<b>465</b>	<b>47</b>

*Source: Ruiru sub-county council, Business licensing department*

### **3.4 Data Collection and Data Collection Instruments**

The study employed a self-administered questionnaire as a sole means of data collection from respondents. The instrument was of five point Likert scale format. The instrument was divided into five sections. First section contained questions on the background information. The second section was on microcredit, the third section was on business training, the fourth section was on group savings. The final section was on percentage growth in sales. Out of 47 questionnaires sent out, only 32 were returned and used for the analysis.

### **3.5 Data Analysis**

Gay (1992) observed that data analysis involves organizing, accounting for and explaining that data; that is making sense out of data in terms of respondent's definition of the situation noting patterns, themes, categories and regularities. Data was analyzed using descriptive statistics. Closed questions were analyzed using quantitative analysis while open ended questions will be analyzed using qualitative methods.

### 3.6. Analytical Model

The analytical model that was used to determine the effect of microfinance services was expressed in the equation below;

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

*Y* = Annual growth of women owned SMEs as measured by percentage growth in sales

*a* = constant or the intercept point of the regression line and the y axis

*β* = the slope/gradient of regression line

*X<sub>1</sub>* = financial intermediation as measured by percentage increase in credit allocation

*X<sub>2</sub>* = enterprise development services as measured by percentage increase in number of business training sessions

*X<sub>3</sub>* = group synergy as measured by percentage increase in group savings

*ε* = error term

The strength of the relationship between the dependent and independent variables was measured by carrying out f-text and students't-distribution test at 5% level of significance and 95% level of confidence  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  were significantly different from zeros and so, it was concluded that there was a strong positive relationship between the dependent and independent variables.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the data analysis interpretation and discussion of the research findings. To achieve the objective of the study, SPSS version. A statistical software was used to analyze data. Linear regression was used to establish the effect of microfinance services on the growth of women owned SMEs in Ruiru sub-county.

#### 4.2 Response Rate

Out of the intended 47 respondents, only 32 returned fully completed questionnaires, giving a response rate of 68 %. This response is acceptable as recommended by Mugenda & Mugenda (2003). This reasonable response rate was realized after the researcher made personal calls and visits to remind the respondents to fill and return the questionnaires.

**Table 4.1: Response Rate**

<b>Business category</b>	<b>Frequency</b>	<b>Response</b>
100	8	25
200	16	50
300	5	15.6
400	2	6.3
500	1	3.1
Total	32	100

**Source: Author computation**

Table 4.1 shows that 10% of the respondents were engaged in trading, 50% in service delivery, 15.6% in transport business and 6.3% in manufacturing and 3.1% in agribusiness. This further justified the use of stratified random sampling method.

### 4.3 Data Validity and Reliability

Data reliability and validity were key concern during data collection. These aspects were maintained by having respondents who were senior in the respective organizations. The researcher used discriminant validity to gauge the extent to which measures of the constructs were comparatively distinct from each other and that their correlation values were neither 0 nor 1. For the purpose of this research, R of 0.599 was considered appropriate. Discriminant validity was deemed appropriate as it helped the researcher to assess the degree to which a concept and its indicators relate. The researcher also ensured that the values differ from other concepts and its indicators and tracked the consistency of the information provide and where the information was contradicting, clarification was sought, hence further improved the degree of accuracy. In addition, the questionnaires.

### 4.4 Descriptive Statistics

**Table 4.2: Microcredit Services**

The table below shows the extent of agreement to microcredit elements (%)

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Collateral requirement	70	10	2	10	8	<b>100</b>
Availability of collaterals	2	7	3	75	13	<b>100</b>
Loan procedure	15	60	5	18	20	<b>100</b>
Interest rates	12	68	1	14	5	<b>100</b>
Relevance of microloans	78	10	1	6	3	<b>100</b>

**Source Author 2015**

The above table indicates that highest percentage (70%) of respondents strongly agreed that collaterals are required when borrowing. Only 2% were unaware of this requirement.

Majority (75%) disagreed to owning collaterals, 60% agree to the existence of simple loan procedures, 68% agree to existence of lower interest rates and majority (78%) strongly agree to the relevance of microloans to their businesses.

### Table 4.3 Business Training

The table below shows the extent of respondents' agreement to Business Training elements (%)

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Frequency of training	8	12	3	71	4	<b>100</b>
Attendance by SME owners	2	48	5	25	20	<b>100</b>
Certificate of participation	1	2	1	16	80	<b>100</b>
Follow ups	1	1	1	2	95	<b>100</b>

The results from the above table shows that majority (71%) disagree to existence of training facilities, 48% agree to attendance, a larger proportion (80%) strongly disagree to issuance of certificate of participation and the largest proportion (95%) strongly disagree to existence of follow ups.

### Table 4.4 Group Savings

The table below shows the degree of agreement with group saving elements (%)

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Positive role	<b>87</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>100</b>
Group savings affect leading	<b>75</b>	<b>11</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>100</b>
Information sharing	<b>55</b>	<b>15</b>	<b>10</b>	<b>12</b>	<b>8</b>	

**Source Author computation 2015**

The table above shows that 87% strongly agree to the positive role of group lending on improving sales, 75% agree that group savings affects the amount borrowed by SMEs and 55% strongly agree that information sharing have affected their sales.

**Table 4.5 Microfinance Services and Growth in Sales**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Micro credit is key to growth	<b>64</b>	<b>22</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>100</b>
Business training	<b>35</b>	<b>22</b>	<b>1</b>	<b>7</b>	<b>2</b>	<b>100</b>
Group savings	<b>68</b>	<b>20</b>	<b>1</b>	<b>9</b>	<b>2</b>	<b>100</b>
Increase in number of employee	<b>55</b>	<b>23</b>	<b>2</b>	<b>12</b>	<b>8</b>	<b>100</b>

**Source : Author 2015**

The table below provides some descriptive statistics of the variables in study. These includes majorly the mean and the standard deviation of the study variables.

**Table 4.6: Analysis of Predictor Variables**

<b>Study variable</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Min</b>	<b>Max</b>
Microcredit	71.4	91.2	36	91
Business training	57.2	71.4	29	89
Group savings	69.7	74.9	56	80
Growth in sales	68.8	83.6	60	80

**Source Authors computation 2015**

Table 4.6 above indicates that the average percentage contribution of microcredit towards growth of sales is 71.4%, which is >50%, the normal average. There is however, a very high volatility of 91.2% as also reflected by the minimum of 36% and maximum of 91%. The table also shows the average percentage contribution by business training as 57.2%, compared to normal average of 50%.the deviation is also considered high at 71.4% as seen in the minimum of 29% and a maximum of 89%.this is the least contributor variable. Group savings contributes on the average, 69.75 to sales growth, which is >the normal 50%.

Percentage volatility is however still high at 74.9. The disparity in sales is however normal between 60- 80%.

#### 4.5 Regression Analysis

**Table 4.7: Regression Analysis based on SMEs Growth in Sales against Microcredit, Business Training and Group Saving as below;**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599 <sup>a</sup>	.359	.290	4.528

a. Predictor ; (constant), Microcredit, Business training and group saving services provided by MFIs

Adjusted R squared is a coefficient of determination which tells us the variation in the dependent variable due to changes in independent variable. From the findings in the above table, the value of adjusted was 0.290, an indication that there was variation of 29% on the growth in sales due to microcredit, business training and group saving services provided by MFIs at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables as shown by 0.599. A multiple regression analysis model was applied to determine the relative importance of each of the four variables with respect to the effect of microfinance services on the growth of women owned SMEs in Ruiru sub-county.



#### 4.5.1 Regression Equation and the Predictor Relationship

**Table 4.8. Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	28.916	15.028		1.924	.065
	MICROCRIDIT	-.025	.090	-.043	-.283	.779
	BUSINESS TRAINING	.199	.067	.452	2.989	.006
	GROUP SAVING	.410	.161	.386	2.540	.017

**Source: Author 2015**

Estimation equation for SMEs Growth in Sales (Y) based on Microcredit (X1), Business Training (X2), and Group Saving (X3)

$$\hat{Y} = - 0.025 (X1) + 0.199 (X2) + 0.410 (X3) + 28.916$$

**Where**

Constant = 28.916, shows that if Microcredit, Business training and group savings by all MFIs were all rated at zero, annual growth in turnover rating would be 28.916.

X1 = - 0.025, shows that one unit change in Microcredit results in - 0.025 units decrease in annual growth in turnover.

X2 = 0.199, shows that one unit change in Business Training results in 0.199 unit increase in annual growth in turnover.

X3 = 0.410, shows that one unit change in Group Saving service provided by MFIs results in 0.410 unit increase in annual growth in turnover,

#### 4.5.2 Analysis of Variance

The probability (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme or more extreme than observed by chance. The p-value is compared with the actual significance level of the test and if smaller, the result is significant.

**Table 4.9 ANOVA.**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	321.476	3	107.159	5.227	.005 <sup>b</sup>
	Residual	574.024	28	20.501		
	Total	895.500	31			

a. Dependent Variable: GROWTH IN SALES

b. Predictors: (Constant), GROUP SAVING, BUSINESS TRAINING, MICROCREDIT

#### Source Author computations

The ANOVA findings in table 2.4 shows that there is a correlation between the predictor variables Microcredit, Business Training and Group Saving services provided by MFIs and response variable (Annual growth in turnover), since p-value of 0.005 is less than 0.05.

Note; Df= degrees of freedom, F= ANOVA,  $\alpha$  = Level of significance, Fo = calculated value of F; Fa= the critical value of F.

The ANOVA results in the above table indicate that the independent variables significantly (F=5.227,p=0.005) explains the variance in annual growth in turnover

#### **4.6 Discussion of Research Findings**

From the results of the regression analysis, the coefficient of determination, the R squared of  $r^2=0.359$  in table 4.2 tells us the variation in the dependent variable due to changes in independent variables. From the findings of the study, the regression analysis indicated that business training and group credit provided by MFIs have strong positive relationship with growth of SMEs sales, having been tested at 95% confidence level. This supports the view of Mwewa (2013) on the effects of micro finance services on the growth of SMEs in Machakos county. There was however a weak correlation between microcredit and growth in sales. This could have been due to inability of women owned SMEs to raise the required collaterals and fear of the consequences of failure to repay the loans in time, as was revealed by the analysis of the completed and returned questionnaires.

The ANOVA findings in table 4.5 shows that there is a correlation between predictor variables (Microcredit, Business Training and Group Savings) and the response variable (Annual growth in turnover) since p-value of 0.005 is less than 0.05. This shows that there was a strong positive relationship between the study variables. The coefficient of determination  $R^2$  - explains the extent to which change in the independent variable. The outcome of this study concurs with the findings of Cooper (2012) who studied the impact of microfinance services on the growth of SMEs in Kenya and found a strong positive relationship between Microfinance services and growth of SMEs. This could be so because group savings which was the strongest predictor variable provides opportunity for larger amounts of loan through intra group guarantorship and their friendly repayment terms.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter summarizes the study in section 5.2, draws fact-based conclusion in section 5.3, presents recommendations in section 5.4, identifies the limitations of the study in section 5.5 and ends with suggestions for further research in section 5.6.

#### **5.1 Summary of Findings**

The findings here were based on the results from the predictor variables. On the effect of micro credit on the growth of women owned SMEs in Ruiru Sub County, the respondents agreed to the existence of the service, but disputed its effectiveness in increasing sales. This was because they hardly use the facility due to collateral requirements, and high interest rates. With regard to Business training, it was established that the service existed in small quantities, only 46.7% attend such training sessions and there is no follow up and so no motivator. On group savings, the respondents agreed widely (89%) that group savings has enabled them to access larger loan amounts to increase stock for their business, and increased their goods available for sales and the subsequent sales.

This study was conducted on a random sample of 47 women owned SMEs in Ruiru sub-county. The study of the effect of microcredit on the growth of women owned SMEs revealed a negative relationship, as opposed to the opinion of several researchers that availability of micro credit is core to success of women owned SMEs. The study on Business Training seek to establish the effect of Business Training on the growth in sales of women owned SMEs in Ruiru sub county, and a strong positive relationship of 0.799 was found. Similarly the study on effect of Group Savings on the growth of women owned SMEs in Ruiru Sub County yielded a strong positive correlation. ANOVA findings in this study showed that there was correlation between predictor variables and the response variables since p-value of 0.005 is less than 0.05.

## **5.2 Conclusion**

Based on the above findings, Microcredit negatively influences growth in sales by 25%, thus a unit increase in the use of microcredit leads to a 25% fall in sales. This could be due to restrictive use of microloans and the rigid fixed interest payments and demand for collaterals that restricts amount available to borrowers. A unit increase in Business training will result into a 19.9% increase in sales volume, while a unit increase in Group Savings will lead to a 41% increase in sales, being the variable with the strongest effect. The R Square of 0.359 shows that the degree of variation between micro finance services and growth of sales is 35.9%, implying fluctuation in sales.

### **5.2.1 Micro Credit and Growth of Women owned SMEs**

From the findings, an average of 71.5% access and utilize microcredit. There is a big deviation of 91.2, implying unsteady use of microcredit. This is further confirmed by the sharp variation between the maximum and minimum usage as per table 4.1. From the response rate in table 4.1, majority i.e. 50% are in the service category offering small scale services like salons, barbers, small private schools and gyms. Such SMEs lack collaterals and may prefer to obtain capital from SACCOs and Chama loans and avoid the higher interest rates in the process.

### **5.2.2 Business Training and Growth of Women owned SMEs**

The study observed that only 57.2% utilize business training services as seen in table 4.4. This can be associated with the dismal business training services offered (table 4.5) and lack of follow-up in the few training services offered. There is a high variation of 71.4% in use of business training services .this could be attributed to lack of follow-up and subsequent discouragement of SME operators.

### **5.2.3 Group Savings and growth of Women owned SMEs**

Based on the fact from table 4.1 and table 4.5, an average of 69.7% utilize group saving services. This percentage is slightly above normal average, a reflection of the power of group synergy. The deviation is however still high at 74.9%, implying that SMEs have not fully embraced the power of group synergy. The minimum and maximum utilization ranges between 56-80, an indication that a good number of SMEs participate in group savings. This is also supported by facts from table 4.5. This may be due to the fact that group savings directly affect loan sizes, having positive correlation. At the same time, group management comes with challenges and lengthy procedures.

### **5.3 Recommendations**

Based on the foregoing facts, it is established that microcredit services are available, but, women entrepreneurs tend to be reluctant to use them due to collateral requirements, lengthy procedures on loan acquisition as compared to Chama loans and fear of compulsory interest payments. It is therefore recommended that borrowers be trained on loan management and alternative collaterals be made acceptable. The lengthy loan procedures should also be minimized.

An analysis of business training services reveal that this service is offered at very low scales ,with low access and lack of proper follow-up (Table 4.4) it is therefore recommended that more of this service be provided to the SME owners and follow-up be made on their progress.

Group saving was largely agreed as having a direct relationship with loan sizes. It is therefore recommended that women SME owners join more groups so as to benefit from larger loans for business expansion and also learn from one another and reap the overall benefit of group synergy.

#### **5.4 Limitations of the Study**

The study focused on the women owned SMEs in Ruiru sub-county, where a variety of business activities exist in various fields of agriculture, trade and services. The majority of respondents were reluctant to accept the purpose of the research despite the researcher having produced a letter of introduction. They regarded most of the information to be confidential and should not leak to their competitors and for their own safety. Most entrepreneurs argued that they do not keep record especially of sales and profits.

In the above study, sales was used as a measure of SMEs growth. This is an inadequate measure since sales may be high, but expenses grow at a higher rate, especially during inflation. This measure may therefore lead to inaccurate results.

#### **5.5 Suggestions for Further Research**

The study focused on the micro finance serviced on women owned SMEs in Ruiru sub-county, whose contextual realities are totally different from other sub-counties. It is therefore suggested that similar studies be conducted in other sub-counties. It is also recommended that in depth studies be conducted on the causes of underutilization of micro finance services by women entrepreneurs.

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# APPENDICES

## APPENDIX 1: LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE... 14/OCT/2015

### TO WHOM IT MAY CONCERN

The bearer of this letter ..... MARY ATIENO OWUOR .....


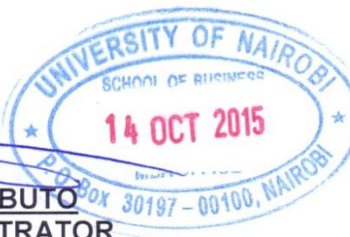
Registration No..... D61/71001/2014 .....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
  
✓ PATRICK NYABUTO  
MBA ADMINISTRATOR  
SCHOOL OF BUSINESS

## **APPENDIX I1: LIST OF ELEMENTS OF THE SME POPULATIONS**

1. Wholesale shops
2. Retail shops, supermarkets
3. Agrovets and animal feeds
4. Salons
5. Private primary and secondary schools
6. Transport: businesses including buses and matatuSaccos
7. Printing
8. Agribusiness
9. Steel manufacturing
10. Confectionaries
11. Textile
12. Carpentry shops
13. High class tailoring shops
14. Hotels
15. Private hospitals and clinics
16. Pharmacies
17. Law firms
18. Gyms

*Source: Ruiru sub-county council, licensing department.*

### **APPENDIX III: QUESTIONNAIRES**

This research is intended to find out the effects of microfinance services on the growth of women owned SMEs in Ruiru Sub County.

**All your responses will be treated with high level of confidentiality.**

Questionnaire no..... date.....

Kindly provide answers to the following questions by ticking against the most suitable alternative or giving narrative responses on the spaces provide

#### **SECTION A- BACKGROUND**

1. Please tick the gender of the owner of the business

a) Male [ ]

b) Female [ ]

2. How many years has this business been in operation.....

3. What is the average number of employees in the business per year.....

4. State the amount of capital held in the business in anyone

year.....

5. Which of the following are sources of capital for your business

a) Microfinance (SACCO, ECLOF, KWFT, RAFIKI)

b) Other sources

**SECTION B: MICROCREDIT SERVICES**

6. To what extent do you agree with the following statements?

- 1) Strongly agree            2) Agree            3) Neutral            4) disagree  
 5) Strongly disagree

Statement	1	2	3	4	5
Women applying for micro credit must have collaterals like title deeds and car log books					
My business can always raise the required collaterals					
The loan application procedure is simple					
Microloans are always available within a few hours of application by women entrepreneurs.					
No extra influence is needed to obtain microloans					
Micro loan interest rates are lower than commercial bank rates					

7. In what way has the micro loans affected your business?.....

.....

8. How would you rate the relevance of microloans toward the growth of your business?

- a) Very relevant            [ ]  
 b) Moderately relevant    [ ]  
 c) Irrelevant                [ ]  
 d) Extremely irrelevant    [ ]



**SECTION C: BUSINESS TRAINING**

9. To what extent do you agree with the following statements?

- 1) Strongly agree 2) Agree 3) Neutral 4) Disagree 5) Strongly disagree

Statement	1	2	3	4	5
MFIs provide regular business training to women entrepreneurs					
Women entrepreneurs always attend training sessions					
Training venues are convenient					
Certificates of participation are issued at the end of training sessions					
MFIs make regular follow up and evaluation of SME training needs					
MFIs monitor the trained women entrepreneurs until they stabilize in business					
No. of hours of training determines the level of micro credit given					

10. Briefly comment on how business training has contributed to your business

.....

.....

.....

.....

**SECTION D: GROUP SAVINGS**

11. How would you rate the following statements

- 1) Very much    2) Much    3) little    4) Very little    5) not at all

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
MFIs encourage group savings					
Level of group saving determine volume of lending to SMEs					
Information sharing on group savings has influenced the level of group savings					
There is a relationship between group saving and group liability					

12. Please comment on how group savings has influenced your quantity sales

.....

.....

.....

**SECTION E: BUSINESS GROWTH**

13. To what extent do you agree with the following?

- 1) Strongly agree      2) Agree      3) Neutral      4) Disagree  
 5) Strongly disagree

Statement	1	2	3	4	5
Availability and access to credit is the key success factor of my business					
Business training has a positive contribution to the sales growth trend in my business					
Group savings and information sharing has fuelled the sales growth of my enterprise					
My annual sales has steadily increased as a result of access to MFI services					
The number of employees in my business has grown steadily over the past five years					

14. What other factors have contributed to the growth of your business.....

.....

15. Please indicate your annual sales for each of the years below

a. 2011.....

b. 2012.....

c. 2013.....

d. 2014.....

16. Kindly comment on the factors that have contributed to the above

growth.....

.....

**Thank you for your responses**