THE EFFECT OF MICRO - FINANCE SERVICES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN KAJIADO COUNTY

MUNGAI DORIS WAMBUI

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINSTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2015

DECLARATION

I declare that this research project is my original work and has never been submitted for the award of a degree in any other University.

Signature..................................

Date...................................

Doris Wambui Mungai

D61/63159/2011

This project has been submitted for examination with my approval as university supervisor.

Signature.. Date ………………………………..

Winnie Nyamute

Department of Finance and Accounting

University of Nairobi

ABSTRACT

The Small and Medium Enterprise (SME) sector has continued to play an important role in Kenyan Economy. Promotion of Small and Medium Enterprises (SME) sector in Kenya is a viable and dynamic strategy for attaining the national goals which includes employment creation, balanced development between sectors and poverty alleviation. All these form the foundation of strong national industrial base and domestic production structure that are very central to our government's vision to achieving newly industrialized country status by the year 2020 (sessional paper No.2(1996). Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy like many other developing countries since it employs about 85% of the Kenyan workforce. Various studies have been done in Kenya on SMEs and how they are influenced by microfinance services but none had focused on the effects of microfinance services on the growth of the SMEs. The main objective of this study was to find out the effects of microfinance services on the growth of Small and Medium Enterprises in Kajiado County.

A quantitative descriptive design was used to study 9 types of business categories in Kajiado County. The study was on dependence and independence relationship. A multiple regression analysis was used. A partial correlation analysis was applied to determine the relative importance of each of the four variables; microcredit, micro insurance, training and micro saving, with respect to the effects of microfinance services on the growth of SMEs. The ANOVA analysis was used and intended to investigate whether the variation in the independent variables explains the observed variance in the outcome – in this study the annual growth in turnover.

The findings of the regression analysis conducted established that the independent variables had a positive correlation with the dependent variable. ANOVA findings in this study showed that there was correlation between the predictor variables (Microcredit, Micro insurance, Training provided by MFIs and Micro savings) and response variable (Annual growth in turnover) since P- value of 0.001 is less than 0.05. This indicated that there was a strong positive relationship between the study variables.

DEDICATION

This project is dedicated to my dear Mother Beth Munyua who educated me and enabled me to reach to this level and for her prayers and encouragement. I would also like to dedicate this project to my dear husband and children; their valuable encouragement and support were instrumental in the project's completion.

ACKNOWLEDGEMENTS

First and foremost i thank God for His sufficient grace and strength which He gave me in the course of writing this project. May all glory and honour be unto Him. Amen.

I would also like to greatly acknowledge my supervisor, Winnie Nyamute for her guidance throughout the project, who was always available and timely to read the drafts and correct me in every step in the course of this project. Without her assistance, the project would never have been completed. Many thanks also to Mr. Mirie Mwangi who also played a key role towards the completion of this project.

Many thanks to my family members who gave me great support and showed concern and understanding even when I sat late into the night working on the project. I thank my colleagues too who gave me lots of encouragement and positive criticism as I progressed with the project. Thank you all.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

AMFIs	Association of Microfinance Institutions
ASCAs	Accumulating Savings & Credit Association
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
LSEs	Large Scale Enterprises
MFB	Micro Finance Bank
MFIs	Micro-Finance Institutions
MSE	Micro and Small Enterprise
MSEs	Micro and Small Enterprises
NGOs	Non-Governmental Organizations
ROSCAs	Rotating Savings & Credit Associations
SHGs	Self Help Groups
SMEs	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Promotion of SME sector is a viable and dynamic strategy for attaining the national goals which includes employment creation, balanced development between sector and sub sectors and poverty alleviation.Therefore, Medium and Small Enterprises are generally the driving force of economic growth through job creation and poverty eradication.This sector have been the means through which accelerated growth and rapid industrialization have been achieved.Koech(2011)

The Kenya Government's commitment to foster growth of SMEs emerged as a key strategy in1986 report. Results from MSE baseline survey show that the sector has contributed 13.8 percent of Kenya's Gross Domestic Product (GDP)

Mwangi (2011). Maalu, et. al. (1999) discussed the role of Micro and Small and Medium Enterprises in the economy of Kenya and noted the important role it has played and continues to play. The government has since drawn-up and instituted certain measures aimed at promotion of the SME as provision for providing technical and vocational training at the primary and secondary levels from 1986, introduction of entrepreneurship development in training institutions and youth polytechnics, provision for credit facilities. A study by Cooper (2012) on the impact of micro finance services on the growth of SMEs in Kenya found a strong positive relationship between micro finance services and growth of SMEs. Vision 2030 had also emphasized the importance of Micro and Small Enterprises in Kenya. Micro and Small Enterprises are noted as a crucial catalyst for achieving the vision 2030.

1.1.1 Micro-Finance Services

Micro financing has its roots in the 1970's when the Grameen Bank of Bangladesh with micro finance pioneer Muhammad Yunus started to shape the micro financing industry. Micro financing arose out of the need to provide to low income earners who are left out by the formal financial institutions.

The word "micro" means small and finance also mean investment or support; therefore microfinance can be defined as small investment or support. Microfinance can also be defined as the practice of offering small, Security/ collateral free loans to member of co-operatives who may not have access to the capital necessary to begin small business or other income generating activities.

MFIs anywhere in the world provide diverse portfolio of financial products and with such flexibility meet needs of their clients. In her study of micro finance, Ana Marr (1999:1) concluded that 'to be effective, MFIs must provide a wider range services and more flexible contracts. Greater responsiveness to poor people's needs has the potential to increase impact and achieve sustainability'.

Micro finance entails going beyond provision of micro credit, this has usually been framed in terms of including other services which includes; savings, consumption, loans and insurance in particular (Rutherford, 2000). In other words, micro finance can enhance range of financial services that seek to meet needs of poor People by protecting them from fractuating incomes and other shocks and helping them to promote their incomes and livelihoods (Rogaly et al., 1999)

MFI sector performance on the SME can therefore be measured based on the extent of services or activities it renders to the SME sector .These measures include the number of loans extended by the MFIs to the SME sector, the number of insurance policy premiums by

MFIs to SMEs, the extent of savings by the SMEs to MFIs. According to AMFI Annual Report 2013, MFI services can be measured according to: - Client Outreach; that is on who MFI is reaching, Range of Services: on what services MFI is offering. Client Protection: this is on how MFI is delivering its services, Client Satisfaction: on how MFI meets its clients' needs, Client Transformation: on how MFI is transforming client's lives. Micro finance integrates various products including savings, loans and insurance. Through MFIs, accessibility to micro credit facilities has been made easy and as such Littlefield, Murduch & Hashemi (2003), Simanowitz & Brondy (2004) and IMF (2005) commented on the critical role of micro credit in achieving millennium development goals.

1.1.2 Growth of Small and Medium Enterprises

Businesses can be categorized in terms of size as small, medium and large. Growth in business can be said to be the key indicator or measure of performance in a business. Growth in a business can be measured in various different methods which includes both accounting and non-accounting methods. According to Gibrat's law, the firm's growth rate is independent of size thus growth is viewed to be one of the most key themes in a business.

Briley and Muzyka (1997) identified six (6) stages of enterprises growth namely conception, existence, survival, profitability/stabilization, growth take off and maturity. In Kenya, most MSEs stagnate at survival stage due to barriers that have continued to hamper and affect their growth. These barriers have made most of SMEs lack the capacity to break out of the survival stage to the next growth level. Also according to Kenya National Bureau of Statistics, (2007) most SMEs, at least 60% businesses fail within the first few months of operation

Business growth can be defined and measured using changes in assets, increase in employment, turn over, profit margins, productivity, shareholders value (ROE), net worth of business, return on investment, size of premises, standard of service, No. of customers, innovations and market share.(Bridge at al (1998)). For new businesses, non-accounting measures of growth like employment growth and sales growth can be better measures of growth than accounting based measures like Return on investments, market share, profits and shareholders value. According to (Koech 2011)), business owners often view sales as the key performance indicator. Sales growth as an indicator of business performance is usually easier as compared to other indices and its recording is easier too. Sales also give a good indicator of size and performance thus a good growth indicator. According to Sudhir and Subrahmanya (2009) and Dalrymple (2004), growth over a period of time can be used for performance measurements of SMEs since this, rather than short term performance, will reflect the long-term strategy of the firm

Medium and Small Enterprises largely contribute to the economic development of any country (European Journal of Business Management, 2014).Promotion of Micro and Small Enterprises (MSE) sector in Kenya is a viable and dynamic strategy for attaining the national goals which includes employment creation, balanced development between sectors and poverty alleviation. All these form the foundation of strong national industrial base and domestic production structure that are very central to our government’s vision to achieving newly industrialized country status by the year 2020 (sessional paper No.2(1996).

MSEs absorb a large number of unemployed people who are largely concentrated in trade and services. This is because they are a major source of entrepreneurial skills, innovation and employment. Given an enabling policy environment, technical assistance and support, promotion of MSEs can play a very critical role by providing opportunities which are likely to stimulate sustainable growth.

1.1.3 Micro-Finance Services and Growth of SMEs

A study by Cooper (2012) on the impact of micro finance services on the growth of SMEs in Kenya found a strong positive relationship between micro finance services and growth of SMEs. Lack of financial management knowledge combined with the uncertainty of the business environment leads MSEs to many and serious problems regarding financial performances.

Microfinance institutions (MFIs) usually targets the financially challenged through various services and innovative approaches like lending, usually group lending, progressive lending, regular repayment schedules, and collateral substitutes. The microfinance movement began with the work of Dr Muhammad Yunus in Bangladesh in the late 1970s, spreading rapidly to other developing countries. Most early microfinance institutions (MFIs), including Yunus's own iconic Grameen Bank, relied on funding from government and international donors, justified by MFI claims that they were reducing poverty, unemployment and deprivation (Overseas Development Institute, 2011)

The extent to which small enterprises could access fund is the extents to which small firms can save and accumulate own capital for further investment (Hossain, 1988). However, small business enterprises find it difficult to access formal financial institutions for funds; this is because of their inability to meet the standards of the formal financial institutions for loan consideration. This therefore provides a platform for informal institutions to attempt to fill the gap usually based on informal social networks, and this is what gave birth to micro-financing. In many countries, people have relied on mutually supportive and benefit-sharing of the social networking of these sectors for the fulfillment of economic, social and cultural needs and the improvement of quality of life (Portes, 1998).

1.1.4 Small and Medium Enterprises in Kajiado County; Kenya

Promotion of Small and Medium Enterprises (SME) sector in Kenya is a viable and dynamic strategy for attaining the national goals which includes employment creation, balanced development between sectors and poverty alleviation. All these form the foundation of strong national industrial base and domestic production structure that are very central to our government's vision to achieving newly industrialized country status by the year 2020 (sessional paper No.2(1996). Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy like many other developing countries since it employs about 85% of the Kenyan workforce

In Kenya, most MSEs stagnate at survival stage due to barriers that have continued to hamper and affect their growth. These barriers have made most of MSEs lack the capacity to break out of th survival stage to the next growth level.Also according to Kenya National Bureau of Statistics, (2007) most MSEs, atleast60% businesses fail within the first few months of operation. The findings indicated that barriers that affected growth of the MSE sector included lack of sufficient working capital, insufficient managerial and technical skills, lack of suitable premise, economic uncertainty, lack of equipment and domestic issues Kibas(1995).

Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SMEs continues to be a constraint in the growth and expansion of the sector.

1.2 Research Problem

MSEs to some extent are considered a source of livelihood to the poor through employment creation, income generation thus contributing to economic development and growth. MFIs on the other hand, apart from providing capital to the poor to combat poverty on an individual level, it also has a role at the institutional level by seeking to provide financial services to the poor who are continuously ignored by the formal sector. According to Littlefield and Rosenberg (2004), the poor are generally excluded from the financial services sector of the economy. MFIs therefore emerged as an instrument to address this market failure. Lack of access to credit has been rated as a major challenging factor facing SMEs due to their informal nature and their lack of collateral, (GOK Survey, 1999; Ministry of Planning and National Development, 2006). According to Aleke (1991), many MSEs use savings and loans by family members and friends because they cannot access funds from the country's financial system besides several financial infrastructure limitations which include inconsistent government policy on interest rate and unmet credit needs among others. Wanjohi and Mugure (2008) observed that many SMEs use affordable inappropriate technologies as they lack collateral to access credit to advance their technology.

While the above research studies provide valuable insights into the creation of wealth by availing sources of finance, they only provide partial insights on the effects access to finance have on SMEs in Kenya. There is no known study to the researcher, which has been done on establishing the effects of access to Micro Finance Services in the growth of SMEs investment. In view of this, it has become imperative that this research be undertaken to examine the effects of Micro Finance Services on the growth of SMEs, more specifically within Kajiado County located at the outskirts of Nairobi, the capital city of Kenya.

Various studies have been done globally on SMEs and how they are influenced by Microfinance services. Johnson and Rogaly. (1997) studied on the impact of microfinance institutions on SMEs and found out that it is impossible to separate out specific impact of credit programs. Lawson. (2007) studying on the impact of micro finance services on financial performance of SMEs found out that lack of access to finance has been identified as one of the major constraints to small business growth. Johnson and Rogaly (1997, pp. 11–12) and Hulme and Mosley (1996, pp. 120–122) noted that the very poor have a limited ability to assume risk, and that very poor borrowers may become worse off because of business failure.

Various studies have been done in Kenya on SMEs and how they are influenced by Microfinance services. Mwewa (2014) studied on the impact of microfinance institutions on SMEs in Machakos and found out that they had a great impact on employment creation and poverty alleviation. Mbugua (2010) studying on the impact of micro finance services on financial performance of SMEs in Kenya found that micro finance services enhance financial performances of SMEs. Ngugi (2009); Kioko (2009); Makena (2011) studied on the financial challenges faced by SMEs and found that inadequacies in access to finance are key obstacles to SMEs growth. Kemei (2011) studied on the relationship between microfinance services and financial performance of SMEs. The findings were that positive and significant relationships have been established between MFIs loans and SMEs performance and growth.

Competition among financial institutions in Kenya has led to their expanded branch networks with Nairobi and Kajiado included. After reviewing various studies by different researchers, the researcher felt that there was need to carry out a study intended to bridge the gap and focus on the effects of microfinance services on the growth of SMEs in Kajiado County. This study therefore was set to investigate; what is the contribution made by micro finance activities on growth of SMEs in Kajiado County?

1.3 Research objectives

General Objective

The main objective of this study was to determine the effects of MFI services on the growth of SMEs in Kajiado County in Kenya.

Specific Objectives

i. To assess the effect of micro credit facilities on growth of Small and Medium Enterprises.

ii. To establish how investment activities affects performance of Small and Medium Enterprises

iii. To determine the effect of micro-insurance practices on the growth of Small and Medium Enterprises.

1.4 Value of the Study

The main reason of carrying a research is how useful the findings, the conclusion and the recommendations will be to the various beneficiaries. In the case of this study, it will assist various stakeholders in various ways like exploring effects of lack of accessibility of microfinance services by Medium and Small enterprises and highlight the problems facing SMEs in accessing micro finances and related services.

These findings may be used by other researchers to identify existing gaps and enhance microfinance service delivery and provide recommendations and conclusions useful to the government and other stakeholders in micro financing service provisions and policy issues. The study will contribute towards the existing field of knowledge and serve as a reference for future study on MSEs research topic or MFI’s related areas. Different stakeholders will therefore benefit differently as outlined below

The Government may benefit in designing policy framework to enhance development of SME industry. The government may be able to put in place the right policies that would help in enhancing the growth of SME sector

The public being one of the beneficiaries may also benefit through being enlightened on the role of MFIs in the SME sector. From the study, the public may get to know and understand various roles played by MFIs towards the growth of SMEs.

The MFI sector may also benefit from the study. The sector may be assisted to adopt necessary measures needed to ensure designed growth in SME industry. The MFI sector will be enlightened on how its services affect the growth of SME

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the Literature review that is relevant to Micro financing and SMEs Section 2.2 gives an overview of micro financing and also discusses various theories of micro finance. It also looks at SMEs situation in and reviews micro finance services and entrepreneurship. Section 2.3 and section 2.4 deals with the empirical literature review both from a global and local perspective. Section 2.5 summarizes the chapter.

2.2 Theoretical Review

Theoretical framework for this study was based on MFI services and their effects on growth of the SMEs. The researcher focused on Theory of Sustainable Finance, The Uniting Theory of Micro Finance, Female Empowerment Theory, Poverty Eradication Theory, Games Theory of Micro Finance, and Economic Theory of Micro Finance.

2.2.1 Theory of Sustainable Finance

Theory of sustainable Finance by Emerson (2003) can be seen as an improvement of the Traditional Finance Theory. Traditional Financial Theory is mainly rooted on two narrow sets of values that only financial risk and financial return matters. Recently, the emerging field of sustainable finance gives a platform to come up with a more general theory of finance, which shows that traditional financial theory is only a special case of the more general theory which incorporates other important values. The four current trends contributing to the growth of sustainable finance, that is; the concept of “blended value” by Jed Emerson - investing; recognition that sustainability factors can be related to systematic risk; financial innovation to increase sustainability; and building infrastructure for sustainable finance(Emerson 2003)

Traditional financial tools are used to build financial innovations which at least a number of them are well known and at least two of them, that is; Microfinance and Crowd funding are important to this study.

Microfinance proved that the very poor in developing countries can be very good credit risk. On this “community collateral” is the key innovation where loans are made and paid back by community groups instead of individuals.

Crowd funding on the other hand, enables direct, often (but not necessarily) very small donations or investments for small businesses, non-profits, and impact –related projects to be pooled together.

Microfinance and crowd funding are blended together by Kiva, Vittana and others for traditional financing of small businesses in the developing countries. Microfinance loans are now legitimate collateral and basing them on “community collateral”, these loans have proven to be securitizable in a way similar to bank loans and credit cards. These loans can therefore serve as sources of ongoing, growing financial resources for microfinance institutions (Emerson and Spitzer 2006; Jayadev and Rao 2012).Additionally, There is a need of building sustainable financial systems for the poor from three perspectives namely: - Financial development, Enterprise formation and growth, and poverty reduction (Bennett and Cuevas 1996)).

2.2.2 The Uniting Theory of Micro-Finance

The Uniting Theory of Finance focuses on joint liability. This is where a group of borrowers are held jointly liable for one another’s repayment and this serves as the key to high loan recovery rates. Ghatak and Guinnane (1999), from the various theories review, came up with key mechanisms through which repayment rates and the welfare of credit-constrained borrowers could be improved through joint liability. These all have in common idea that, the joint liability can help alleviate the major problems facing lenders for example screening, monitoring, auditing and enforcement by utilizing the local information and social capital that exists among borrowers. Joint liability can be interpreted in several ways which can be grouped into two, under explicit joint liability, when one borrower defaults loan repayment, group members are required to repay instead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all defaulting group. Under implicit joint liability, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract doesn't specify this punishment. Group Joint liability concept can work better than the banks for two reasons.one close –knit community members may have more information about one another than the outsiders. Two, Banks may have limited sanctions against poor people who default on a loan. Thus for these reasons, institutions that give proper incentives to poor people to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than conventional banks.

2.2.3 Female Empowerment Theory

In many cases, the primary target of MFIs is mainly Women .There is a common belief that women have a greater ability to invest loans in productive activities and/or in improving family welfare than men who in the other hand are assumed to consume more than to invest loan funds. Pitt and Khandker (1998) in their study found out that women use borrowed funds more efficiently than men.

Economic Empowerment Theory focuses more on empowerment potential of MFIs targeted at women and their credit accessibility whereas Female empowerment theory focuses on improved abilities and changes that leads to improved women's well-being. On this issue of lending to women, it is the widespread believed that financial access *empowers* women, both financially and socially.

According to (Amin et al. (1998)) membership in microfinance programs among other factors is positively related to women's empowerment.

Ehlers and Main (1998) on the other hand, in their analysis of microenterprise development programs for the poor US women, argue that the microfinance assistance is more detrimental and problematic. Ehlers and Main base their conclusion on the fact that few women "graduate" their business into the formal sector due to gender constraints on the type of businesses they choose to run and due to inappropriate microfinance training.

Savings can be termed as the first step to break out the vicious cycle of poverty enabling women to better manage their money and start investing in assets. Savings therefore can be regarded as building assets and preparing clients to take on loans as well. As a strategy therefore, savings can be seen as a first step in preparing poor women for greater credit absorption which they can deploy in activities that enhance their future assets and incomes, insurance as well as emergency loans and on the other hand cover women against loss of assets hence income, enabling them to continue to move upwards.

2.2.4 Poverty Eradication Theory

The role of micro finance has been fully recognized and appreciated as a global phenomenon of poverty alleviation, poverty eradication and wealth creation among the poor people in its plan of action, member states, were required to set up national proactive micro credit forums in their respective countries.

There have been two different schools of thought on who is to be targeted by MFIs between the poor and the poorest. The first school of thought believes on targeting the poor and the reason for this being that the poor are most likely to have income-generating activities, thus their loans will more likely lead to creation of jobs and the benefits will obviously trickle to the poorest and in this case the MFI is seen to expand its financial services, thus reducing poverty on a larger scale. Diop, Hillenkamp & Servet, (2007, pp. 33) criticizes the above strategy of the first school of thought and says that the redistribution by the creation of jobs or consumption does not necessarily benefit the poorest

To achieve its role as a tool to reduce poverty, MFI needs to promote productive activity, spur self-employment and income generating activities. This as a result is predicted to spur consumption, stimulating local economies and reducing general poverty reduction of both in the household and in the community. Based upon this argument, the first logical assessment is to analyze the impact of microfinance on borrower income. Increasing Income through Self-Employment .Employment creation may require small working capital and their other sources of income may be too meager for them to raise investible surplus on their own. Thus according to Wahid (1994), credit facilities to the poor can help them to raise their own capital leading to improved living standards through income generated investments

2.2.5 Games Theory of Microfinance

The microfinance games theory supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves .It is based on Grameen lending model of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly.

The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network. Ledgewood (1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts .Gruber (2005)

2.2.6 Economic Theory of Micro Finance

The economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity. On the other hand, micro-finance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default. Among micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default. Economic theorists have been intrigued by Grameen's contracts, and there has been an outpouring of research, beginning with Stiglitz (1990), on how joint liability works. In addition, the bank uses an unusual repayment schedule: where Repayments usually begin just a week after the initial loan disbursal and continue weekly after that; this makes the contract look much closer to a consumer loan than a business loan and changes the nature of the risk that the bank is taking on—and the service that it is pro-viding. Beyond these economic mechanisms, Grameen has found that not only does having a customer base that is 95 percent female improve social impacts, but it may also reduce the financial risk for the bank. While traditional banks have historically lent nearly exclusively to men, women make up the bulk of Grameen borrowers and they are often more reliable customers than their husbands (Khandker 1998)

2.3 Determinants of SME Growth

The MSME term is used to mean micro small and medium enterprises. There is no universal definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yard sticks are total number of employees, total investment and turnover. MIT (2002). SME's play a major role in the economy as they are a major source of entrepreneurial skills, innovation and employment.

However SMEs are often confronted with market imperfections. SME's frequently have difficulties in obtaining capital or credit particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies of innovation EC (2005).

Despite abundant literature on the impact assessment of microfinance, most empirical studies on microfinance look at microfinance in relation to entrepreneur welfare and income. Only few studies relate financing method to enterprise growth and survival**.**

Bekele and Zeleke (2008) reveal that factors affecting long-term growth, survival and viability of MSMEs are categorized into 4 broad categories. These are presented as (i) macro-economic factors, (ii) factors that affect access to social capital, (iii) factors that affect the internal efficiency of small businesses and enterprises, and (iv) factors that relate micro finance services.

2.3.1 Micro Finance Services

This includes micro finance factors like , availability of credit, access to credit finance, sources and amount of initial start- up capital, terms / or conditions of loan repayment, and the extent of effective utilization of credit. Micro finance also includes non-financial services like marketing and technology services, business training, production training and subsector analysis and interventions. Ledgerwood (1999). Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving as well as persons who want to start up their businesses. The second category of enterprise development services rendered to its clients is the enterprises transformation program which is the provision of technical assistance training and technology in order to enable existing SMESs to grow and advance in terms of marketing and production. Yunus (2007).

2.3.1.1 Investing Activities

Investing can be described as the setting aside of resources from being used today to creating future benefits (Sullivan & Sheffrin, 2003). This can also be seen as making use of assets to earn income because instead of keeping assets idle, they should be invested so that investments can grow to fight against inflation and future uncertainties. SMEs must be competitive and productive thus effective business support systems must be incorporated to achieve this and are a condition for success of investment capacity building. Customer–oriented business support agencies which include financial institutions have demonstrated a great capability of penetrating the SME sector.

Multinational enterprises seeking out new markets and investments offer Capable SMEs great opportunities to enter into global value chains through subcontracting linkages while on the other hand, the SMEs which are unable to do so, face the risk of losing their existing markets. Within the developing world, there is an intensifying competition for export markets, foreign investment and resources thus SMEs Associations, support institutions and governments in transition and developing countries need to adjust and adopt new approaches and invent new ways of working together to foster SMEs competitiveness

2.3.1.2 Micro Insurance Services

Risk refers to the possibility of economic or financial losses or gains, as a consequence of the uncertainty associated with pursuing a course of action (Chapman & Cooper, 1983).

Micro insurance helps MSMEs to manage their business risks well thus, resulting in a positive impact on their growth in terms of sales level and profitability.

Waring & Glendon (2008),says that in the modern organization's survival and development, risk management has become a strategic component as it has the task of identifying risks, measuring the probability and the possible impact of events, and treating risks, eliminating or reducing their effect with the minimum investment of resources.

SMEs play a very vital role in the growth of any economy. Due to their size and other characteristics, SMEs are vulnerable to various risks among them business risks thus their adoption of risk management strategy and methodology is vital due to their limited resources to respond promptly to threats facing them, leading to potentially huge losses that can adversely affect or deter their growth and survival.

Human factor has been identified as one of the most significant risk among small scale enterprises; this is according to Studies by the Singapore Government (2012) and the Institute of Chartered Accountants in England. According to Alpa, et al. (2005), In cases of high labour turnover and low expertise, this can result to manpower wastage and high training costs. As a human factor, in the long term it lowers the productivity and affects the brand image of the small enterprise as an employer.

2.3.1.3 Trainings on Working Capital Management

Working capital management is vital for MSE growth and profitability. In his study, Garcia-Teruel et al, (2007) found out that there is a negative relationship between working capital management and MSE profitability. In their study on the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms, Garcia-Teruel and Martinez-Solano (2007) found out that managers can create value and improve business profitability through various ways among them: - inventory reduction, also through reduction of the number of days for their accounts outstanding and shortening of the cash conversion cycle

2.3.1.4 Micro Credit

Micro financing or access to credit can be defined as giving small amounts of money in form of loans(microloans) to small scale borrowers who in one way or another lacks collateral / security ,employment or/and a verifiable credit history. Mainly, microcredit is purposed for poverty eradication and empowerment. As of 2012, Microcredit being part of microfinance has really gained popularity in the developing countries as it provides quite a number of financial facilities and services most commonly loans, insurance and savings especially to the poor thus considered as having a great potential as a tool of poverty eradication. Terjesen and Szerb (2008) claimed that individuals with access to adequate funding may finance their businesses better and access necessary resources for business growth.

2.3.2 The Macro Economic Factors

These factors include variables related to economic policy that are essential for promoting private investment in MSMEs, they are; legal and regulatory issues, the assessment of tax, backward and forward linkages with large enterprise, access to credit, the degree of competition at the local market and local demand for goods and services produced by

MSMEs. According to various studies, it has been found out that, these macro-economic factors have a positive relationship with enterprise growth

2.3.3 Factors related to internal efficiency

These refer to business related decision made by owners/ managers, trends in net income, conversion of profit back into investment, demographic conditions, level of education, prior business experience, managerial ability, motivation for working in the sector, number of working hours, level of technical skill, business training received among others. Studies have shown that good internal efficiency promotes business growth and survival.Thus, it can be said that there exists a positive relationship between good internal efficiency and business growth.

2.4 Empirical Literature Review

This focuses on the reviews of the studies done on and around the topic of the effect of MFI services on the growth of SMEs.

A number of studies have been conducted globally on Micro finance services. Makorere, (2014) did a study to examine the role of microfinance in promoting small and medium enterprises (SMEs) in Tanzania: empirical evidence from SMEs holder who have received microcredit from financial institutions in Morogoro, Tanzania

In his study, he highlighted that there exists a direct relationship that exists between the micro finance access and the growth of SMEs. The paper assessed SMEs Owners who have received credits only from financial credit. Findings of the study showed that increase on business profits, employments, outlets, sales volume, all these, were observed to be statistically significant improved by microfinance. Except for increase in capital structure which has no direct relationship to microfinance access. The study also revealed that many problems faced by Tanzanian enterprises are not related microfinance received, but are related to macro-economic institutional constraints, such as demand and supply problems, tax regime and energy problems thus micro finance access is an important aspect of business growth.

Anane (2013) studying sustainability of small and medium scale enterprises in rural Ghana: the role of microfinance institutions He found out that the contribution of these SMEs to national development is significant and should be given the needed attention by both the government and the civil society. He also highlighted that MFIs play a critical role in the provision of capital to SMEs especially those described as the “unbankables’’by the formal sector banks and also pointed out that despite the challenges, MFIs within the economic context help rural SMEs to withstand shocks that could collapse their activities, increase incomes and savings over time, increase SMEs productivity, and also help SME operators to acquire the necessary skills needed to manage their activities. In all, MFIs need to better assist SMEs.

Ojo (2009) in his study on the impact of microfinance on entrepreneurial development: the case of Nigeria, he used the questionnaire method to collect primary data. He conducted the null hypotheses to test the course of his study and his findings were (i) there is no significant difference between entrepreneurs who use microfinance and those who do not. (ii) There is no significant effect of microfinance institutions activities in predicting entrepreneurial productivity. (iii) There is no significant effect of microfinance institutions activities in predicting entrepreneurial development. According to him, the goal of microfinance institutions as development organization is to service the financial needs of served and underserved market as a means of meeting development objectives. These development objectives generally include one or more of the following; to reduce poverty, to empower women or other disadvantaged population groups, to create employment, to help existing business grow or diversify their activities; to encourage the development .The study further established that micro finance institutions have a positive relationship with the Nigerian economy represented by the expanded GDP. Although interest rate is not significantly influential, the results of the findings of the study can be summarized that the microfinance institutions and their activities go a long way in determination of the pattern and level of economic activities and development in the Nigerian economy.

Xitian Wang (2013) did a study on the Impact of Microfinance on the Development of Small and Medium Enterprises: The Case of Taizhou, China. The data he used in his paper was derived from investigation results of designed questionnaires to conduct an independent survey. According to him, Firm size is defined in terms of number of employees and in addition, the paper also introduces the availability of training as one of the characteristics of each SME. He pointed out that the availability to train is a very important criterion in forecasting the growth of a SME and its level productivity because SMEs who train their employees frequently tend to have a higher productivity and better employees satisfactions. The study concluded that Micro finance services are very essential for development of SMEs.

Bran and Woller (2010) carried out a study to establish the effects of microfinance in India. The study concluded that microfinance has brought better psychological and social empowerment than economic empowerment. The study also highlighted that the impact of microfinance is commendable in courage, self-confident, self-worthiness, skill development, awareness about environment, peace in the family, poverty reduction, improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate. As a result of participation in microfinance, there is observed a significant improvement of managerial skills, psychological well-being and social empowerment. It is recommended that the Self Help Groups may be granted legal status to enhance the performance.

A number of studies have also been conducted locally on Micro finance services. Rotich, (2014) conducted a study to establish the effects of microfinance services on the performance of small and medium enterprises in Kenya.

The purpose of the study was to assess the contribution of microfinance institutions to the performance of the economically active low income traders in Githurai market, Kiambu County, Kenya, through delivery of microfinance products and services. The researcher adopted explanatory research design in investigating the effect of microfinance services on the performance of small medium micro enterprises in Kiambu county Kenya. Explanatory research design was chosen because in business research, the cause-effect relationship is less explicit (Cooper and Pamela, 2006).

The target comprised the 429 MSMEs registered with Kiambu Municipal Council and operating within the Githurai Market. The study relied on primary sources of data using structured questionnaires which were self-administered to owners of the MSMEs to gather primary quantitative data. The findings indicated that the access to credit, savings mobilization and training in micro enterprise investment was on average satisfactory to the micro entrepreneurs. The study concluded that there existed a relationship between extent of provision of microfinance and performance of microenterprises and that micro finance significantly affected performance of micro enterprises. It therefore implies that improvement in the provision levels of micro finance will result in increased effect on performance of micro enterprise.

Training in micro enterprise investment as a component of micro finance help clients in business management and minimizing transaction related risks. The results are in line with that of Kithae et al, (2013) that the financial sector had very high positive correlation with performance of women entrepreneurs and also Lagat (2012) on the impact of youth enterprise fund in Kenya. The study recommends that microfinance service providers and policy development partners could consider including a micro-insurance scheme in the micro finance package. Also extension of the current loan grace period of one month would give the entrepreneurs adequate time to invest the loan and use the returns from the investment for loan repayment. The government and development partners could consider channeling more funds for micro financing programs to bring on board many unemployed people that are currently out of reach of the programs as this will help spur economic development and alleviate unemployment. The current study was a cross sectional survey based on a small sample size taken from only Kiambu County, Githurai market.

Ngugi, (2014) conducted a study to find out the Effects of Micro-Financing on Growth of Small and Micro Enterprises in Mombasa County. In her study, Descriptive survey research design was adopted to assess the effect of micro financing on the growth of SMEs in Mombasa County. According to Kothari (1990) a research design is the conceptual structure within which research is conducted. The responses indicated that microfinance institutions have helped SMEs to expand the businesses. The study also pointed out that there exists a Positive and significant relationship between Microfinance loans and SMEs growth. Her recommendation for the study was that County Government policies and programs designed to develop SMEs were ineffective and thereby needed to be re-conceptualized. The county and central government should ease the process of accessing the women fund and youth enterprises funds. Apart from provision of tax incentives, and financial supports, the County Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions. In the midst of these, the researcher wished to emphasize that the finding of this research clearly indicated that Microfinance had a positive effects on the growth of SMEs

Koech (2011) conducted a study to find out the financial constraints that hinder growth of SMEs in Kenya. The researcher adapted the case study approach and targeted SMEs in Kamukunji District. The study used structured questionnaires as the main tool for data collection. Data was analyzed by exploratory factor analysis and descriptive analysis with the help of SPSS to obtain percentages and frequency distribution tables. The factors hindering growth of SMEs were identified as capital access, cost, capital market collateral requirements information access, capital management and cost of registration. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs easy access to loans.

2.5 Summary of the Literature Review

This literature review appears to reinforce the crucial role of micro finance to small and Medium enterprises. MFIs provide financial services to their clients such as savings and credit services to finance the informal sector in developing countries. They also provide access to capital on smaller scale and enable poor people to engage in productive economic activities and thus contribute to the development in low income population strata. Micro finance organizations also provide social intermediation services such as formation of groups, development of self-confidence and the training of members in that group on financial literacy and management. They also provide micro insurance services to SMEs to enable them manage their business risks.

Theories of micro finance in the study included women empowerment theory, Games theory of microfinance, uniting theory of microfinance, financial sustainability theory and Poverty alleviation theory. The unique characteristics and constraints of SMEs were explicitly mentioned throughout the literature. Koech (2011) identified the factors hindering growth of SMEs as capital access, cost, capital market, collateral requirements, information access, capital management and cost of registration. From the above literature review, it is evident that no conclusive research had been conducted on the effects of microfinance services on the growth of SMEs. Evaluation tools are rarely mentioned and this leaves a gap in the flow of information.It is in this regard that the reseacher decided to research on the effects of MFI services on the growth of MSEs in Kajiado County in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is intended to discuss the methodology that will be used to conduct the study. The chapter therefore focuses on the target population, sample design, data collection procedures or instruments, data analysis and the expected outcome.

3.2 Research Design

Research Design refers to a plan that describes how, when and where data are to be collected and analyzed so as to get an overall for answering the research question or testing the hypothesis (Polit et al (2001:167)). The Research design which was used in this research was descriptive research design. Cooper and Schindler, (2003) defined a descriptive study as one that is concerned with determining the frequency with which something occurs or the relationship between variables. In this study, both quantitative and qualitative approaches to analyze the data were employed to study the effects of microfinance services on the growth of MSEs. Questionnaires were used as the main tool of data collection because of its advantages including; Cheap even on large population, Free from interviewer biases, more time for the respondents to give well thought answers. (Kothari, 1984)

3.3 Population

According to Mugenda and Mugenda (1999) population refers a complete census of all items in research area of investigation for the purpose of the study where a sample will be selected. The target population of the study covered all registered and licensed SMEs in Kajiado County. This information was derived from the County council financial records of the financial year 2014. The population consisted of 2,144 registered SMEs.

3.4 Sample

From the said population , a sample of 217 SMEs was taken using stratified random sampling technique which is used when the population of interest is not homogenous (Kothari, 2000). Stratified random sampling technique is a two-step process. First the target population is partitioned into strata's and then elements are selected from each stratum by simple random sampling. The SMEs in Kajiado are not homogeneous and thus stratified sampling was used. The strata were the business categories that is, Hardware shops, Salons, Restaurants, supermarkets and Boutiques from which the sample will be selected. According to Mugenda and Mugenda (2004) a representative sample is one that is at least 10%. The size of 217 was considered appropriate and the researcher hoped the group would give sufficient response and information needed. For the purposes of this study, 217 SMEs were considered where one respondent was selected from each SME. The researcher focused on management, supervisors and staff as the respondents.

3.5 Data collection

Data was obtained by the use of questionnaire which was structured to elicit information on the impact of the micro-financing services on Business/enterprise growth over the four years that is year 2010,2011,2012 and 2013 covered by the research study. The questionnaire had a combination of closed and open ended questions. Quantitative data generated from the close ended questions in the questionnaire was coded and entered into the computer for computation of descriptive statistics. The open-ended questions were used to permit the respondents to give detailed answers, most of them being actual figures. The qualitative data generated from open ended questions was categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation. The questionnaire was divided into two sections. Section one consisted of questions on business type. Section two dealt with questions on the growth of SMEs. For the questionnaire, the researcher made use of drop and pick method.

3.5.1 Data Validity

Validity is the extent to which the findings are real, that is the success of the measurement scale in measuring what was set out to be measured (Mbugua, 2010). In validating the questionnaire, a pilot test was conducted. A sample was selected from the strata and served with the questionnaires to fill. This enabled the researcher to refine the questionnaire to eliminate problems to the respondents while answering the questions and during data recording.

3.5.2 Data Reliability

According to Mbugua (2010) data reliability is the consistency in which the instruments give the same results. In order to maintain reliability of the data collected, a standard structured questionnaire was used. Data reliability was assessed using the test re- test method. This entailed administering the questionnaire twice to three respondents from SMEs. The data obtained was checked against the data obtained earlier using the same questionnaire. This ensured collection of the right data and ambiguous questions were avoided. It also eliminated the risk of collecting useless data.

3.6 Data Analysis

Data was analyzed using descriptive statistics mainly frequency distribution table, percentages bar charts, measures of central tendancies, for open ended questions, qualitative analysis using non-statistical technique was also considered.The researcher used computer package S.P.S.S and excel to communicate and assist in data analysis.

3.6.1 Analytical Model

Beyond the identification of perceived growth of SMEs in Kajiado County, the study also sought to empirically establish the determinants of growth. The study covered a period of four years that is years 2010, 2011, 2012 and 2013. SMEs growth was defined by four indicators namely; employee growth, total business worth, turnover and gross profit. To examine these determinants of growth, enterprise level information was used and the data generated for the study was analyzed using both descriptive statistics techniques and mainly frequency distribution tables, percentage bar charts, measures of central tendencies.

The analytical technique employed was the multiple regression analysis using the ordinary least square (OLS) approach. The researcher used SPSS (Statistical Package for Social Sciences) computer package and excel to communicate and assist in data analysis. The variables were analyzed to know their level of influence, strength and significance on small business growth.

The hypothesis was structured to ascertain the impact of microfinance on MSE growth. This was expressed as:

$$Y=f(X1, X\ 2, X\ 3, X4) \quad (1)$$

Where:

Y= SMEs growth (in terms of sales)

X1= Microcredit

X2=Micro-insurance

X3 = Number of Trainings provided to SMEs by the MFIs

X4= Micro-savings

The first step consisted of defining the variables of interest. In this study, SMEs growth was determined by annual sales growth rate, employee growth, total business worth and gross profits and is the dependent variable (SBG) and key predictors of MSEs' expansion and growth were the independent variables.

The variables in the model were measured using the ratio scale. The dependent variable (Y) was measured by the rate of change of sales per annum. For the independent variables, we had (X1) Microcredit which was measured by the proportion of total loans received by the SME to its net assets. (X2)Micro-insurance) was measured by the proportion of total insurance policies taken to net assets, (X3) training was measured by total number of trainings provided to SMEs by the MFIs and (X4) savings which was measured by the number of investments made by the SMEs to its net assets. Multiple regressions was carried out during the study to determine the relationship between the variables and Partial Correlation analysis will also be carried out to establish the nature and the strength of relationship between the dependent variable

Analytical model is a mathematical model with a closed form solution. Analytical model in the form of multiple regression models was used in the study to ascertain the impact of microfinance on MSE growth.

Hence the equation is re – written as:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + E$ (2)

Where:

Y = SMEs growth (in terms of sales, employees, assets and profits)

α= Constant/the intercept point of the regression line and the y-axis

β= the slope/gradient of the regression line

X1 = Microcredit

X2 = Micro insurance

X3 = Training provided by MFIs

X4=Micro Savings

ε = Error term

Annual turnover growth = $\alpha + \beta 1$ (Microcredit) +$\beta 2$ (Micro-insurance) +$\beta 3$ (Training) + $\beta 4$ (Savings) + ε

3.6.2 Test of Significance

F-test and Student's t- distribution test was used to determine the strength of the relationship between dependent and the independent variables in the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study which was analyzed, interpreted and discussed under thematic and sub thematic areas in line with study objectives. Section 4.2 focuses on the descriptive analysis. Section 4.3 presents the results of the regression analysis carried out and the effects of Microfinance services on the growth of SMEs in Kajiado County. Section 4.4 gives the correlation analysis. Section 4.5 presents a summary of the chapter in terms of interpretation of findings and discussions.

4.2. Descriptive Analysis

4.2.0 Response Rate

Out of the 217 intended respondents, only 161respondents returned fully completed and questionnaires giving a response return rate of 74%. This response rate is favorable according to Mugenda & Mugenda (2003) in which they asserted that 50% response rate is adequate, 60% is good and above 70% is rated very well. This reasonable response rate was realized after the researcher made visits to drop and made personal calls to remind the respondents to fill and return the questionnaires.

Table 4.1: Response rate

BUSINESS CATEGORY	FREQUENCY	PERCENT
Hard wares	26	16.15
Salons & Kinyozi's	19	11.80
Boutiques	21	13.04
Private Schools	30	18.63
Supermarkets	8	4.97
Petrol Stations	13	8.07
Bars & Restaurants	23	14.29
Dispensaries/clinics	5	3.11
Chemists	16	9.94
Total	**161**	**100**

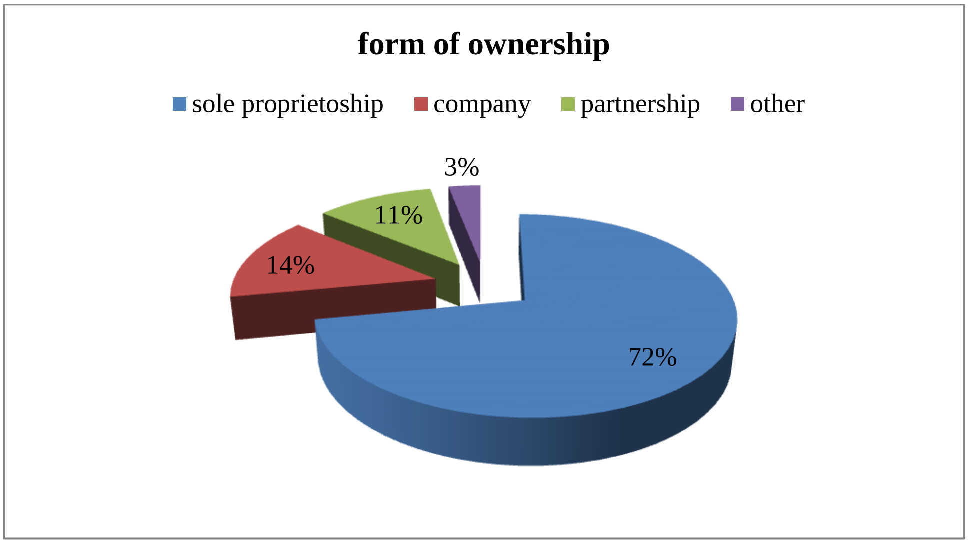
Source: Author's Computation 2015

4.2.1 Demographic information

4.2.1.1 Forms of Ownership

The respondents were asked to indicate the form of ownership of their businesses. The results showing the distribution of the respondents by ownership of respondent businesses are summarized in the figure below. From the figure, it can be said that most of the respondent's businesses 115 (71.4%) were in sole proprietorship, 23 (14.3%) were in company, 18 (11.2%) were in partnership and 5 (3.1%) were in other forms of ownership.

Figure 4.1: Form of Ownership

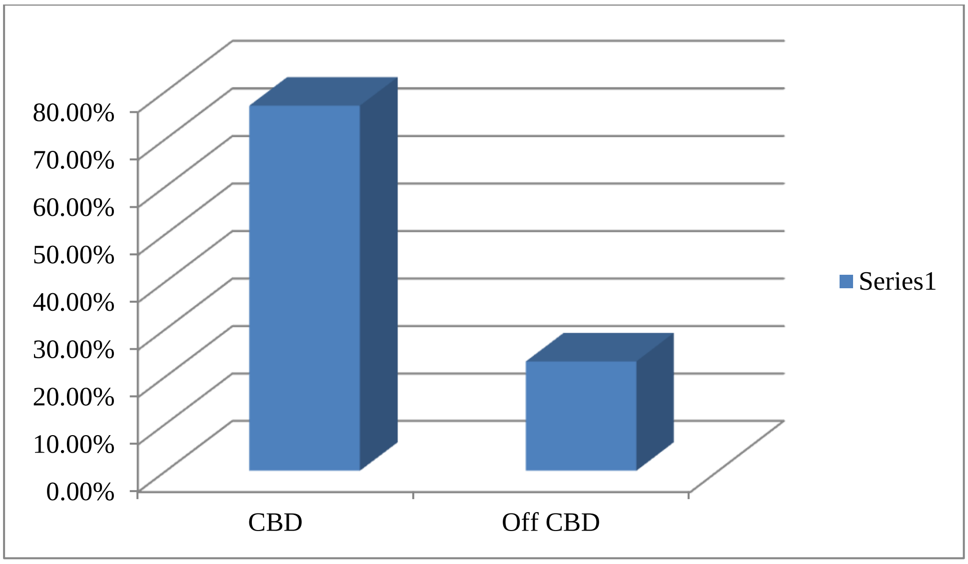


Source: Author's Computation 2015

4.2.1.2 Location of the Business

The results on the respondent's location of their businesses are summarized in Figure 4.2. The results in the figure show the distribution of respondents by location of the business. From the results of the study it was found that most respondents have their business at Central business districts area at 76.9% and the others at 23.1% off the Central business districts area as shown in the figure below.

Figure 4.2: Location of the Business



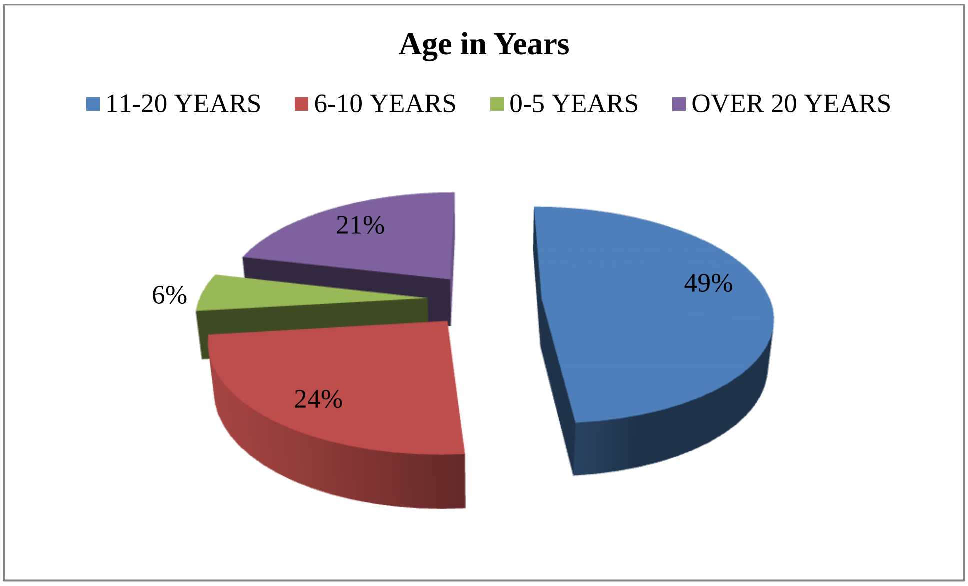
Source: Author's Computation 2015

4.2.1.3 Age of business

The respondents were asked to indicate the time when their businesses were established.

The results show the distribution of respondent by age in years. From the figure, the study found that most respondents businesses have between 11-20 years since they were established at 48.6%, 6-10 years at 24.5%, over 20 years 21.3% and 0-5 years 5.6%. The results are summarized in the Figure 4.3 below

Figure 4.3: Age in year



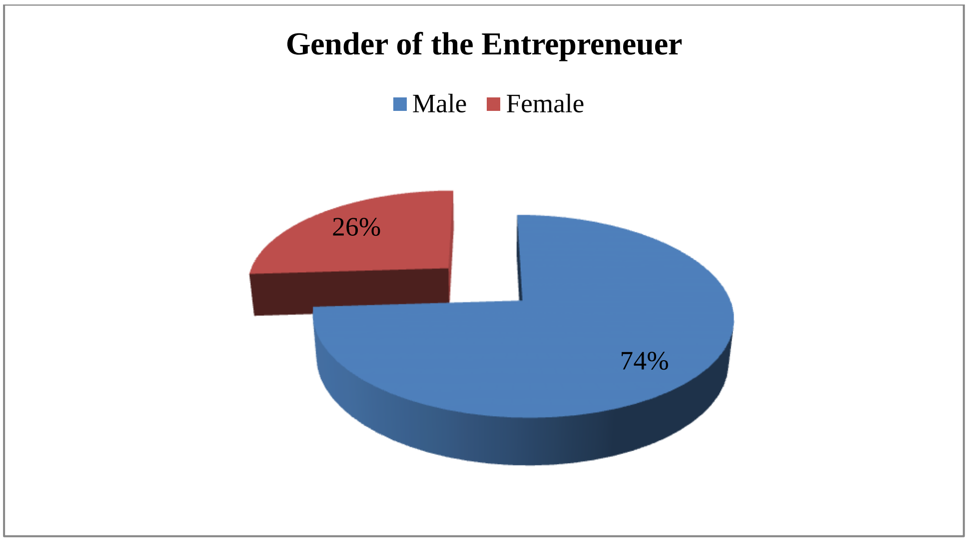
Source: Author's Computation 2015

From the figure 4.3 above, the business age in years tends a normal curve. From the results, it seems that businesses are enthusiastic to start and at their early years, they struggle with their growth objectives to keep in operation. As they continue to age in terms of years, challenges become stiff; and they die out of the business (tending to a normal curve.)

4.2.1.4 Gender of Entrepreneur

The study also focused on the gender of the entrepreneurs to determine the gender of managers from the respondents. The figure 4.4 below shows a summary of the respondent distribution by gender of their managers. The findings indicate that most managers of the SMEs 119 (73.9%) are males while only 42 (26.1%) are females.

Figure 4.4: Gender of Entrepreneur

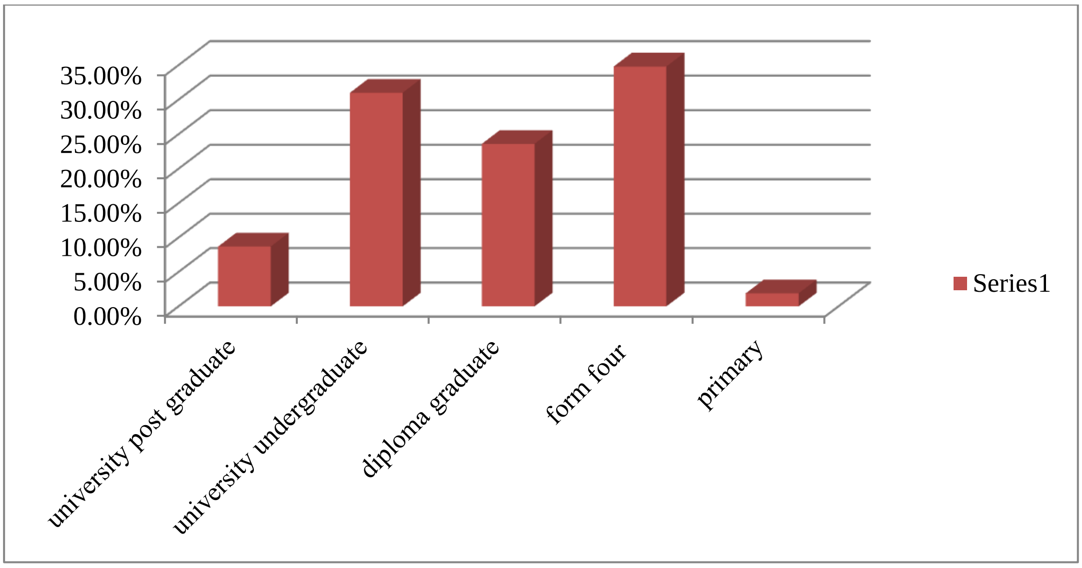


Source: Author's Computation 2015

4.2.1.5 Education Level of the Manager

The study also determined the education level of the manager of the respondents. A summary of the results is shown in the figure 4.5 below. The figure shows the respondent distribution in terms of the highest level of education of their managers. From the figure, it can be said that the majority of the managers of the respondents 56 (34.8%) were form four graduates while 50 (31%) had basic university education, 38 (23.6%) were diploma graduates, and 14 (8.7%) were postgraduate managers. Only 3 (1.9%) had primary level of education. This shows that the SME's are being run and managed by personnel of higher educational qualifications

Figure 4.5: Education Level of the Managers

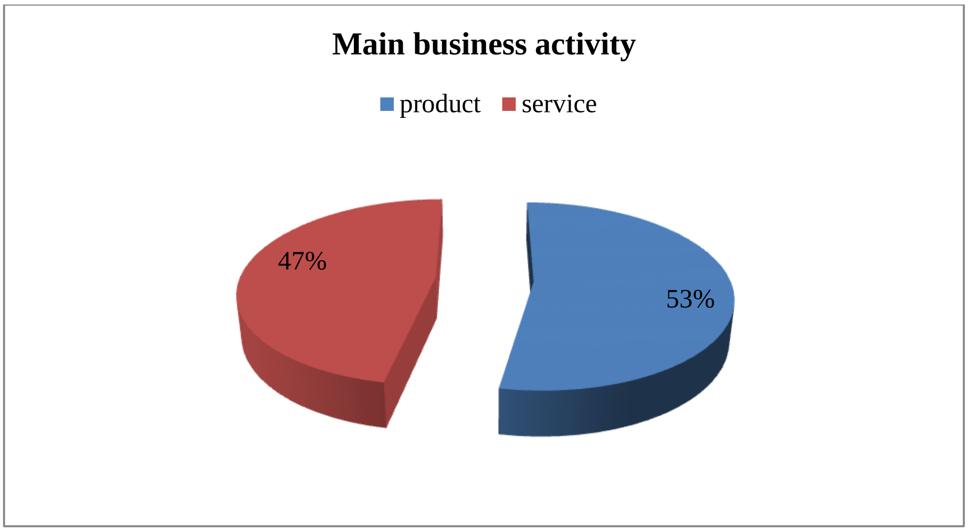


Source: Author's Computation 2015

4.2.1.6 The Main Business Activity

The study also required the respondents to indicate the main business activity of the business. The figure 4.6 below was used to summarize the results. The researcher used a pie to show the respondents distribution in terms of their main business activity. From the figure, it can be said that the majority of the respondent at 53% are in products SME's while only 47% are in services SME's. Among those businesses that were sampled and were in products were hard ware shops, Boutiques, Supermarkets, Petrol Stations, and Chemists. The service businesses that were sampled were Salons & Kinyozi's, Private Schools, Bars and Restaurants, Dispensaries. The figure below gives a summary of the main business activity.

Figure 4.6: The main business activity



Source Author's Computation 2015

Growth

4.2.1.7 The Value of Business in Total Assets

The respondents indicated the value of their businesses in total assets. The results are summarized in Table 4.2 below

Table 4.2: Value of Business

Value of business Kshs "000"	Frequency	Percent
10 -1000	56	34.8%
2000 - 10000	83	51.6%
20000 - 50000	13	8%
Over 50000	9	5.6%
Total	**161**	**100%**

Source: Author's Computation 2015

From the results in the above Table, the respondent distribution in terms of their Value of business shows that the majority of the respondent's business were valued between two millions and ten millions representing 51.6%, 34.8% were at between ten thousand and one million, 8.0% were valued between twenty and fifty million and 5.6% were over fifty millions.

4.2.1.8 Savings for the last One Year

The respondents were asked to estimate their savings for the previous one year. The results are summarized in Table 4.3. below

Table 4.3: Savings for the last One Year

Savings for the last one year Kshs "000"	**Frequency**	**Percent**
10 – 100	49	30%
200 – 1000	90	56%
2000 – 10000	19	12%
Over 10000	3	2%
Total	**161**	**100%**

Source: Author's Computation 2015

From the above Table 4.3, the results show the respondent distribution in terms of their Savings for the last one year. From these results, it can be said that the majority of the respondent's business 90 (56%) saved between two hundred thousand and one million for the last one year, (49) 30% had saved between ten thousand to one hundred thousands, (19) 12% had saved two millions to ten millions and (3) 2% saved over ten millions

4.2.1.9. Average Monthly Sales

The study also looked into the average monthly sales of the respondents. The results are summarized in Table 4.4 below

Table 4.4: Average Monthly Sales

Average monthly sales(Kshs "000")	Frequency	Percent
10 – 100	55	34.2%
200 – 1000	79	49.1%
2000 – 10000	18	11.1%
Over 10000	9	5.6%
Total	**161**	**100%**

Source: Author's Computation 2015

The results in the above Table 4.4 show the respondent distribution in terms of their average monthly sales. From the table above, majority of the business, 79 (49.1%) had average monthly sales of two hundred thousand to one million, 55 (34.2%) had average monthly sales of ten thousand to one hundred thousand, 18 (11.1%) had average monthly sales of two millions and 9 (5.6%) had average of ten million and above.

4.2.2 (a) Full Time Employees

The results for the study on determining the full time employees of the respondents are summarized in Table 4.2.2 below.

Table 4.5: Full Time Employees

Full time employees	Frequency	Percent
1 – 20	130	81%
21 – 40	23	14%
Over 41	8	5%
Total	**161**	**100%**

Source Author 2015

The above Table 4.5 shows the respondent distribution in terms of their full time employees. From the table, it can be seen that majority of the businesses had 1-20 full time employees at130 (81%), 23(14%) had 21-40 full time employees and 8 (5%) had over 40 full time employees.

4.2.2. (b) Temporary/Casual Employees

The study also determined the temporary/casual employees of the respondents. A summary of the results is shown in the table 4.6 below

Table 4.6: Temporary/Casual Employees

Temporary/casual employees	Frequency	Percent
1 – 20	118	73%
21 – 40	21	13%
Over 41	6	4%
RTA	16	10%
Total	**161**	**100%**

Source: Author’ Computation 2015

The results in the above Table 4.6 show the respondent distribution in terms of their temporary/casual employees. From the table, it is clear that majority of the business had 1-20 temporary/casual employees representing 73%, 13% had 21-40 temporary/casual employees , 4% had over 41 casual employees while 16% refused to answer.

4.2.2.1 Growth in terms of Sales, Assets, Employees, New Branches and Size in the last four years

The respondents were asked to indicate whether their business experienced growth in terms of sales, assets, employees, new branches, size in the last four years. From their responses, a summary of the results were as tabled below in Table 4.7

Table 4.7: Business/Company experienced Growth

	Frequency	**Percent**
Yes	152	94.4%
No	9	5.6%
Total	**161**	**100%**

Source: Author's Computation 2015

The results in the above Table 4.7 show the respondent distribution in terms of whether their business/company experienced growth in terms of sales, assets, employees, new branches, size in the last four years. The responses show that majority of the businesses 152 representing 94.4% experienced growth in the last four years while only 9 (4.5%)did not experience growth.

4.2.2.2 Percentage of Growth in the following areas

The research also considered the percentage of growth in various areas of the respondents businesses. The results are summarized in Table 4.8

Table 4.8: Percentage of growth in the following areas

Area of Growth	2010	2011	2012	2013	Average
Sales	3.6	3.8	4.3	3.7	**3.85**
Employment	3.9	3.8	3.7	3.6	**3.75**
New Branches	15	17	19	21	**18**
Technology	4.5	5.6	6.1	11.2	**6.85**
Skills improvement	3.8	3.9	5.7	9.7	**5.8**
Average	**6.16**	**6.82**	**7.76**	**9.84**	

Source: Author's Computation 2015

The results in the above Table 4.8 show the respondent distribution in terms percentage of growth in sales, employment, new branches, technology and skills improvement. From the table, it can be seen that introduction of new branches/business highest average at 18%, technology improvement at 6.85%, skill improvement at 5.8%, sales at 3.85% and employment had the least at 3.75%

4.2.2.3 Factors contributing to the Growth

The study also considered the factors that attributed to the growth of the respondents businesses. The results are summarized in Table 4.9.

Table 4.9: **Factors Contributing to the Growth**

Factors attributed to Growth	**Frequency**	**Percent**
Loans	116	72%
New markets	7	4.35%
New products	7	4.35%
Re-investment of profits	27	17%
Total	**157**	**97.7%**
RTA	4	2.3%
	161	**100%**

Source: Author's Computation 2015

The results as tabled above in Table 4.9 show the respondent distribution in terms factors that attributed to the growth. From the table, the majority of the respondents at 72% their growth was attributed to loan, 17% their growth was attributed to re- investing of profit, 4.35% their growth was attributed to new markets and new products while 2.3% refused to answer.

4.2.2.4. Disposal of any Assets in the last Four years

The study also determined the assets disposed in the last four years of the respondents' business operations. A summary of the results are as in the Table 4.10.

Table 4.10: Disposed any Assets in the last Four years

	Frequency	Percent
Yes	6.8%	11
No	93.2%	150
Total	**100%**	**161**

Source Author's Computation 2015

From the responses, the results realized are summarized in the above Table 4.10 showing the respondent distribution in terms of assets disposed in the last four years. From the table, the majority of the respondents (150) 93.2% had not disposed any assets in the last four years while only (11) 6.8% had disposed some assets in the last four years.

4.2.2.5 The Proportion of Asset Disposed

The research study also considered the proportion of asset disposed of the respondents. The results obtained are as summarized in Table 4.11.

Table 4.11: The Proportion of Asset Disposed

	Frequency	**Percent**
In the last one year	1	9.1%
In the last two years	3	27.3%
In the last three years	2	18.1%
In the last four years	5	45.5%
Total	**11**	**100%**

Source: Author's Computation 2015

The results in the above Table 4.11 show the respondent distribution in terms proportion of assets disposed. From the results in the table above, majority of the respondents at 45.5% disposed assets in the four years and 27.3% disposed the assets in three years, while only 18.1% and 9.1% had disposed assets in the last two years and one year respectively.

4.2.2.6 Use of the Profits for the last Two Years

The research study also tried to determine the use of the profits for the last two years of the respondents. The results are summarized in Table 4.12 below

Table 4.12: Use the Profits

Use of Profits	**Frequency**	**Percent**
Purchase of assets	22	13.6%
Business Expansion	84	52.5%
Used as working capital	45	27.8%
Savings	10	6.1%
Total	**161**	**100%**

Source: Author's Computation 2015

The results tabled above in the Table 4.12 give the respondent distribution in terms of how they used the profits for the last two years. From the table, majority of the respondents 84, representing 52.5% used their profits for business expansion, 45, representing 27.8% used their profits as working capital and 22, representing 13.6% used their profits to purchase assets while 10, representing 6.1% used their profits as Savings.

4.2.2.7 Overall Growth of Business

The study also determined the overall growth of the business of the respondents. A summary of the results is shown in Table 4.13 below

Table 4.13: Overall growth of business

	Frequency	Percent
Very Low	4	2.1%
Low	6	3.7%
Moderate	131	81.5%
High	20	12.7%
Total	**161**	**100%**

Source: Author's Computation 2015

The results in the above Table 4.13 show the respondent distribution in terms overall growth of their business. From the table, the majority of the respondents 131, representing 81.5% overall growth of business are moderate, 20 representing 12.7% overall growth of business are high, 6, representing 3.7% overall growth of business are low and (4) 1.5% overall growth of business at very low.

4.2.2.8 Micro Insurance

The study determined the percentage micro insurance policies taken each year by the respondents. The results are summarized in Table 4.14

Table 4.14: Micro Insurance

year	Percent
2010	16%
2011	18%
2012	21%
2013	26%
Average	**20.25%**

Source: Author's Computation 2013

The results in the above Table 4.14 show the respondents' percentage of micro insurance policies taken each year for the four years in study. From the table, it can be seen that highest percentage of micro insurance policies 26% was taken in 2013, 21% of micro insurance policies taken in 2012, 18% was taken in 2011 and 16% taken in 2010. This shows that the SMEs continue to be enlightened about the importance of micro insurance thus increasing their use of micro insurance.

4.2.2.9 Total Number of Trainings by MFIs to SMEs

The study respondents were asked to indicate the total number of trainings by the MFIs each year for the four years in study. The results are summarized in Table 4.15.

Table 4.15: Total number of Trainings

year	**Percent**
2010	7%
2011	16%
2012	21%
2013	26%
Average	**17.5%**

Source: Author's Computation 2015

The results in the above Table 4.15 show the respondent percentage number of trainings. From the table, it can be seen that majority of the respondents at 26% total number of trainings 2013, 21% total number of trainings in 2012, 16% total number of trainings in 2011 and 7% total number of trainings in 2010.

4.3 Regression Analysis

A regression analysis between the dependent variable and the independent variables was performed; independent variables being Microcredit, Micro insurance, Training provided by MFIs, Micro Savings. The dependent variable was growth of MSEs.

Table 4. 16: Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
0.788[a]	0.621	0.542	0.468	0.002

a. Predictors: (Constant), Microcredit, Micro insurance, Training provided by MFIs, Micro Savings

From the table 4.16, R is the square root of R-Squared and is the correlation coefficient showing the relationship between the study variables. From the findings in the table 4.17 above, there was a strong and positive relationship between the study variables as shown by the R figure of 0.788. Adjusted R squared is coefficient of determination which shows the variation in the dependent and predicted values of dependent variable due to changes in the independent variables. From the results in the table above, Adjusted $R^{2} =$.0.542, P=0.002<0.05 which indicates that there existed a significant variation between Growth of MSEs and Microcredit, Micro insurance, Training provided by MFIs, Micro Savings.This implied that, there was a significant variation of 54.2% of growth of MSEs at a confidence level of 95%.Confidence interval. The study was mainly on the relationship between the dependent and the independent variables thus a regression analysis was used. A multivariate regression model was used to determine the importance of each of the four variables with respect to the effect of microfinance services on the growth of SMEs in Kajiado County.

4.3.1 Regression Equation and the predictor Relationship

Results in table 4.17 below present the test of the statistical significance of the independent variables in the model. This provides the estimates of independent variables, their standard error and the t-ratios.

Table 4. 17: Regression Coefficients

Model	Unstandardized Coefficients		Standardized	t	Sig.
			Coefficients		
	B	Std. Error	Beta		
(Constant)	5.445	0.845		5.978	.0106
Microcredit	.511	.001	.412	10.336	.0061
Micro insurance	.281	.000	.291	12.703	.0018
Training provided by MFIs	.465	0.182	0.223	6.145	0.014
Micro Savings	.436	0.273	0.341	3.461	0.001

Source: Author 2015

The established multiple linear regression expressed as follows:

$Y = 5.445 + 0.511X_1 + 0.281X_2 + 0.465X_3 + 0.436X_3$

The study equation indicated that growth of SMEs was at 5.445 (Constant) holding microcredit, micro insurance, training provided by MFIs, micro savings

$X_1 = 0.511$, from the regression analysis, implied that one unit change in microcredit results in 0.511 units increase in SMEs annual sales. The study established that there existed a significant positive relationship between microcredit and Growth of MSEs

X_2 = 0.281, the results in the Table indicated that one unit increase in Micro insurance led to 0.281 units increase which is a significant increase in growth of SMEs in terms of annual turnover.

X_3 = 0.465 in the study which shows that one unit increase in Trainings by MFIs led to 0.465 units increase in SMEs growth in sales. Therefore, there was a significant relationship between training provided by MFIs and growth of SMEs

X_4 = 0.436 from the study which can be interpreted to mean that one unit increase in Micro savings led to 0.436 units increase in SMEs growth in sales. A further conclusion can therefore be made that there existed a significant relationship between Micro Savings and SMEs Growth

4.4 Correlation Analysis

Table 4. 18: Correlation between SMEs growth and Micro credit, Micro insurance, Training and Savings

		SMEs growth	Microcredit	Micro insurance	Training provided by MFIs	Micro Savings
	Pearson Correlation	1				
SMEs growth	Sig. (2-tailed)	0.000				
	N	161				
Microcredit	Pearson Correlation	.725*	1			
	Sig. (2-tailed)	.0001	0.0015			
	N	161	161			
Micro insurance	Pearson Correlation	.567*	.534	1		
	Sig. (2-tailed)	.003	.066			
	N	161	161	161	1	
Training provided by MFIs	Pearson Correlation	.667*	.534	0.569	0.618	
	N	161	161	161	161	
	Sig (2-tailed)	0.021	0.001	0076	0.372	
Micro Savings	Pearson Correlation	.5904*	.834	0.537	0.698	1
	Sig. (2-tailed)	0.001	0.123	.0046	.045	.069
	N	161	161	161	161	161

A partial correlation analysis using Karl Pearson correlation coefficient was performed. A positive coefficient indicates a positive relationship between the variables being correlated. From the Table 4.18, the study found that there existed a strong and positive relationship between SME growth and Microcredit as Correlation coefficient r=0.725, P=0.0001<0.05.

The study also found out that there existed a significant strong positive correlation between SMEs growth and Micro insurance as the correlation coefficient r=0.567, P=0.003<0.05.This was significant at 5% significance level.

The study established that there existed a significant strong positive correlation between SMEs growth and Training provided by MFIs as correlation coefficient r=0.667, P=0.021<0.05. The study further established that there existed a significant strong positive correlation between SMEs growth and Micro Savings as correlation coefficient r=0.5904, P=0.001<0.05. This clearly demonstrated that there existed a significant positive correlation between Microcredit, Micro insurance, Training provided by MFIs, Micro Savings and growth of SMEs

Analysis of Variances

The probability value (p-value) is the probability of getting a value of the test statistic when determining "likely" or "unlikely" by determining the probability assuming the null hypothesis were true of observing a more extreme test statistic in the direction of the alternative hypothesis than the one observed. If the *P*-value is small, say less than (or equal to) α, then it is "unlikely" or "reject the null hypothesis" And, if the *P*-value is large, say more than α, then it is "likely" or "accept the null hypothesis"

ANOVA findings in the table below shows there existed correlation between the predictors variables (Microcredit, Micro insurance, Trainings by MFIs and Micro savings) and (SMEs growth in turnover) since P-value is 0.001 which is less than 0.05

Table 4. 19: An Analysis of variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.984	16	0.624	4.011	.001[b]
	Residual	54.375	145	.375		
	Total	64.359	161			

Note: df = degrees of freedom; F = Anova; α = Level of significance; F_0 = Calculated value of F; F_C = the critical value of F; α_0 = Calculated value of α; and αc =critical value of α .

a. Dependent: SME Growth

a Predictors: (Constant), Microcredit, Micro insurance, Training provided by MFIs, Micro Savings.

The reason for carrying out the ANOVA analysis was to test the differences in means for variables for statistical significance. The ANOVA analysis was intended to investigate if the variation in the independent variables explain the observed variance in the outcome (in this study the SMEs growth in annual sales)

The study Anova Results established that the independent variables significantly (F=4.011, P=0.001) explain the variance in SME growth in terms of annual turnover. In this study, the table above presented the dependent variable as the level of performance and the independent variables or the predictors, Microcredit, Micro insurance, Training provided by MFIs, Micro Savings.

4.5 Interpretation of Findings and Discussion

From the results of regression analysis the coefficient of determination, the adjusted R squared of 0.542 in table 4.17 tells us the variation in the dependent variable due changes in the independent variables. From the findings of the study, the regression analysis indicated. R is the correlation coefficient which shows the relationship between the study variables. From the results as shown in table 4.17, there was a strong positive relationship between the study variables as shown by the correlation coefficient R of 0.788. The study was on dependence and independence relationship. A multivariate model was applied to determine the relative importance of each of the five variables with respect to the effects of microfinance services on the growth of SMEs in Kajiado County. From table 4.18,the constant of 5.445 shows that if Microcredit, Micro insurance, training provided by MFIs and micro savings were rated as zero, annual SMEs growth in turnover would be 5.445. X_1 □ 0.511 shows that one unit change in Microcredit results in 0.511 units increase in annual growth in turnover. X_2 □ -0.281, shows that one unit change in Micro insurance results in 0.281 units increase in annual growth in turnover.$X_3 =$ 0.465, shows that one unit change in training provided by MFIs results in 0.465 units in annual growth in turnover. X_4 =0.436 shows that one unit change in Micro savings results in 0.436 units increase in annual growth in turnover This implies that micro credit has the greatest positive impact on the growth in sales followed by training while micro savings and micro insurance has the least impact on SMEs growth.

The ANOVA analysis was intended to investigate whether the variation in the independent variables explain the observed variance in the outcome – in this study the annual growth in turnover. ANOVA findings in table 4.19 shows that there is correlation between the predictors variables (Microcredit, Micro insurance and Training provided by MFIs, micro savings) and response variable (Annual growth in turnover) since P- value of 0.001 is less than 0.05**.** This indicated that there was a strong positive relationship between the study variables. The coefficient of determination R- explains the extent to which change in the dependent variable can be explained by change in the independent variable.

The outcome of this study agrees with the findings of the study by Cooper (2012) who studied on the impact of microfinance services on the growth SMEs in Kenya and found that there existed a strong positive relationship between microfinance services and the growth of SMEs. However the findings in this study indicate that micro insurance has the least effect on the growth of SMEs. The most probable explanation for this from the respondents' responses is that there is information gap and lack of information on micro insurance and those with information on insurance said that they do not insure their businesses because of the difficulties involved in providing the information required by the Microfinance Institutions to process their claims in the event of an insured risk.

The findings of this study also concur with the study on factors affecting growth. Koech (2011). According to him, these factors were capital market, cost, capital access, collateral requirements, information access, capital management and cost of registration.

4.6 Summary

The study revealed that most respondents (72%) were in sole proprietor, (14%) of the respondents were in companies, (11%) of the respondents were in partnership and 3%) of the respondents were in other income generating sectors. From the study, most respondents at 76.9% have their business at Central business district areas while the other 23.1% of the respondents are located Off the Central business districts area. Most respondents businesses have between 11-20 years since they were established at 48.6%, 6-10 years at 24.5%, over 20 years 21.3% and 0-5 years 5.6%. The study also found out that managers of SMEs are mostly men with a proportion of 74%. The management is done by personnel of high qualifications. The majority 56 (34.8%) of the respondents managers were form four graduates while 50 (31%) had basic university education, 38 (23.6%) were diploma graduates and 14(8.7%) were post graduate managers. Only 3(1.9%) had primary level of education.

The study also revealed that, the majority of the respondents, at 53% were in products SME's while only 47% are in services. It can be noted from the findings that the majority of the respondent's business are valued between two millions and ten millions, at 83(51.6%) From the findings, the majority of the respondent's businesses saved between two hundred thousand and one millions, at 90(56%).Majority of the businesses at 81% had 1-20 full time employees while also majority of the businesses had 1-20 temporary/casual employees, representing 73%, Most of the business, 94.4% had experienced growth, majority of the respondents at 72% their growth was attributed to loan, 17% their growth was attributed to re- investing of profit, 4.35% their growth was attributed to new markets and new products.

The study revealed that majority of the respondents at 93.2% had not disposed any assets in the last four years while only 6.8% had disposed assets in the last four years. Respondents at 52.5% used their profits for business expansion, 27.8% used their profits as working capital and 13.6% used their profits to purchase assets and 6.1% used their profits as savings. Majority of the respondents at 81.5% overall growth of business was moderate, 12.7% overall growth of business was high, 3.7% overall growth of business was low and 2.1% overall growth of business was very low. Most of the respondents at 26% received micro insurance in 2013, 21% received micro insurance in 2012, 18% received micro insurance in 2011 and 16% received micro insurance in 2010.

From the results, SMEs received highest number of trainings at 26% in 2013, 21% number of trainings in 2012, 16number of trainings in 2011 and 7% number of trainings in 2010.

The study was on dependence and independence relationship. A multivariate model was applied to determine the relative importance of each of the five variables with respect to the effects of microfinance services on the growth of SMEs in Kajiado County. From table 4.18,the constant of 5.445 shows that if Microcredit, Micro insurance, training provided by MFIs and micro savings were rated as zero, annual SMEs growth in turnover would be 5.445. $X_1 = 0.511$ shows that one unit change in Microcredit results in 0.511 units increase in annual growth in turnover. $X_2 = 0.281$, shows that one unit change in Micro insurance results in 0.281 units increase in annual growth in turnover.$X_3 = 0.465$, shows that one unit change in training provided by MFIs results in 0.465 units in annual growth in turnover. $X_4 = 0.436$ shows that one unit change in Micro savings results in 0.436 units increase in annual growth in turnover This implies that micro credit has the greatest positive impact on the growth in sales followed by training while micro savings and micro insurance has the least impact on SMEs growth.

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme as or more extreme than that observed by chance alone, if the null hypothesis H0 is true. The p-value is compared with the actual significance level of the test and, if it is smaller, the result is significant. The smaller it is the more convincing is the rejection of the null hypothesis. ANOVA showed that there was correlation between the predictor variables (Microcredit, Micro insurance, Training provided by MFIs and Micro savings) and response variable (Annual growth in turnover) since P-value of 0.001 is less than 0.05**.** The ANOVA results indicate that the independent variables significantly ($F=4.011$, $p=0.001$) explain the variance in Annual growth in turnover. In this context, as have been presented in the table above, the dependent variable is the level of performance whiles the independent or the predictors, are Microcredit, Micro insurance, Training provided by MFIs and Micro savings.

CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 Introduction

This chapter summarizes the findings of the study. Section 5.2 is a summary of the findings. Section 5.3 discusses the conclusion. Section 5.4 explains the limitations of the study and Section 5.5 gives the recommendations for further research.

5.2 Summary of Findings

Promotion of Small and Medium Enterprises (SME) sector in Kenya is a viable and dynamic strategy for attaining the national goals which includes employment creation, balanced development between sectors and poverty alleviation. All these form the foundation of strong national industrial base and domestic production structure that are very central to our government's vision to achieving newly industrialized country status by the year 2020 (sessional paper No.2(1996). Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy like many other developing countries since it employs about 85% of the Kenyan workforce. Various studies have been done in Kenya on SMEs and how they are influenced by microfinance services but none had focused on the effects of microfinance services on the growth of the SMEs. The purpose of this study was to find out the effects of microfinance services on the growth of Small and Medium Enterprises in Kajiado County. A quantitative descriptive design was used to study 9 types of business categories in Kajiado County.

The study was on dependence and independence relationship. A multiple regression analysis was used. A partial correlation analysis was applied to determine the relative importance of each of the four variables; microcredit, micro insurance, training and micro saving, with respect to the effects of microfinance services on the growth of SMEs. The regression analysis conducted established that two the independent variables have a positive correlation with the dependent variable.

The ANOVA analysis was intended to investigate whether the variation in the independent variables explains the observed variance in the outcome – in this study the annual growth in turnover. ANOVA findings in this study showed that there was correlation between the predictor variables (Microcredit, Micro insurance, Training provided by MFIs and Micro savings) and response variable (Annual growth in turnover) since P- value of 0.001 is less than 0.05. This indicated that there was a strong positive relationship between the study variables.

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic when determining "likely" or "unlikely" or as extreme as or more extreme than that observed by chance alone, if the null hypothesis H0 is true. The p-value is compared to the actual significance level of the test and, if it is smaller, the result is significant. The smaller the p-value is, the more convincing is the rejection of the null hypothesis. ANOVA showed that there was correlation between the predictor variables (Microcredit, Micro insurance, Training provided by MFIs and Micro savings) and response variable (Annual growth in turnover) since P-value of 0.001 is less than 0.05. The ANOVA results indicate that the independent variables significantly ($F=4.011$, $p=0.001$) explain the variance in Annual growth in turnover.

5.3 Conclusion

Based on the findings, the study concludes that the growth in sales is due to changes in Microcredit, Micro insurance, Training provided by MFIs and Micro savings. The results of the study show the relationship between the micro finance services and the growth of SMEs. It can be concluded that there exists a strong positive relationship between the micro finance services and the SMEs Growth. The study further concludes that Microcredit, Micro insurance, Training provided by MFIs and Micro savings leads to SMEs high growth. It can therefore be concluded that there is a major effect of the micro finance services on the growth of SMEs in Kajiado County.

This conclusion concurs with Koech (2011) who in his study concluded that the factors affecting growth were capital market, cost, capital access, collateral requirements, information access, capital management and cost of registration.

The research finding is also consistent with the findings of Cooper (2012) that microfinance services have a strong positive impact on the growth of SMEs. A further conclusion on the study can be made that effect of microcredit, micro insurance, training and Micro savings on the growth of SMEs in Kajiado county was high positive performance ($p = 0.001$).

From the Research study, it can also be concluded that all the four micro finance services had effects on growth of SMEs. Micro credit had the greatest positive impact on SMEs growth, followed by training while micro insurance and micro savings had the least impact on SMEs growth.

The findings of the study were consistent with various studies that were previously carried out and thus the researcher recommended similar studies to be carried out on other counties since different counties have unique characteristics and diverse contextual realities that affects micro finance services offered to SMEs. The researcher also recommended a study be done on why SMEs do not to a larger extent make use of micro savings facilities by the MFI sectors.

5.4 Limitations of the Study

The study was on SMEs in Kajiado County and various limitations existed in the course of undertaking these study. The time limit for data collection through the questionnaires was not adequate for all the interviewees to respond thus the full response rate was at74% thus the researcher fell short of 26% interviewees' response due to time limitation.

Moreover, there were other constraints including Cost Constraints and also some business owners were very reluctant to fill the questionnaires especially on questions on their financial statuses. Their argument was that financial information is sensitive and very confidential and some even said that they don't keep records reason being that they lack book keeping skills.

The researcher also faced limitations in the sample size selection process. Kajiado County is a vast area which has many SMEs which are not homogeneous. Out of a population of 2,144 registered businesses, the researcher only managed to get a sample of 217 SMEs which were used in the study. And from the sample size the researcher only managed to sample 74% that is 161 SMEs who cooperated in responding to the questions in the questionnaire.

The researcher faced challenges in the process of data collection from the respondents. This is where some respondents refused to answer all or some questions with a mentality that their business information is confidential and is not supposed to be given out to third parties. From this, it is clear that some intended respondents did not understand the reason behind the researcher carrying out the research study.

Another limitation was also faced during data collection where there existed a language barrier. This is where some intended respondents did not understand English and others did not even know how to read and write thus they were unable to respond to the questions. Due to data collection time and cost limits, the researcher did not have an interpreter and this was a problem because the researcher could not understand the respondents native language and so in such cases communication posed a real problem to the study.

5.5 Suggestions for further research

This study focused on micro finance services on the growth of SMEs in Kajiado County. The researcher recommends similar studies be carried out on other counties because different counties have unique characteristics and diverse contextual realities that affects micro finance services offered to SMEs. The researcher also recommends that a study be done on why SMEs don't to a larger extent make use of micro savings facilities by the MFI sector.

During the research, the researcher faced various challenges and limitations in the course of the study and for each limitation, the researcher came up with suggestions for further researches to be carried out. For limitations of data collection, the researcher suggested that for further studies to be carried out, a combination of various data collection methods should be employed and this could help to raise the level of response rate. This is especially if the study intends to cover a vast area.

For limitation of withholding information by the respondents, for other intended future studies the researcher should first of all carry out a visit prior to the study and try to familiarize him/herself with the intended respondents and also to educate the intended respondents on the purpose of the study. This way the respondents may respond positively to the questions during the research and may not withhold information because at least they would not be dealing with a familiar person and this way, the response rate will be high.

Also to curb the language barrier limitation, the researcher should consider making use of the interpreters which although expensive, it could help to raise the response rate. The researchers should also consider longer data collection periods. This way the researcher can be able to reach a larger population of the intended respondents because he will have adequate time to move around collecting data for the research study.

REFERENCES

Ahmad, S. Z., N. S. A. Rani and S. K. M. Kassim. (2011). *Business Challenges and Strategies for Development of Small and Medium Sized Enterprises (SMEs) in Malaysia*. Int. J. Business Competition and Growth, 1(2): 177–197

Amenc, N., & Le Sourd, V. (2003).*Portfolio theory and performance analysis*. Wiley finance Series. Chichester, England: Wiley.

Amending de Aghion, B and Morduch J.(2005) *The economy of microfinance*, Cambridge (MA); MIT Press, Christian, Robert pech Elizabeth phyne and Robert Vogel.

Birley S. And Muzyka Df/(1997), *Mastering the enterprises your single source Guide to becomimg an entrepreneur financial times*

Brealey, R and Myers, S. (2003). *Principles of Corporate Finance, International Edition*. Chicago: McGraw Hill.

Central Bureau of Statistics (2002), '*Present and future finance needs for industrial sector in Kenya.* A study for Kenya Association of Manufacturers', Nairobi

Central Bureau of Statistics. (2004), *National micro and small enterprise baseline survey*(Nairobi, Republic of Kenya).

Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003*). Applied multiple regression/correlation analysis for the behavioral sciences* (3rd ed.). Mahwah, NJ:

Lawrence Erlbaum Associates.

Cooper, D., & Schindler, P.S. (2003). *Business research methods* (8th ed). New Delhi: Tata McGraw-Hill Publishing Company. India.

Cooper,. N (2012), The *impact of microfinance service on the Growth of small and medium enterprises in Kenya*. Unpublished MBA project, University of Nairobi.

Davidson III, W. N., and Dutia, D. (2001), D*ebt, Liquidity, and Profitability Problems in Small Firms, Entrepreneurship*: Theory and Practice, Fall, p. 53 – 63.

Deloof, M. (2003). *Does Working Capital Management Affect Profitability of Belgian Firms*?. Journal of Business Finance & Accounting, 30(3) & (4), pp. 573 – 587.

Ecorys, (2012).EU SMEs in 2012: at the crossroads: *Annual report on small and medium-sized enterprises in the EU 2011/12*, European Commission, Rotterdam.

Government of kenya (1985) a strategy for small enterprises Development in kenya towards the year 2000 ministry of planningAnd national development government printers Nairobi

Government of kenya (1994) sessional paper No.1 recovery and sustainable Development to the year 2010.Ministry of planning and nationalDevelopment government printers Nairobi

HarperM,(1983), *Consultancy for small business* croton-on Hudson New York Intermediate Technology development groups of North America

Hill, M.D., Kelly, G.W., Highfield, M.J. (2010**).** *Net Operating Working Capital Behavior*: A First Look.Financial Management, Vol. 39 (2), pp. 783-805

Karadeniz, E.E. and Ozcam, A. (2010), " *The Determinants of the Growth Expectations of the Early-Stage Entrepreneurs (TEA) Using the Ordinal Logistic Model (OLM)*: The Case of Turkey", Journal of Economic and Business Review, 13(1).

Kemei, M. K (2011). *The relationship between micro finance services and the financial performance of SMEs in Nandi District*. Unpublished MBA project, University of Nairobi

Koech, C.B. (2011). *A survey of the financial constraints hindering growth of SMEs in Kenya: The case of Kamukunji District in Nairobi County*. Unpublished MBA Project.

Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Delhi: New Age International (P) Limited Publishers

Kothari, C.R. (1984). *Qualitative Techniques*.(3 Ed). Vikas publishing house PVT LTD

McKelvey, R.D. and Zavoina, W. (1975), "*A Statistical Model for the Analysis of Ordinal Level Dependent Variables"*, Journal of Mathematical Sociology 4, 103-120.

Mead, D.C (1998) *Micro and Small businesses tackle poverty and growth (but in different . proportions*). Paper presented at the conference on enterprises in Africa between poverty and growth. Centre of Africa studies, University of Edinburgh26-27th may.

Mugenda, O. M.; Mugenda, A. G. (1999). *Research method: Quantitative and Qualitative approachs.* Acts press, Nairobi, Kenya

Mullei at el (1999),*Micro and small Enterprises in Kenya*.International Centre for Economic growth

Mutua K (1998), *Regulation and supervision of Micro Finance Institutions* Experiences in kenya,In proceeding of the African Conference on Saving in the context of Micro Finance Kampala CGAP World Bank New York

Mwangi, S.W. (2011). *Factors affecting growth of micro and small enterprises funded by micro finance institutions in Thika town Kenya*, A research paper

Olu, O. (2009). *Impact of microfinance on entrepreneurial development*. The case of Nigeria Development of business administration, OSUN STATE University, Nigeria

Rutherford (1999) *Saving and the Poor*, the methods used and impact of saving by the poor

Terjesen, S. and Szerb, L. (2008), "Dice Thrown from the Begining? *An Empirical Investigation of Determinants of Firm Level Growth Expectations*", Estudio de Economía 35(2), 153- 178

Wahid, A. (1994) *The Grameen bank and poverty alleviation in Bangladesh. Theory Evidence and Limitations*. The American journal of economics and sociology

World Bank (2012). *World Bank development report 2010*. A better investment climate for everyone, IBRD/World bank, Washington D.C.

Yunus, M. (2007), *Creating a world without poverty, social business and the future of capitalism;* New York (NY); public Affairs.

QUESTIONNAIRE

This questionnaire is meant to collect data on the influence of microfinance institutions on the performance of small medium enterprise in Kenya (Kajiado County). Any information provided by the respondents during this exercise will be strictly treated as confidential. Kindly answer the following questions by writing a brief answer/ statement or ticking in the spaces provided as will be applicable.

SECTION A: BACKGROUND

1. Name of the business____

2. Type of the business/Business Category____________________________________

3. What is the form of ownership of your business? Tick the form of ownership

a) Sole proprietor ( ) Partnership ( )

b) Company ( ) other (specify) _______________________

4. Location of the business CBD ( ) Off CBD ( )

5. When was the business established (state the year) ________________________

6. Gender of entrepreneur

Male ( )

Female ( )

7. What is the age of the top manager (Age in years)

18-25 ( )

26-35 ( )

36-45 ( )

Over 45 ( )

8. What is the education level of the top Manager?

Std 8 ( ) Form 4 ( ) Diploma ( ) Undergraduate ( ) Postgraduate ( )

If others, please specify ____

9. What is the main business activity?

____

____

.

SECTION B: GROWTH

1. How is your business financed? Indicate in percentage

a) MFI (Loan) 25% ( ) 50% ( ) 75% ( ) Other (Specify) _______

b) Business income 25% ( ) 50% ( ) 75% ( ) Other (Specify) _______

c) Friend and relatives 25% ( ) 50% ( ) 75% ( ) Other (Specify) _______

d) Others (specify)

____

2. What is the value of your business in terms of total assets_______________________

3. How much savings have you made from the last one year

Kshs__________________________

4. What is the average monthly sale? Kshs

____

5. How many employees do you have _____________

a) Permanent empoyees______________________

b) Temporary/casual employees do you have____________________

6. Has your business/company experienced growth in terms of sales, assets, employees, new branches, size in the last four years?

Yes ( ) No ( )

Please indicate the percentage of growth if any in each of the following areas

Area of Growth	**2010**	**2011**	**2012**	**2013**
Sales				
Employment				
New branches/business				
Technology improvement				
Skills improvement				

7. What attributed to the growth above?

Tick as appropriate

a) Loans ( )

b) New markets ( )

c) New products ( )

d) Re-investment of profits ( )

e) Technology ( )

f) Others (specify)_______________________________________

8. Have you disposed any assets in the last four years?

Yes ( ) No ( )

9. What was the proportion of asset disposed? ______________________________

In the last one year?

Yes ( ) No ( )

10. What was the proportion of asset disposed? _________________________________

In the last two years?

Yes ( ) No ( )

11. What was the proportion of asset disposed?_________________________________

In the last three years?

Yes ( ) No ( )

12. What was the proportion of assets disposed? ________________________________

Income from the business enterprise in the four years

ITEM	2010	2011	2012	2013
How much sales did you make?				
How much did you spend on inputs?				
How much did you spend on salaries?				
How much did you spend on rent?				
How much did you spend on transport?				
Total cost				
Estimated profit				

13. How did you use the profits for the last two years (in percentage)

a) Purchased assets _________________________________ %

b) Saved _________________________________ %

c) Business expansion_______________________________ %

d) Used as working capital__________________________ %

e) Started another business__________________________ %

f) Other (specify___________________________________ %

14. Please give your assessment of the overall growth of your business using the response scale below

Scale: 1 : Very low

Scale: 2 : Low

Scale: 3 : Moderate

Scale: 4 : High

Scale: 5 : Very High

Sales growth for the last 4 years______________________________

Growth in workforce____

Increase in profits____

Increase in business size____

Increase in product line ____

15. How much did you pay for micro insurance for years :

2010:___________ 2011:___________ 2012:____________ 2013:__________

16. Indicate the total cost spent on training in years:

2010:____________ 2011:____________ 2012:__________ 2013:__________

Thank you for your responses