

**EFFECT OF ACCESS TO MICRO FINANCING ON THE GROWTH OF SMALL  
AND MEDIUM ENTERPRISES IN THIKA SUB COUNTY**

**BY**

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## DECLARATION

This research proposal is my original work and has not been submitted to any other college, institution or university

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## **DEDICATION**

This project is dedicated to my dear family. Their valuable encouragement and support were instrumental in the project completion

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## LIST OF ABBREVIATIONS

ADB.....	Asian Development Bank
GDP.....	Gross Domestic Product
GOK.....	Government of Kenya
MFI.....	Micro-Finance Institutions
MSE.....	Micro and Small Enterprise
NGOs.....	Non-Governmental Organizations
SHGs .....	Self Help Groups
SMEs .....	Small and Medium Enterprises
UNDP.....	United Nations Development Programme
USAID.....	United States Agency for International Development



## **ABSTRACT**

The Small and Medium Enterprise (SME) sector has continued to play an important role in Kenyan Economy. The Economic survey 2012 estimated that the contribution to the GDP by this sector currently stands at over 25%. Though the SMEs may be easily started, what highly determines their existence and profitability is their growth of which lack of finance has been identified to be the major constraint. This is attributed to the fact that most of the SMEs fail to meet the requirements in order to access credit from banks and other financial institutions. The emergence of microfinance provided reprieve for SMEs by providing them with credit and other services. Many studies have been done in Kenya on SMEs and how they are influenced by microfinance services but none had focused on the effects of access to micro financing on the growth of the SMEs. The purpose of this study was to find out the effects of micro financing on the growth of Small and Medium Enterprises in Thika Sub County. A descriptive research was used to study 5 categories of SMEs. The target categories were Agricultural activities, Healthcare, General Trade, Education & Training and Service Industry. Structured questionnaire was used to collect data from the businesses entrepreneurs. The sample of 142 businesses was taken as a representative sample of the population in the Sub county. The findings of the regression analysis explains 95.7% of the variations in the dependent variable. The growth of SMEs in Thika Sub County is explained by 95.7% of the services offered by MFIs. It is clear that there exist a positive relationship between growth of SMEs and access to micro finance by approximately 11.22%. Secondly, when education level diminishes by one unit percentage, SMEs growth reduces by approximately 17%. Thirdly, when SMEs continue to exist by one unit percentage, SMEs growth is experienced by approximately 44.4%. The study concludes that access to finance is a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in the county. The study recommends that both the government and MFIs should come up with innovative ways to finance SMEs for successful growth. The findings of this study will be valuable to the government, MFI, SMEs and the academicians.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background information

Access to credit substitutes individuals' need for self-financing hence reducing the risk of premature liquidation of investments that arises as a result of unpredictable future financial crises (Okurut,2008). Similarly, the ability to predictably borrow or save by individuals enhances consumption smoothing across time periods. In this regard, access to financial services especially credit financing would place the poor on a higher utility curve overall. Ghosh et al. (1999) observed that credit is requisite in financing investments in working and fixed capital. Therefore accessibility of financial systems empowers individuals socially and economically.

Several theories have been put forward to explain the relationship between Micro Financing and SMEs growth. Among the theories is the pecking order theory which argues that business enterprises prefer internal sources of capital first before going for external sources. It's only after internal sources prove inadequate that they go for external sources. Secondly there is the financial growth theory which states that a firms financial needs and options change as the business grow, gains experience and become less opaque with information. The Micro credit theory is the other one which posits that due to an invisible hand, individuals are eager to employ labour, capital and skills to their best interest and this eventually benefits the entire society. An in-depth discussion on this theory should give a better understanding of the relationship between Micro financing and SMEs Growth.

SMEs play a crucial role in a country's economic growth. In addition to increasing per capita income and output, they create employment opportunities, promote effective utilization of

resources and create regional balance and integration through industrial dispersal (Togoe,2005).However despite this fact ,their growth is limited by inadequate funding and poor management. Unfavorable microeconomic environment has also been sited as a major setback discouraging financial institutions from funding SMEs (Ray,2008).

Over the years, Kenyans have encountered difficulties in obtaining bank credit more so the disadvantaged in the society. This has largely been attributed to lack of physical collateral that banks normally request for as loan guarantee (Gaitho,2013 This gap has been addressed by Micro Finance institutions by providing various financial services to households. By definition, a microfinance is a collection of banking services centered on small deposits and providing small loans normally without collateral (Robinson,2003). ADM(2011) defines microfinance as the provision of financial services such as deposits ,loans, money transfers and insurance services to low income households and micro enterprises. These services address the need of access to financial services among the low income earners.

### **1.1.1 Access to Micro Financing Services**

World bank (2008) defined access to financial services as the possibility of an individual or enterprise to access financial services such as credit, payment and deposits among others. However this access has been limited by a number of factors such as lack of collateral, high risk profile of SME and biased banking sector against SMEs (Gallardo et al,2003).On the other hand Micro finance refers to all types of financial services such as savings, credit, fund transfer etc. provided to low income households and enterprises in both rural and urban areas (Rosengard,2000).As an industry, Micro finance is relatively new in Kenya but has gained status in the last 10 years.

A major limitation to the growth of SMEs is shortage of both debt and equity financing. A number of studies have found that 25% of Kenyan SMEs cited shortage of working capital as the primary reason for terminating operations. Gaitho (2013) found out that 80% of enterprises used savings as their primary source of working capital and were limited in accessing credit. This means they find difficulties pursuing their goals. Kimuyu and Omiti (2000) observe that 18.4% of the SMEs in Kenya cite access to credit and market access as the main limitations to their growth. Ondiege (1996) demonstrated that access to credit is associated with improved performance of SMEs in Kenya. Lundvall et al (1998) also demonstrated that manufacturing firms in Kenya with limited access to credit were less productive and cannot move to points of best practice. Therefore it can be concluded that the potential of SMEs to transform a country may not be realized due to their limited access to Credit.

The availability of finances determines the capacity of an enterprise especially in choice of technology, access to market and essential resources which in turn greatly influence the success of a business. Entrepreneurs face obstacles of getting start up capital for business operation within the SME sector and therefore if this problem is addressed there will be growth for both the business and the economy of the country (Wole,2009).

### **1.1.2 Growth of Small and Micro Enterprises**

Although there is no universally agreed definition of SME, there are some criteria used to define them such as the number of employees, value of assets, value of sales and size of capital and turnover. The growth of an enterprise can be measured in ways such as turnover, profit, sales and number of employees. On the other hand growth of a firm is a measure of performance and it's a function of its ability to reach and maintain a certain level within its operating environment

(Gormoma,2001).The growth of an enterprise is reflected in increased sales ,new and improved products and increased market share (Mary,2004).

The substantial contribution of SMEs to the social economic development of a nation has been widely acknowledged by experts and therefore the need to grow them. IN Kenya SMEs create the highest number of jobs. In 2009 the sector created 79.9% of new jobs out of the 543 thousand new jobs created in Kenya and in the same year the sector contributed 59% of the total GDP (GoK,2009). In 2013 SMEs contributed 89.7% of the new jobs created in the economy As a result a number of initiatives have been taken by both the government ,donors and NGOs to promote the growth of SMEs in Kenya (Bett,2014).

Growth depicts a firm's past capacity to increase in size. Increase in a firm's size may lead to increase in profits flow generation. Increase in size leads to economies of scale, increased market value and improvement of profitability in future. One of the major constraint to growth of SMEs has been identified as the inadequate financing. The degree to which SMEs could get access to funds determines the degree to which the SMEs can save more, build retained earnings for re-investment purposes (Hossain,1988). However, SMEs find it hard accessing credit from official financial institutions such as commercial banks. The failure of the SMEs to live up to the standards of the proper finance institutions for loan purposes offers a stage for the informal finance come in and seal the gap typically through social networks that are informal. This what has encouraged the development of MFIs as a substitute source of financing to the SMEs.

Growth is regarded as the second most important goal of a firm, the most important one being firm survival. Failure to focus on growth is a key reason why most SMEs decline and eventually some die. Many other studies have been done (Umar 2008;Viviers & Venter, 2004;Goedhuys &

Sleuwaegen,2000;Mambula, 2002) regarding factors affecting the growth of SMEs. Most of the factors researched on in other countries include the level of education, Access to markets, Infrastructure and Government regulations, corruption, administrative and operational constraints. In Kenya some of these factors have not been studied exhaustively. This study therefore aims at investigating the influence of access to micro financing on the growth of SMEs in Thika Sub County.

### **1.1.3 The Relationship Between Access To Micro Financing and Growth of SMEs**

Accessibility of credit by SMEs is an important factor in their growth. Credit helps increase investment opportunities that in turn improve income levels, alleviate poverty and create job opportunities. Hiedhues, (1995) points out that when poor people access credit, they gain advantage of overcoming their liquidity constraints and involve in investments such as the improvement of farm technology and inputs thereby leading to an increase in agricultural production. Navajas. et al, (2000) sees microcredit as a tool to improve the welfare of the poor by enhancing their access to small loans. Such credit facilities are offered by micro finance institutions. Credit increases household incomes and the SMEs increase the resources available for expenditure savings and investments. Hoque, (2008) found out that microcredit improves borrowers capacity to cope up with economic difficulties as there is positive influence on the well-being of the borrower.

The lack of adequate physical capital (loan access and savings) as well as human capital (skill and education) force SMEs into quest for Micro finance services. SMEs are characterized by low household and business income, lack of asset for collateral required by conventional banks ,high interest rates, inability to save, small nature of firms, age of the firm, less sales turn over and less growth oriented forms all of which limit their access to credit from the conventional banks

(Bett,2014). In this regard providing SMEs with micro finance loans creates an opportunity for them to engage in new business or improve an existing one leading to better business performance and creation of opportunities for poverty alleviation (Mc Kernan, 2002).From this perspective microfinance services will lead to growth of SMEs.

According to Onchiri (2012) microfinance institutions provide both financial and non financial services to SMEs. For accessibility to funds to become a reality a relationship of cooperation between lenders and clients need to co exist.He further argues that building and maintaining such relationships improves a firms ability to access financing. He suggests that firms with higher proportion of bank debt enables accessibility of external financing more easily. Such relationships also reduces information asymmetry and agency problems because the valuable information required to be provided by SMEs to MFIs are disclosed. Establishing stable links with financial institutions improves funds availability at lower costs. Kumar (2007) concurs with previous studies that good relationship helps SMEs easily access finances. He adds that capacity building of staff preparedness is a task MFIs enhances as a way of cooperation between staff and clients.

#### **1.1.4 Small and Medium Size Enterprises in Thika Sub-County**

Micro Finance Institutions (MFI) in Kenya was pioneered by Non-Governmental Organizations (NGOs) in collaboration with the government. The government provided the policy framework and platform for donor support; these NGOs include World Bank, USAID (U.S Agency for International Development), UNDP (United Nations Development Programme) and later the commercial banks supported NGOs by financing the operations .Despite the growing number of MFIs, their outreach is constrained, especially in rural areas because of their limited resource

base and lack of institutional capacity to provide a wide range of financial services (GOK, 2005). MFI outreach is predominantly through group-based programmes, which have limited absorptive capacity for financial resources. Although commercial banks have a stronger resource base and wider outreach, they lack expertise in micro finance (MF) lending to the SMEs sector. The focus of most MF lending is informal economy MSEs (“Jua Kali”), who are conducting trade in small goods or providing services (GOK, 2005).

Thika Sub-County is a home to large industries in Kenya including tanneries textiles, footwear, food processing, motor vehicle assembly and cigarette manufacturing and over a hundred light industries. Majority of the enterprises in Thika Sub-County are SMEs, some are faced with challenges of accessing fund to finance their business and therefore the adequate financial knowledge remain a constraints within the region. The region has a population of about 645,713 living in 171,569 households, (Municipal council of Thika Strategic plan, 2008-2012). Prevalence of poverty in the stands at 48.4% with the number of unemployed people at 137,538. There is also an indication that poverty is on the rise despite the many small businesses that exist. This has therefore necessitated the need for research in the Sub County in order to come up with recommendations that can help boost the growth of SMEs.

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



Sub County. Wanjohi, (2009) note that one of the major challenges that SME face in Thika is inadequate business information. Others include lack of and/or inadequate managerial training, education and skills, lack of access to credit both for startup and expansion of the businesses, unfavorable national policy and regulatory environment.

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

## **1.2 Research Problem**

In almost all economies of the world especially in emerging economies in Africa, micro and small enterprises are crucial and play a key role in sustained growth and development. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization. However, most of this SMEs have challenges in accessing financing for product development, marketing, and for enhancing income generation, employment and livelihood sustainability.

The World Bank (2015) report revealed that three out of five SMEs in Kenya failed within the first few months of operation and those that continued 80 per cent failed before the fifth year. SMEs have unique challenges influencing their growth and sustainable development; diminish their ability to contribute effectively to sustainable development of the economy. Most crucial of these challenges is inadequate access to credit facilities. Though significant strides have been made lack of access to credit is almost universally indicated as a key problem facing SME's. These credit constraints operate in variety of ways in Kenya where entrepreneurs mainly rely on self -financing or borrowing from friends or relatives and are forced to utilize high cost short term financing from quarks, mobile loan providers and shylocks who charge exorbitant interest rates with complicated access demands.

Studies indicate that many SMEs do not generally grow as would be expected .They tend to remain within their original size categories (Kibas,1995). Specific cases studies have showed that 50% and 60% modern SMEs in Asia and Latin America grew from low entrepreneur (Kibas, 1995). Gudda,( 2003) cited that few enterprises grew naturally from micro to small and medium in Nigeria having only 43.7%. The situation was found to be worst in Rwanda 10.75%, Botswana 20.7%. In Kenya It was estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country .It was estimated that this SME sector Constitute 98% of all business in the country absorbing over 50% of all new non-farm employment seekers, contributing up to 30% of total employment and 3% of GDP (KIPPRA, 2006). Economic survey (2006) reveals that SMEs contributed 50 percent new jobs that were created in 2005.Past researches show that the nation's GDP gets 18 percent being

a contribution from SMEs. However SMEs have limited access from formal financial institutions to meet their working and investment needs (Kessy,2009).

In attempt to understand the effect of microfinance on SMEs, numerous studies have been done in Kenya. Leseyio (2014) studied the effect of microfinance services on financial performance of small medium and enterprises in Narok County. Bett (2014) studied the influence of microfinance institutions services on growth of women owned small and micro enterprises in Ainabkoi Sub-County, Uasin -Gishu County, Kenya. Ngugi and Kerongo (2014) studied the effects of micro financing on growth of small and micro enterprises in Mombasa County and established a positive effect of microfinance and SME growth .However, none of these studies has studied the effect of access to micro financing on growth of small and micro enterprises in Thika Sub County .Hence this study seeks to answer the question: does access to micro financing affect the growth of SMEs in Thika Sub County?

### **1.3Research Objective**

To assess the effect of access to micro financing on the growth of SMEs in Thika sub county

### **1.4Value of The Study**

The research findings are of significance to various parties who include the government, nongovernmental organisations, owners of microfinance institutions, general public and researchers and academicians.

#### **1.4.1 To the Government,**

This study provides information on the role of microfinance services on growth of SMEs. This will enable the government in policy formulation aimed at fostering growth of SMEs . The public will be able to get enlightened on the necessity of credit in the SMEs sector. They will appreciate the job opportunities offered by the sector and participate by starting their businesses to earn income to support their needs instead of fully depending on government aid. The public involvement will see the country alleviate poverty and hence achieve vision 2030 of poverty eradication goal.

#### **1.4.2 Micro Finance Institutions**

The management of microfinance institutions would be interested to know the contribution of this sector to SMEs economic development. The management of MFIs can be happy to see their money being well spent for the benefit of its customers. This study can therefore help the MFIs know how effective and efficient they have been towards the economic development of SMEs. To the SMEs owners and entrepreneurs, they get a chance to learn the about better ways of managing their business and the services they can acquire from microfinance institutions to enable their firms grow. This implies increased profitability for the firms and hence increased income to the entrepreneurs. Since financial institutions act as intermediaries between surplus and deficit of the SMEs, at the end of this research SMEs entrepreneurs can be able to know some sources of finance and choose the best available option.

#### **1.4.3 Employees**

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

#### **1.4.4 Researchers and Academicians**

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

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews various studies that have been conducted in the area of Micro financing and SMEs. Section 2.2 reviews the theories of micro finance. Section 2.3 expounds on the growth of SMEs and section 2.4 consist of empirical literature review both from a global and local perspective. Section 2.5 explains the conceptual framework while Section 2.6 summarizes the chapter.

### **2.2 Theoretical Review**

A number of theories can be used in explaining the relationship between micro financing and SME growth. The theories include pecking order theory, financial growth theory and imperfect information theory among others

#### **2.2.1 Pecking Order Theory**

The pecking order theory was proposed by Myers (1984). It sheds light on the incentives that drive SMEs capital structure decisions. This theory proposes that firms prefer to use internal sources of capital first and will resort to external sources only if internal sources are inadequate. Majority of SMEs start with internal financing before looking for external sources. However, more often than not, internal financing is usually not adequate unlike in older firms which by definition have had more opportunities to accumulate retained earnings than younger companies and thus more funds are available to finance operational growth. Pecking order theory suggests that those funds should be used before external capital sources are tapped. Holmes and Kent (1991) found that small businesses experience a more intense version of pecking order in their decisions because access to appropriate external sources of capital is limited. It has been noted

that small businesses' differ in their capital structure but their intense reliance on pecking order is only one of the variables that make small businesses financing decision unique.

When lending to small businesses, most financial institutions require the owners of the small businesses to personally guarantee the loan. These personal guarantees allow the institution recourse against the personal wealth of the small businesses owner in the event of default (Berger and Udell,1998). These restrictions on the type of finance available to SMEs coupled with the small firm's insistence on first using internal sources of capital (Holmes and Kent, 1991), creates a unique structure for small business. Romano, et al., (2001) describe the situation as a complex array of factors that influence small to medium size enterprises (SME) owner-manager's financing decisions. This is supported by Hall et al. (2000) who found that firm's size is positively related to long-term debt and negatively related to short-term debt. In further support, Chittenden et al. (1996) suggest that a firm's size is correlated with the firm's reliance on pecking order theory in capital structure decisions. Thus, smaller firms are more likely to rely on internal funds. Romano et al. (2001) found a significant relationship between the size of the firm and the use of debt. Again, these results are consistent with pecking order theory and the Berger and Udell (1998) model.

Adherence of SMEs to a pecking order of finance is dependent on the sources of finance available at the time of the investment decision, which is typically dependent on the age and stage of development of the firm . Therefore, it is necessary to incorporate the financial growth lifecycle approach into consideration of agency and pecking order theories (POT hereafter). Myers (1984) proposed the POT based on the premise that inside management are better

informed of the true value of the firm than outside investors. When financing investment projects, firms seek to use sources of funds least susceptible to undervaluation due to information asymmetries. Thus, the POT predicts that firms have a preference to finance investment projects with internal equity. When internal equity is exhausted, firms use debt financing before resorting to external equity.

Studies that have provided empirical support for the POT in explaining capital structure choice in SMEs include Holmes and Kent (1991), Watson and Wilson (2002). The primary explanatory factor for the adherence of SMEs to the POT of financing is the desire of the firm owner to retain control of the firm and maintain independence. Adherence to the POT is not only dependent on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, including the stage of development or life cycle of the firm. Sources of internal equity for start-up and nascent firms typically consist of the personal funds of the firm owner, and funding from friends and family. Bhaird and Lucey (2008) established that the positive relationship between the use of retained profits and the age and size of the firm indicates that surviving firms are increasingly reliant on internal equity as accumulated profits are reinvested. This suggests a tendency to use capital which minimizes intrusion into the business, and is consistent with the POT.

Pecking Order Theory is relevant to this study because most SMEs have a challenge in having reliable information that can be used to determine funding. As this theory emphasizes small firms go for external sources of financing when the internal sources are found inadequate it poses a challenge to the SME to ensure they have reliable information that can be used to decide on funding.



### **2.2.2 Financial Growth Theory**

The theory was proposed by Berger and Udell (1998) to explain how firm's financial needs and financing options change as the business grows, becomes more experienced and less informationally opaque. They further suggest that firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

In line with financial growth theory, numerous empirical studies have found that inadequate financing was the primary cause of SME's failure (Coleman, 2000). The capital structure of smalls firm differs significantly from larger firms because small firms rely more on informal financial market which limits the type of financing they can receive. The small firm's initial use of internal financing creates a unique situation in which capital structure decisions are made based on limited financing options. It is widely accepted that small firms have different optimal capital structures and are financed by various sources at different stages of their organizational lives (Berger and Udell,1998). Researchers have found that certain attributes of small firms influence the type of funds available to finance the firm's operations (Hall et al., 2000, Romano et al., 2001).

The structure of occupational choices whether people can become entrepreneurs or have to remain wage earners in turn determines how much they can save and what risks they can bear, with long -run implications for growth and income distribution. Hence, these models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps, as well as lower growth. One implication of theories is that redistribution of wealth can foster growth (Galor & Zeira , 2012)

In the context of this study an increase in credit accessibility may significantly promote the growth of SMEs. Therefore MFIs should be more committed to meet the credit needs of the SMEs for a faster and sustainable economic growth in the area of study.

### **2.2.3 Imperfect Information Theory**

Information imperfection occurs when one party to a transaction has more and timely information than another party. Among the pioneers of this theory was Lofgren ,et.al , 2002) who demonstrated how imperfect information can produce adverse selection in the markets. He argued that when a lender or a buyer has imperfect information, a borrower with weak repayment prospects or a seller of low quality cars may crowd out everyone else from their side of the market thereby hindering mutually advantageous transactions. This imbalance can cause one party to enter into a transaction or make costly decisions. According to Lofgren,et .al .(2002) information asymmetry is a common feature of any market interactions for example the seller of a good often knows more about its quality than the prospective buyer while a borrower knows more than the lender about his creditworthiness.

Robinson (2011) observed that this theory assumes that financial institutions cannot effectively differentiate between high risk and low risk loan applicants. The theory further argues that mainstream financial institutions are not able to compete successfully with informal lenders

because such lenders have better access to information about credit applicants than formal institutions have. The theory suggests that it would be difficult for banks to profitably operate in developing countries credit markets and to attain extensive outreach. Based on this theory, it would therefore be difficult for policy makers, economists, bankers, donors, financial analysts, and government decision makers to advocate for commercial banks to enter into micro credit market.

This theory brings out the role of MFIs in the growth of SMEs who basically may not qualify for credit financing from commercial banks.

#### **2.2.4 Games Theory of Microfinance.**

The microfinance games theory also 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.

In the context of this study lending institutions should promote compliance strategies among groups in order to reduce the level of risks. A guide to punishment as an incentive become the key to control credit risk.

## **2.3 Determinants of the growth of Small and Medium Enterprises**

The growth of SMEs is viewed as an important achievement in economic development given the current contributions they have towards the national GDP. However their growth is determined by a number of key factors as discussed below .

### **2.3.1 Access to Micro Financing**

Limited access to finance faced by SMEs has drawn considerable attention from both academics and practitioners for many decades. Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008). At the firm level, lowering financial constraints can enhance entrepreneurial activity, contributing to jobs, innovation and income.

The financing gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Some argue that the fundamental reasons behind SMEs' lack of access to funds can be found in their peculiar characteristics, while others argue that SMEs suffer from financing gaps because of market imperfections on the supply side (Park et al., 2008). He further argued that SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of SMEs who require financing from financial institutions and other providers of finance. The financing gap for SMEs is most prominent in capital market financing. Most

countries, including the developed ones, have problems in SME financing through capital markets (Park et al., 2008).

### **2.3.2 Education Level of the Entrepreneur**

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education) and vocational training are better placed to adapt their enterprises to constantly changing business environments. The human capital is seen in the light of a stock of individual knowledge, capability, and skills that are economically usable and all those skills acquired through education and talents, (OECD, 2001). Human capital is an important input for organizations, especially for the owners' continuous improvement mainly concerning knowledge skills and abilities. Furthermore, the Owner - manager relationship is one of the most common characteristics of SMEs with the majority of SMEs being most cases owned and managed by the same individuals.

On the other hand, large firms are normally managed by a team of professionals appointed by the shareholders of the firms. Therefore, the characteristics of owner – managers such as the level of education and experience do have impacts on the access that they have (or otherwise) to the external finance. Following this, Storey, (1994) mentions that the better the human capital, the greater the firm viability of the start-up consequentially, access to debt capital should be greater for these firms. Besides, Coleman (2000) who has examined education, gender and years of experience and access to external finance has found some evidence of education being positively related to external loan access. In the same context, Irwin and Scott (2010) have explored into some of the barriers to the aspect of raised bank finance faced by SMEs, the barriers of which

specifically include the impact of personal characteristics. They have found that the educational level has made little difference to sources of finance, except for those educated with A-level who has been found to have frequently turned to friends and family for financial assistance and remortgaged their homes as another method of financial resource.

It has also been found that less educated SME owners tend to use the external financing more, while higher educated SME owners are less likely to resort to the external financing (Coleman ,2000). Astebro and Bernhardt (2003) also find out that a significant negative correlation exists between having a bank loan and the level of education of the SME owners. Based on the human capital theory, the education and experience of the owner- manager are likely to influence firms to access bank loan.

### **2.3.3 Industry**

Industry factors significantly determine SMEs profitability whereby a number of studies carried out to identify the influence of a firms industry on the profitability of the firm concur that there are significant differences between sectors in terms of the typical profitability of the firms. Only a few studies show sector variables not to be significant (Barkham et al., 1996). Some industries are known to have higher firms' profitability than others mostly depending on capital required to be invested in assets and the level of sales. The degree of concentration in an industry also determines firm profitability. A higher concentration enables collusion between firms which can lead to higher profits. Industry effect models argue that differences in industry-level characteristics such as efficiency level, industry structure or quality of top management firms and specific industry regulations cause differences in profitability .In addition, sectors that require

more capital investment in equipment, machinery, buildings, labour and raw materials have fewer finances hence are less profitable.

#### **2.3.4 Age**

The age of the SME is an important factor influencing the profitability of the firm (Barkham et al., 1996). Age of a firm helps in determining the competitive advantage of the firm over other firm and it also help the firm to design its competitive strategies. Age of the firm also leads to the creation of firm image in the eyes of customer which leads to increased sales for the firm and firm increased profit. An SME that has been in existence for long also has a large market share which plays a key role in identification of firm profitability and its position in the industry and is also able to identify the level of competition and the way to form all lever of strategies (corporate level, business level and product level) to counter that competition (Raza, Farooq, and Khan, 2011).

#### **2.4 Empirical Studies**

The empirical review of literature presents a discussion of studies in line with the study objectives. It helps in creating insight on the available literature on the study area. This is usually crucial since it provides a better understanding of the subject matter while at the same time helping in avoiding a study that would result in duplication of the available material. This section thus presents a discussion of studies in line with the study objectives to facilitate in the identification of the research gap that the study will aim at bridging.

### **2.4.1 Global Empirical Evidence**

A number of studies have been conducted on micro financing and its effects on SMEs . Copstake, et.al (2000) did a study on the impact of microcredit on poverty in Zambia. The programme was not directed towards the poorest business operators but one third of the clients who were below national poverty line. Those who graduated from their first to a second loan on average experienced significant higher growth in their profit and household income, as compared with otherwise similar business operators. The borrowers also diversified their business activities more rapidly. However some borrowers were worse off especially among the 50% or so who left the programme after receiving only one loan.

Oni, et al., (2012) assessed the Contribution of Micro Finance Institutions (MFIs) to sustainable growth of small and medium scale enterprises (SMEs) in Nigeria. The study employed the survey research method. Secondary sources and primary data were used. Secondary sources consisted of papers published in academic journals, paper presentation at conferences, text books, government gazette and materials posted on the internet. Primary data consisted of first-hand information collected from the field through questionnaire and interview. The study found that microfinance services contributed to sustainable growth of SMEs in the country. The study recommended for periodic review of microfinance activities by regulators.

Khandker (2005) observes microfinance supports mainly informal activities that often have a low return and low market demand. It may therefore be hypothesized that the aggregate poverty impact of microfinance is modest or even nonexistent. If true, the poverty impact of microfinance observed at the participant level represents either income redistribution or short-run income generation from the microfinance intervention. Khandker's article examines the effects of



microfinance on poverty reduction at both the participant and the aggregate levels using panel data from Bangladesh. The results suggest that access to microfinance contributes to poverty reduction, especially for female participants and to overall poverty reduction at the village level. Microfinance thus helps not only poor participants but also the local economy.

Olu (2009) conducted a study on the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy of Nigeria. The study used a questionnaire as an instrument of primary data collection. Table and simple percentages were used in data presentation. The study revealed that microfinance institutions are evident tools for entrepreneurship development due to the various services they offer and the role they play towards the development of the economy. Not overlooking the various challenges that affect microfinance i.e. operations, the current banking reforms introduced by the Central Bank.

Mosley (2001), in his research on microfinance and Poverty in Bolivia, assessed the impact of microfinance on poverty, through small sample surveys of four microfinance institutions. Two urban and two rural, using a range of poverty concepts such as income, assets holdings and diversity and different measures of vulnerability. All the institutions studied had on average, positive impacts on income and asset levels with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. The studies revealed also that in comparison with other anti-poverty measures, microfinance appears to be successfully and relatively cheap at reducing the poverty of those close to the poverty line. However, it was revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty.

### **2.4.2 Local Empirical Evidence**

Leseyio (2014) studied the effect of microfinance services on financial performance of small medium and enterprises in Narok County. The study adopted a descriptive research design, had a sample of 93 enterprises and collected data using structured questionnaires. The study established that the existence of microfinance services had contributed to the development of SMEs with provision of credit increasingly being regarded as an important tool for raising the incomes of youths, mainly by mobilizing resources to more productive uses; making credit more accessible, the rates for borrowing and the lending rates have been lowered at fair rates for easy access and availability to credit hence the financial performance of the SMEs is increased and the promotion of SMEs especially of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Narok County. The study recommended that basic business skill training to accompany the provision of micro loans to improve the knowledge of the poor to use these funds in growth of their enterprises.

Ngugi and Kerongo (2014) studied the effects of micro-financing on growth of small and micro enterprises in Mombasa County. The study adopted descriptive survey stratified and systematic random sampling method and data collected using questionnaires. Sales, income and competitiveness were used as the independent variable while growth of SMEs as dependent variable. Results indicated that microfinance has positive effects on growth of SMEs. Majority of the owners indicated that microfinance has enabled them to expand businesses and build their business assets.

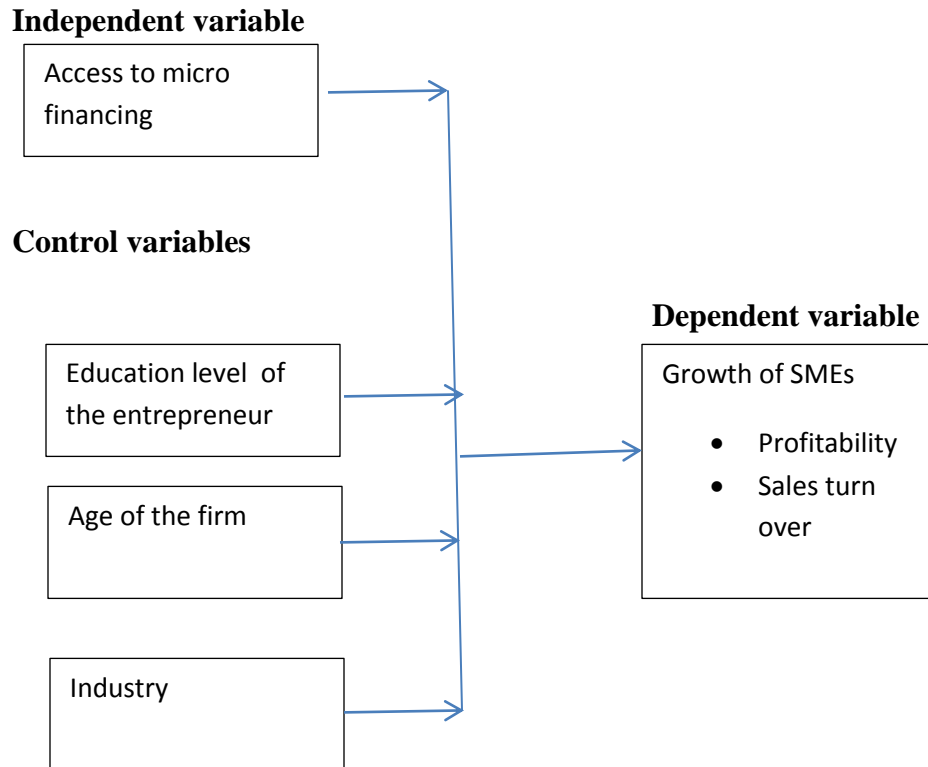
Memba et. al, (2012) conducted a study to establish the impact of venture capital on growth of SMEs in Kenya. The study used 200 SMEs that have been financed by Venture capital as the target population. The SMEs were drawn from various major urban centers in Kenya. The SMEs were stratified according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

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.

Cooper (2012) conducted a study on the impact of micro-finance services on the growth of SMEs in Kenya. The study targeted 50 SMEs in Nairobi. The researcher used self -developed questionnaire as an instrument of data collection and analyzed the data using quantitative analysis. The study established that SMEs largely depend on micro financing for growth. A significant percentage of SMEs was found to have access and do seek micro credit for their businesses. The study also established that microfinance services have assisted enterprises to change their status through growth in sales level from micro to small and from small to medium. Though SMEs have easy access to micro finance services, the study indicated that they have no exemption from strict requirements when applying for loans. The study also established that most SMEs in Nairobi do not demand for micro-insurance services and that Microfinance Institutions offer minimal training to SMEs. The study concluded that microfinance services have a strong positive impact on the growth of SMEs in Kenya. SMES in Nairobi depend on micro financing for growth. The study recommends that there is need to relax the requirements for loan application and that the government of Kenya should provide a favourable environment that can allow MFIs to thrive not only in Nairobi but also in other parts of the country

## **2.5 Conceptual Framework**

Mugenda and Mugenda (2003), define a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. The study will be guided by the conceptual framework as shown in Figure 2.1 relating the dependent and independent variables



**Figure 2.1 : Conceptual framework**

## 2.6 Summary of Literature Review

Micro finance organizations provide financial services to their clients such as savings and credit services to finance the informal sector in developing countries. They provide access to capital on smaller scale , 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. The growth of SMEs in Kenya has been attributed to the availability of micro credit opportunities in the country. Micro financing services have made it possible for the poor to start small and medium enterprises .The studies reviewed are a clear indication that the micro finance concepts are rapidly gaining popularity not only in Kenya but also in most developing countries where

majority of the population is believed to have no access to main stream banking services due to strict requirements.

Previous studies have investigated various aspects of micro financing and SMEs. Alarape, (2007) exposure of owners managers of small businesses who participate in entrepreneurship programmes exhibited superior managerial practice and had higher gross margin rate of growth than small businesses whose owner managers did not have superior experimental learning. Nilsson (2010) concluded that microfinance is an important asset to developing countries since it is able to cater for the financial needs of the very poor. Memba et.al (2012) established that SMEs made significant growth after accessing financing from MFIs. 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 was evident no research had been conducted on the effects of micro financing on the growth of SMEs. This study intended to fill this gap and investigate on the effects of micro financing services on the growth of SMEs in Thika Sub County.

## **CHAPTER THREE:RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the procedures that will be used in conducting the study, focusing on research design, target population, sampling designs, research instruments, data collection and analysis procedures.

### **3.2 Research Design**

Orodho (2003) defines research design as the scheme outline or plan that is used to generate answers to research problems. This study employed a descriptive survey. According to Mugenda and Mugenda (2003) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design was appropriate for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected.

### **3.3 Target Population**

Orodho (2009) defines target population as total individuals, elements or groups to be studied. A population describes the parameters whose characteristics the research will attempt to describe. A population refers to an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2003). The target population for this study was SMEs in Thika Sub-County. The number of SMEs in Thika Sub County in various categories as obtained forms the target population in the respective categories.

### Summary of population and enterprise activities

<b>Sector</b>	<b>Number</b>	<b>Enterprise Activities</b>
<b>Agricultural activities</b>	199	Manufacture of animal feeds, chemical, pesticides and insecticide and production of agricultural produce among others
<b>Health care</b>	200	Private hospitals and clinics, Chemists and pharmaceutical companies among others
<b>General trade</b>	500	Wholesaling, Distributors, warehousing and retailing of goods among others
<b>Education and Training</b>	171	Private schools and colleges, beauty colleges, driving schools among others
<b>General Services</b>	350	Building and construction, Transport and communication, accommodation, hotels among others,
<b>Total</b>	<b>1420</b>	

**Table 3.1 : Population of study**

### 3.4 Sampling Design

This section entails the sample procedures used to derive the sample for the study which will be used to generalize the findings for the larger population. According to Cooper and Schindler (2006), sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the larger group from which they were selected. Choosing a sample is a key feature of any research undertaking.



The SMEs in Thika Sub County are not homogeneous and thus stratified sampling will be used first . The strata are the business categories from which the sample will be selected. The researcher picked 5 categories of SMEs. The target categories are Agricultural activities, Healthcare, General Trade, Education & Training and Service Industry. The total population of SMEs in region as per the registration office as at 2011 was 1,420 across the five sectors . Ten percent of the accessible population is enough Gay (1981), therefore the study surveyed 142 SMEs with between 10-99 employees. The researcher then used simple random sampling to pick 142 SMEs from the 5 categories that were involved in the study. This number was considered appropriate due to time and cost constraints. The simple random sampling procedure was preferred because it allows unbiased sampling and accords the research work more scientific feature thereby making the validity of the research findings more concrete. Sample size in each business category was determined by the proportion of the total in each category to the total population (with slight variation allowed) .

### Sample distribution

<b>Sector</b>	<b>Target population</b>	<b>Sample</b>
Agricultural activities	199	20
Health care	200	20
General trade	500	50
Education and Training	171	17
General Service	350	35
<b>Total</b>	<b>1,420</b>	<b>142</b>

**Table 3.2 : Sample size**

### 3.5 Data Collection and Procedures

The researcher used questionnaires to collect primary data. Kothari (2007) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization. The researcher tried as much as possible to self administer the questionnaires so as to clarify any issues that may not be clear to the respondents. The questionnaires were divided into several sections; the first section delved into demographics data of the respondents while the rest of the sections covered the influence of access to micro-financing on SMEs presented as per the objectives of the study. Secondary data was gathered from literature from Sub County library materials .

### **3.6 Validity and Reliability of the Instrument**

According to Bridget and Lewin (2005), validity is the degree by which the sample of test items represents the content the test is designed to measure. Kothari (2004) points out that validity measures the accuracy of the instruments in obtaining the anticipated data which can meet the objectives of the study. To establish the validity of the research instrument the researcher sought the opinions of experts in the field of study particularly from the supervisor and lecturers. This facilitated the necessary revision and modification of the research instruments thereby enhancing validity. Any ambiguity or non-clarity in the questionnaire item was cleared before the questionnaires were taken to the field for data collection.

Kothari (2007) defines instrument reliability as the dependability, consistency or trustworthiness of a test. Cronbach's Coefficient Alpha approach recommended by Cohen, Manion and Morrison (2007) for its ability to give average split-half correlation for all possible ways of dividing the test into two parts will be used to measure internal consistency of the research instruments. Cronbach's Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches. The questionnaires was accepted at reliability indices of 0.50 and above.

### **3.7 Data Analysis**

Once the data was collected it was cleaned to clear any incompleteness or inaccuracy in the responses and to the quality of the responses. The data was then coded and analysed using statistical package for social services ( SPSS) version 20.Both descriptive and inferential statistics were generated and meaning inferred from each .regression analysis was done to

determine the level of significance between the variables of study. The finding has been presented in frequency tables.

### **3.7.1 Normality test**

The Shapiro-Wilk test was constructed to check for normality so as to ensure that the residuals in the model behaved normal. This was to test the null hypothesis that the distribution of the residual is normal. In this study normality was established because the p-value was greater than the chosen alpha level.

### **3.7.2 Analytical model**

Multiple regressions method was used to analyze data and examine the relationship of dependent and independent variables as shown below:

$$Y = \alpha + \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where by

Y= Annual growth in turn over .SME growth measured by annual growth in sales (sales in year 1-

Sales in Year 2)/ Sales in Year 1.

The constant is the true mean value of growth when the independent variables X1, X2, X3 & X4 is equal to zero

X1= access to micro financing measured by the amount of microloan received by the SMEs as a percentage of net assets

X2=education level of the entrepreneur measured by highest level of education attained

X3=age of the business measured by the period the business has been in operation

X4=industry of the SME (For analysis, SME industry were Agricultural activities, Healthcare, General Trade, Education & Training and Service Industry )

$\varepsilon$  =is the error term

$\beta$ = the slope/gradient of the regression line

$\beta_0$  = Constant

### **3.7.3 Test of Significance**

To measure the strength of the relationship between the dependent and independent variables an f-test and a students t-test at 5% level of significance and 95% level of confidence were done. This was to determine whether the coefficients  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  were different from zero. This was found to be so which therefore means there is a strong relationship between the dependent and independent variables.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.0 Overview**

This chapter presents the results of the analyses in accordance to the objective of the study, which is to assess the effect of access to micro financing on the growth of SMEs in Thika Sub County.

#### **4.1 The Response Rate.**

The study sampled 142 SMEs with between 10-99 employees. Of the total sample size, 132 respondents managed to fill the questionnaires leaving 10 questionnaires un-responded. Therefore, the response rate yielded 93%, which was way above average. The response rate attained is attributed to the fact that most of the respondents were literate and understood the questions.

#### **4.2 Descriptive Statistics**

Descriptive statistics was used in this study to summarize data relating to the personal information of the respondents and the influence of access to micro financing on SMEs. It gave a summary of percentages of these variables for the researcher to meaningfully describe the distributions of scores and measurements and present the findings in tabular diagrams for easy interpretation

##### **4.2.1 Personal Information of Respondents**

The respondents' profile was generated from the personal information collected through the questionnaires. The outcome from the analysis is as shown in table 4.1 below.

With regard to age, majority of the respondents belonged to the age group between 30 and 39 years represented by 40.9% followed by an age group of between 40 and 49 years at 28.8% . Age group of between 20 and 29 were 16.7% with the least being above 50 years 13.6%.

Regarding the categories of business involved in the study, SMEs in agricultural were 13.6%, health care was 12.9% while general trade was the highest at 37.9%. Education and training category had 12.9% and general service was 22.7%.

Pertaining to form of ownership, majority of SMEs were owned through sole proprietorship, followed by partnerships at 37.9 % and company form at 17.4%. Many of the SMEs were located in the CBD (65.9%) while the rest (43.2%) were off CBD. Concerning year of establishment, majority of the SMEs were established between 2017-2007 (39.4%) followed by 2018 at 30.3%, 2006-1996 at 15.2%, 1995-1985 at 9.1% and lastly those established in 1984 and beyond were only 6.1%.

From the table, the descriptive results indicate that majority of the respondents were male 62.9% while 37.1% were female. However, concerning the level of education, majority of the respondents had diploma education 43.2% followed by form four leavers by 25 %. 15.9% had undergraduate degree, 9.1 % postgraduate and 6.8% primary school education of class eight. Pertaining to the type of businesses conducted by the SMEs, a majority of 40.9% were concerned with trading while 31.1% were involved in artisan works. The least 28% were involved in farming.

**Table 4.1: Personal Information of respondents**

<b>Name Variable</b>	<b>Indicator</b>	<b>Count</b>	<b>Percent (N %)</b>
Age of respondents	20-29	22	16.7
	30-39	54	40.9
	40-49	38	28.8
	50 +	18	13.6
Category of business	Agricultural activities	18	13.6
	Health care	17	12.9
	General trade	50	37.9
	Education and training	17	12.9
	General service	30	22.7
Form of ownership	Sole proprietorship	59	44.7
	Partnerships	50	37.9
	Company's	23	17.4
Location of business	CBD	87	65.9
	off CBD	45	43.1
Year established	2018	40	30.3
	2017-2007	52	39.4
	2006-1996	20	15.2
	1995-1985	12	9.1
	1984 and back	8	6.1



Gender of entrepreneur	Male	83	62.9
	Female	49	37.1
Level of education	Std 8	09	6.8
	Form 4	33	25
	Diploma	57	43.2
	Undergraduate	21	15.9
	Postgraduate	12	9.1
Type of business	Farming	37	28
	Trading	54	40.9
	Artisan Works	41	31.1

**Source : Research findings 2018**

#### **4.2.2 Findings on Access to Micro Financing**

The views of entrepreneurs were collected on their level of agreement with the statements on access to finance by SMEs in Thika Sub-County. The results from the analysis were as shown in table 4.2.

Of the measures rated, a minority of 43.9% indicated that they started their business through capital financing, followed by borrowing at 31.1% and own savings as 25% respectively. In reference to the amount of capital used to start the businesses, a majority of 25.8% indicated that they started with less than Kshs. 10,000 followed by 17.4% who started with between Kshs. 10,001 and 20,000 followed by 15.9% who started with between Kshs. 40,001 and 50,000 respectively. Those who started with Kshs. 20,001 - 30,000 were 14.4% followed by 30,001 -

40,000 at 13.6% respectively. Lastly, 12.9% started their businesses with above Kshs. 50,000.

Concerning the main source of SMEs financing, a majority of 32.6% relied on business income while 25% relied on MFIs. 27.3% relied on all the sources while 15.2% relied on friends and relatives. It is interesting to note that all the SMEs had at least applied for a loan at 100%. However, of the loans applied, a majority of 25.8% indicated that strict repayment schedules was the main challenge in paying back the loans followed closely with the concern on high interest rates at 25%. The third challenge was outlined as unsatisfactory credit needs at 21.2% followed by the challenge of mandatory savings services at 15.2% respectively. The least problem affecting loan repayment was listed as shorter payment periods at 12.9%. However, a majority of the entrepreneurs (77.3%) concluded that MFIs had helped them in developing their businesses as opposed to 22.7% who felt otherwise.

Lastly, on whether MFI had played a significant role in the financial assistance in the growth and development of SMEs lower loan interest rates was rated as the main role by 27.3% followed by flexible loan repayment schedules at 18.2% and provision of education to SME entrepreneurs at 15.4% respectively. In the fourth position, the role of SMEs in providing longer loan repayment period was rated at 12.1% and was followed closely by SMEs provision of financial products suitable for SMEs growth at 11.4% respectively. Extensive network of MFI branches was rated at 6.1% with group lending lying at 5.3%. The least role played by SMEs was strengthening of financial literacy of operators at 5.3%

**Table 4.2: Descriptive statistics on Access to Micro Finance**

<b>Item</b>		<b>Count</b>	<b>Percent (N)</b>
What percentage can you estimate to be the start-up capital for your business	Own savings	33	25
	Borrowed	41	31.1
	Capital	58	43.9
How much capital did you start the business with?	Less than 10,000	34	25.8
	10,001 - 20,000	23	17.4
	20,001 - 30,000	19	14.4
	30,001 - 40,000	18	13.6
	40,001 - 50,000	21	15.9
	Above 50,000	17	12.9
How your business is mainly financed?	MFI (Loan)	33	25
	Business income	43	32.6
	Friend and relatives	20	15.2
	Others (All of the above)	36	27.3
If you have applied for a loan for your business, were the criteria easy to be met?	Yes	132	100
	No	0	0
If No, what was the main problem with the loan criteria?	Strict/inflexible terms	0	0
	Long procedure	0	0
	Too much paper work	0	0
	Lack of collateral required by MFIs	0	0

	Cost of process in applications and follow up	0	0	
If you have had problems in paying back the loan, what was the main challenge?	High interest rates	33	25	
	Unsatisfactory credit needs	28	21.2	
	Shorter payment periods	17	12.9	
	Mandatory savings services	20	15.2	
	Strict repayment schedules	34	25.8	
Do you conclude that MFI has helped you in developing your business?	Yes	102	77.3	
	No	30	22.7	
What main role is the MFI playing a significant role in the financial assistance in the growth and development of SMEs?	Group lending reducing information asymmetry	07	5.3	
	Strengthen financial literacy of SME operators	06	4.5	
	Lower loan interest rates	36	27.3	
	Flexible loan repayment schedules	24	18.2	
	Financial products suitable for SMEs growth	15	11.4	
	Longer loan repayment period	16	12.1	
	Extensive network of MFI branches	08	6.1	
	Provide education to SME entrepreneurs	20	15.2	

**Source : Research findings;2018**

### **4.2.3 Findings on SME Growth**

The views of employees were collected on their level of agreement with the growth of SMEs in Thika Sub-County. The results from the analysis were as shown in the table 4.3a and 4.3b.

On whether the SMEs had experienced growth in terms of sales, assets, employees, new branches, size in the last four years, the study found that all the businesses (100%) had grown in the dimensions outlined. This growth of the SMEs was mainly attributed to development of new products (27.3%) closely followed by new markets at 25.8% and re-investment of profits at 24.2%. Besides, the growth was explained by use of technology at 12.9% and lastly, access to loans at 9.8%

When asked how the entrepreneurs used the profits gained from the SMEs, a majority of 32.6% ploughed back in the business for business expansion, followed by 28.8% who opened other business ventures. Those who used the profits as a working capital were 15.2%, while those who saved the profits for future investment were 13.6. Lastly, 9.8% purchased more assets.

**Table 4.3a Descriptive Results on SME Growth**

Item		Count	Percent
17.a) Has your business/company experienced growth in terms of sales, assets, employees, new branches, size in the last four years?	Yes	132	100
	No	0	
What is the main attribution to the growth above?	Loans	13	9.8
	New markets	34	25.8
	New products	36	27.3
	Re-investment of profits	32	24.2
	Technology	17	12.9
19. How did you majorly use the profits for the last two years	Purchased assets	13	9.8
	Saved	18	13.6
	Business expansion	43	32.6
	Used as working capital	20	15.2
	Started another business	38	28.8

Furthermore, the entrepreneurs were asked to indicate the overall growth of all SMEs from 2014 to 2017. It is noted that in 2015, most SMEs experienced a high growth in sales (32.6%) followed by 2016 at 22.9% and 2014 at 22.3% respectively. The least growth was experienced in 2017 at 22.1%. Concerning overall capital growth, most SMEs experienced a high growth in 2017 (28%) followed by 2016 at 25.8% and 2015 at 24.8% respectively. The least growth was experienced in 2014 at 21.3%.

On overall employment opportunities created, it is clear that majority of the opportunities were created in 2015 at 32.2% followed by 2014 at 27.6% respectively. In 2016, 24.1% jobs were created while in 2017, the growth reduced to 16.1%. Pertaining growth in business branches, it was noted that a high growth was experienced in 2015 at 28.4% followed by 2016 at 26.8% and 2014 at 22.8%. Lastly, in 2017 there was a reduction in this growth to 22%.

Concerning technological improvement, a majority of businesses experienced this growth in 2016 and 2017 both at a tie of 25.4%, followed closely by the year 2015 at 24.8% and lastly in 2014 at 24.4%. On skill improvement, more skills were acquired in 2015 at 26.3% followed by 2016 at 25.9%. In 2017, 25.5% of skills were acquired and lastly in 2014, 22.3% of skills were acquired.

Lastly, concerning growth in the size of business (by introduction of more sections and departments of business), a high growth was experienced in 2015 at 29.7%, followed by 2014 at 28.7%, 2016 at 25.6% and lastly in 2017, a reduction by 15.9%.

In general, it can be deduced that there was more overall growth in most of the dimensions in the year 2015, with the least overall growth being witnessed in 2017. The reduction in SMEs growth in 2017 can be attributed to instability of the business environment by the general elections

**Table 4.3b Descriptive Results on SME Growth**

Please indicate the growth of all SMEs in each of the following years

Area of Growth	2014		2015		2016		2017	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Sales	7.38 M	22.3%	10.8 M	32.6%	7.57 M	22.9%	7.33 M	22.1
Capital	6.7 M	21.3%	7.8 M	24.8%	8.1 M	25.8%	8.8 M	28%
Employment (created)	6,820	27.6%	7,940	32.2%	5,947	24.1%	3,970	16.1%
New branches	57	22.8%	71	28.4%	67	26.8%	55	22%
Technology improvement	337	24.4%	342	24.8%	351	25.4%	350	25.4%
Skill improvement	112	22.3%	132	26.3%	130	25.9%	128	25.5%
Business size (sections created)	56	28.7%	58	29.7%	50	25.6%	31	15.9%

### **4.3 Regression Analysis**

In order to test the relationships between the dependent and independent variables for this study, the researcher subjected the data to multiple regression and the coefficients of correlations were obtained as shown in the table 4.4.



### 4.3.1 Relationship between growth of SMEs and access to micro financing, education level of the entrepreneurs, age of the business and industry of the SME

A regression analysis of Y (growth of SMEs) against  $X_1$  (micro financing),  $X_2$  (education level of the entrepreneurs),  $X_3$  (age of the business) and  $X_4$  (industry of the SME) was done and the regression model was as follows:

$$Y = 0.208 + 0.122X_1 - 0.17X_2 + 0.444X_3 + 0.366X_4 + \varepsilon$$

Where;

Y = growth of SMEs

$X_1$  = access to micro finance

$X_2$  = education level of the entrepreneurs

$X_3$  = age of the business

$X_4$  = industry of the SME

$\beta_0$  = Constant term

$\beta_1$  and  $\beta_2$ , = Coefficients of the Regression

$\mu$  = Error term

Firstly, from the above model, it is clear that there exist a positive relationship between Y (growth of SMEs) and access to micro finance ( $X_1$ ), based on the positive coefficient of the variable  $\beta_1 = 0.122$ . This shows that when access to micro finance is improved by one unit

percentage, SMEs grow to approximately 11.22%.

Secondly, concerning the relationship between growth of SMEs and level of education, there exists a negative relationship between  $Y_i$  (growth of SMEs) and education level of the entrepreneurs ( $X_2$ ), based on the negative coefficient of the variable  $\beta_2 = (-)0.17$ . This shows that when education level diminishes by one unit percentage, SMEs growth reduces by approximately 17%.

Thirdly, there exist a positive relationship between  $Y$  (growth of SMEs) and age of the business ( $X_3$ ), based on the positive coefficient of the variable  $\beta_3 = 0.444$ . This shows that when SMEs continue to exist by one unit percentage, generally SMEs growth is experienced by approximately 44.4%.

Lastly, there exist a positive relationship between  $Y$  (growth of SMEs) and the type of industry of SMEs ( $X_4$ ), based on the positive coefficient of the variable  $\beta_4 = 0.366$ . This shows that SMEs, which specialize in agricultural activities, healthcare, general trade, education & training and service industry grew by approximately 36.6%.

From the results of the regression analysis, it was found out that at 95% confidence level, There is a significant relationship between the independent variables ( $Y$ ) and all the dependent variables ( $X_1, X_2, X_3$  and  $X_4$ ) based on the *p-value* ( $p \leq 0.005$ ) of the coefficients of the dependent variables.

**Table 4.4 Coefficients (Y against X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>)**

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.208	.073		2.855	.005	.064	.351
X <sub>1</sub> Access to micro finance	.122	.035	.210	3.492	.001	.053	.191
X <sub>2</sub> Level of Ed.	-.170	.057	-.170	-2.993	.003	-.283	-.058
X <sub>3</sub> Age of Business	.444	.051	.499	8.705	.000	.343	.544
X <sub>4</sub> Industry of SMEs	.366	.044	.465	8.236	.000	.278	.455

a. Dependent Variable: Growth

#### **4.3.2 Model Summary of Y against X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>**

The coefficient of determination ( $R^2$ ) is by definition the proportion of total variation in the dependent variable (Y) explained by the regression of Y on X (Koutsoyiannis, 1993). As indicated in table 4.5  $R^2$  was found to be 0.957.

Thus, it can be deduced that the regression of Y on X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub> explains 95.7% of the variations in the dependent variable. This means that growth of SMEs in Thika Sub County is explained by 95.7% of the services offered by SMEs specializing in agricultural activities, healthcare, general trade, education & training and services.

Model Summary <sup>b</sup>									
Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate	Change Statistics				
					R Square Change	F Change	Df 1	Df 2	Sig. F Change
1	.978 <sup>a</sup>	.957	.955	.217	.957	701.993	4	127	.000
A. Predictors: (Constant), X <sub>4</sub> Industry of SMEs, X <sub>3</sub> Age of Business, X <sub>2</sub> Level of Ed., X <sub>1</sub> Access to micro finance									
B. Dependent Variable: Growth									

**Table 4.5 Model Summary of Y against X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>**

### 4.3.3 ANOVA Test

A NOVA test was conducted to explore whether the strength of the relationship between the Y and X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub> was strong. The strength was measured by carrying out f-test at 5% level of significance and 95% level of confidence. The test was done to determine whether the coefficients  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are significantly different from zero.

From the table, the ANOVA results indicated  $F(4, 127) = 701.99$ :  $p \text{ value} \leq 0.05$  hence the assumption that samples variances were significantly different from zero. This being so, it was concluded that there is a strong positive relationship between Y and X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>.

**Table 4.6 ANOVAS test**

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	131.760	4	32.940	701.993	.000 <sup>b</sup>
	Residual	5.959	127	.047		
	Total	137.720	131			

a. Dependent Variable: SMEs growth

A. Predictors: (Constant), X<sub>4</sub> Industry of SMEs, X<sub>3</sub> Age of Business, X<sub>2</sub> Level of Ed., X<sub>1</sub> Access to micro finance

#### 4.4 Discussion of the Findings

From findings of the study the regression of Y against X explains 95.7% of the variations in the dependent variable. It is clear that there exist a positive relationship between Y (growth of SMEs) and access to micro finance (X<sub>1</sub>), based on the positive coefficient of the variable  $\beta_1 = 1.122$ . This shows that when access to micro finance is improved by one unit percentage, SMEs grow to approximately 11.22%. Secondly, there is a negative relationship between growth of

SMEs and level of education of the entrepreneurs ( $X_2$ ), based on the negative coefficient of the variable  $\beta_2 = (-)0.17$ . This shows that when education level diminishes by one unit percentage, SMEs growth reduces by approximately 17%. Thirdly, there exist a positive relationship between Y (growth of MFIs) and age of the business ( $X_3$ ), based on the positive coefficient of the variable  $\beta_3 = 0.444$ . This shows that when SMEs continue to exist by one unit percentage, generally SMEs growth is experienced by approximately 44.4%.

Lastly, there exist a positive relationship between Y (growth of MFIs) and the type of industry of SMEs ( $X_4$ ), based on the positive coefficient of the variable  $\beta_4 = 0.366$ . This shows that SMEs, which specialize in agricultural activities, healthcare, general trade, education & training and service industry grew by approximately 36.6%. It can also be concluded that the findings concurs with Koech (2011) that the factors affecting growth were capital market, age, capital access, education level of the manager and information access.

A NOVA test was conducted to explore whether the strength of the relationship between the Y and  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  was strong. The strength was measured by carrying out f-test at 5% level of significance and 95% level of confidence. The test was done to determine whether the coefficients  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are significantly different from zero.

From the table, the ANOVA results indicated  $F(4, 127) = 701.99$ :  $p \text{ value} \leq 0.05$  hence the assumption that samples variances were significantly different from zero. This being so, it was concluded that there is a strong positive relationship between Y and  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$ . The outcome of this study concurs with the findings of Cooper(2012) who studied on the impact of microfinance services on the growth SMEs in Kenya and found a strong positive relationship between microfinance services such as providing credit and the growth of SMEs.

## **CHAPTER FIVE: SUMMARY ,CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

The chapter presents the summary of the findings, conclusion, recommendation and limitations of the study. It also covers the suggested areas of further study in the various sections.

### **5.2 Summary of the Findings**

The valuable contribution of the SME sector to the Kenyan economy has been ascertained through many studies with the economic survey reports indicating the sector contributes over 25% of the GDP and almost 78% of jobs creation. The objective of every entrepreneur is to grow their business and make more profits and achieve this most of them make use of the MFIs services. This study was carried in Thika Sub County with an aim of finding out how access to micro financing affect the growth of SMEs in the region. This was promoted by the need to find out what factors affect the growth of SMEs and in particular the issue fo finances which is a crucial requirement for any business enterprise. The study sampled five categories of SMEs and using a questionnaire collected data from 132 respondents. A multi regression was done to determine the influence of the various variables that affect SME growth.The main findings were as discussed here:

From findings the regression of Y on  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  explains 95.7% of the variations in the dependent variable. This means that growth of SMEs in Thika Sub County is explained by 95.7% of the services offered by MFIs specializing in agricultural activities, healthcare, general trade, education & training and services. It is clear that there exist a positive relationship between



Y (growth of SMEs) and access to micro finance ( $X_1$ ), based on the positive coefficient of the variable  $\beta_1 = 1.122$ . This shows that when access to micro finance is improved by one unit percentage, SMEs grow to approximately 11.22%. Secondly, there is a negative relationship between growth of SMEs and level of education of the entrepreneurs ( $X_2$ ), based on the negative coefficient of the variable  $\beta_2 = (-)0.17$ . This shows that when education level diminishes by one unit percentage, SMEs growth reduces by approximately 17%. Thirdly, there exist a positive relationship between Y (growth of MFIs) and age of the business ( $X_3$ ), based on the positive coefficient of the variable  $\beta_3 = 0.444$ . This shows that when SMEs continue to exist by one unit percentage, generally SMEs growth is experienced by approximately 44.4%. Lastly, there exist a positive relationship between Y (growth of MFIs) and the type of industry of SMEs ( $X_4$ ), based on the positive coefficient of the variable  $\beta_4 = 0.366$ . This shows that SMEs, which specialize in agricultural activities, healthcare, general trade, education & training and service industry grew by approximately 36.6%. The ANOVA results indicated  $F(4, 127) = 701.99$ :  $p \text{ value} \leq 0.05$  hence the assumption that samples variances were significantly different from zero. This being so, it was concluded that there is a strong positive relationship between Y and  $X_1, X_2, X_3$  and  $X_4$

### **5.3 Conclusions**

Form the findings of the study it was established that access to finance is a key determinant of SME growth. For SME to succeed in job creation and poverty alleviation they need adequate Finances to run .Without finances the enterprises cannot grow or compete in the current business environment. The main source of funding was found to be personal savings .This means access to credit remains a challenge to most SME owners due to the terms set by the lending institutions. Other factors found to influence growth of SME include the age of the business where it was established that as the business grows in age its likely to grow. This could be due

to ability to position itself well in the market, understand competition and respond strategically and experience of the entrepreneur .Another factor is industry where by some sectors are more viable to invest in than others. education level of the entrepreneur was also acknowledged as a key factor .Entrepreneurs with higher level of education were found to perform better in terms of business management.

Its imperative therefore for any government to create a favourable environment for the SMEs that would promote their growth. Both the government and the lending institutions should make access to credit easy and affordable to the SMEs in order to make them grow. This can be done through having a low interest rate, giving longer grace period, offering necessary training to the entrepreneurs and advising them on market trends

#### **5.4 Recommendations**

Form the findings of the study it is recommended that MFIs should come up with innovative and friendly ways of supporting SMEs for them to grow. The same should be done by the government and other lending institutions. This can be done through educating the SME owners on the available credit facilities, increasing the loan repayment grace period, lower interest rates and offering training to the business owners. This will increase the accessibility of the credit and enhance the growth of SME and improve on the economy.

the study further recommends the government and MFIs should assist SMEs in marketing their products and services. This can be done through availing information on the markets available for various products ,by creating and opening up regional and international markets for SME products. The sector should be supported interms of infrastructure, cost of energy and taxation .If cost of running the business is lowered then such capital can be invested in growing the business.

### **5.5 Limitations of the Study**

Due to cost and time constraints the study was focused on five categories of SMEs in the Sub County. Most of the business owners were not comfortable to share information related to their financial positions as was required in the questionnaire. They felt such information was confidential and sensitive to be shared. Others argued that they don't keep records and so relying on their memory may not provide accurate data for a research. Some admitted that they lack book keeping skills and as such could not provide reliable records.

Since the sales figures provided were not from an audited financial statements they could not provide reliable basis to analyse the growth of the business. Most of the respondents could not be interviewed to collaborate the details on the questionnaires and therefore validity of the responses could not be fully confirmed. Due to strict requirement by the lending institutions most entrepreneurs depends on families and friends as a source of funding for their business and many were ignorant of credit facilities in the MFIs

### **5.6 Suggestions for Further Studies**

Since the study focused on access to micro finance services on the growth of SMEs in Thika Sub County, it is suggested that further studies be done on other Sub Counties. This is because different counties have unique characteristics and diverse contextual realities that might affect micro finance services offered to SMEs. Other studies can also be conducted on the formal and informal institution's lending policies and access to credit by small scale enterprises in the Sub County.

The researcher suggest further study be done on other sub Counties on the country on the same variables of the study. This is because different sub counties have different unique characteristics

and contextual dynamics that affect business growth . Studies should also be done on the effect of lending policies on access to credit in both formal and informal lending institutions.

It is further recommended that indepth studies be done on the causes of underutilization of micro finance services by many business owners. Finally studies should also be done to establish where gender plays a role in the growth of a business.

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## **APPENDICES**

### **APPENDIX I: INTRODUCTORY LETTER**

Dear Sir/Madam,

#### **RE: RESEARCH STUDY**

I am pleased to inform you that I am a student at the University of Nairobi pursuing a Masters degree in finance. As partial fulfillment for my degree, I am conducting research on the effect of access to micro financing on the growth of SMEs in Thika Sub County .

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project.

Your assistance will be highly appreciated. I look forward to your prompt response.

Yours faithfully,

Abdullahi abass

## APPENDIX II:QUESTIONNAIRE

This questionnaire is meant to collect data on the effects of access to Micro financing on the growth of SMEs in Thika Sub County. Any information given by the respondents during this exercise will be treated with strict confidentiality. 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.Age of Respondents:  
20-29 yrs ( )  
30-39 yrs ( )  
40-49 yrs( )  
50 yrs +( )
3. Nature of the business/Category\_\_\_\_\_
4. Tick the form of ownership  
Sole proprietor ( ) Partnership ( ) Company ( ) Others specify)\_\_\_\_\_
5. Location of the business CBD ( ) Off CBD ( )
6. When established\_\_\_\_\_
- 7.Gender of entrepreneur  
Male ( ) Female ( )
8. What is the education level of the Manager?  
Std 8 ( ) Form 4 ( ) Diploma ( ) Undergraduate ( ) Postgraduate ( )
9. What is the type of business?  
Farming ( ) Trading ( ) Artisan Works ( )

### SECTION B:

#### ACCESS TO MICRO FINANCING

- 10 What percentage can you estimate to be the start-up capital for your business?

Own savings ( )

Borrowed ( )

Capital ( )

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

Less than Ksh. 10,000 ( )

10,001 - 20,000 ( )

20,001 - 30,000 ( )

30,001 - 40,000 ( )

40,001 - 50,000 ( )

Above 50,000 ( )

12. How is your business financed? Indicate in percentage

a) MFI (Loan) 25% ( ) 50% ( ) 75% ( )

b) Business income 25% ( ) 50% ( ) 75% ( )

c) Friend and relatives 25% ( ) 50% ( ) 75% ( )

d) Others (specify)

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

Yes ( ) No ( )

b) If No, what were the problems with the loan criteria?

Strict/inflexible terms [ ]

Long procedure [ ]

Too much paper work [ ]

Lack of collateral required by MFIs [ ]

Cost of process in applications and follow up of loans [ ]

Other (Specify) \_\_\_\_\_ [ ]

14. If you have had problems in paying back the loan, what were the challenges?

High interest rates [ ]

Unsatisfactory credit needs [ ]

Shorter payment periods for large capital investment [ ]

Mandatory savings services [ ]

Strict repayment schedules [ ]

Other (Specify) \_\_\_\_\_

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

Yes( ). No( )

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

Group lending reducing information asymmetry [ ]

Strengthen financial literacy of SME operators [ ]

Lower loan interest rates [ ]

Flexible loan repayment schedules [ ]

Financial products suitable for SMEs growth [ ]

Longer loan repayment period [ ]

Extensive network of MFI branches [ ]

Provide education to SME entrepreneurs [ ]

### **SME GROWTH**

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

Yes ( ) No ( )

**b)Please indicate the growth in each of the following years**

<b>Area of Growth</b>	2014	2015	2016	2017
Sales				
Capital				
Employment				
New branches				
Technology improvement				
Skill				

improvement				
Business size				

18. 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)\_\_\_\_\_

19. 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) \_\_\_\_\_ %