INFLUENCE OF MICROFINANCE SERVICES ON GROWTH OF SMALL BUSINESS ENTERPRISES IN KENYENYA SUB-COUNTY – KISII COUNTY, KENYA

BY

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DECLARATION

This Research Project Report is my original work and has never been presented for a degree or award in any other university.

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This Research Project Report has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This research report is dedicated to my parents Mr. Zablon and Mrs. Alice Mogire, my sisters Edna, Grace, Gladys and Rachel and my husband Wycliff Ondimu for their unwavering support and encouragement as I pursue my education, and to my sons Nathan and Avi for being the motivation in all I do and providing balance in my life.

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ABBREVIATIONS AND ACRONYMS

ADC	**:**	African Development Cooperation
BFSA	**:**	Banking and Financial Services Act
BoZ	**:**	Bank of Zambia
BSC	**:**	Balanced Score Card
CBS	**:**	Central Bureau of Statistics
CR	**:**	Credit Rating
ERP	**:**	Enterprise Resource Planning Systems
FSDP	**:**	Financial Sector Development Plan
GDP	**:**	Gross Domestic Product
KNES	**:**	Kenya National Economic Survey
KWFT	**:**	Kenya Women Finance Trust
MFIs	**:**	Micro Finance Institutions
NBFIs	**:**	Non-Bank Financial Institutions
NGOs	**:**	Non-Governmental Organization
MSBs	**:**	Micro and small scale businesses
SBEs	**:**	Small Business Enterprises
SIDA	**:**	Swedish International Development Agency
SMEs	**:**	Small and Medium Sized Enterprises
UN	**:**	United Nations
USAID	**:**	United States Agency for International Development
USD	**:**	United States Dollar

ABSTRACT

This study sought to determine the influence of microfinance services in the growth of micro and small scale business enterprises in Kenyenya sub-county, Kisii County, Kenya. Specifically the objectives were to: determine the influence of credits provided on the growth of micro and small scale businesses in Kenyenya sub-county, explore the extent to which training of entrepreneurs influences the growth of micro and small scale businesses in Kenyenya sub-county; establish the extent to which savings influence the growth of micro and small scale business enterprises in Kenyenya sub-county; examine the extent to which terms of service influence the growth of small business enterprises in Kenyenya sub-county. The study was conducted through a descriptive survey research design. A two stage sampling method was employed to select 162 small scale business enterprises in the district. Structured questionnaires and an interview schedule was developed, pre-tested and used for collecting quantitative data for the study from the sampled micro and small scale business enterprises. Descriptive statistics using frequency distribution tables and percentages was used to analyse data. The study showed that credit was not easily available to the local SBEs and when available the amount of credit obtained was rarely obtained and if it was obtained, it was lower than the amount requested. Nevertheless, among those who obtained requisite amounts of credit, business growth was noticed. Further, repayment conditions of loans for the SBEs were found to be a major challenge and therefore affected the business growth as 52% of the respondents invested their loans on current businesses, 21% invested the loans or part of the loans on other businesses, and 17% used their loans to repay other loans while up to 11% diverted the loans for family issues. The SBEs who obtained their money to repay loans from business profits were 55% and those who borrowed to repay from business sales were 26.5%. Up to 45% of the borrowers had defaulted in repayment due to tough repayment conditions and this affected the business growth. Mentorship programme provided to the SBEs was found to affect the growth of business enterprises in Kenyenya with those receiving mentorship programmes growing better than those without mentorship. The study recommends that SBEs credit availability be enhanced to reduce the level of restriction on lenders to facilitate business growth. Findings from this study will help in accelerating access to micro-credits from small scale business enterprises that are pre-requisite to growth of micro and small scale businesses, the findings will also help micro and small business owners to know their potential and importance of training to ensure proper management and business practices hence operate sustainable businesses.

CHAPTER ONE
INTRODUCTION
1.0 Background of the Study

Small- and medium-sized enterprises (SBEs) otherwise referred to as Small Business Enterprises (SBEs) have long been believed to be important in supporting economics development within a country (Akhtar; CDASED, 1999; Mazzarol, Volery, Doss & Thein, 1999). One of the important roles of SBEs in this context includes poverty alleviation through job creation. For instance, in the Netherlands, SBEs account 98.8% of all private sector companies, contribute 31.6% to Gross Domestic Product (GDP), and employ 55% of total workforce (EIM Business & Policy Research, 1999). In Italy, SBEs contribute to USD35 million in exports and absorb 2.2 million of national labours (Patrianila, 2003). Thai SBEs are increasingly seen as creator of new jobs (Swierczek & Ha, 2003) and Vietnamese SBEs employ 64% of industrial workforce. According to Indonesian statistics, in 2003, the number of Indonesian SBEs was 42.4 million and they contribute to 56.7% of GDP, account 19.4% of total export, and employ 79 millions of work force (BPS &KUKM, 2003). Therefore, in ensuring the economic growth of a country, more attention should be paid into SBEs development.

The Companies Observatory (2012) found out that, the profitability of SBEs in Europe had increased following the recovery in activity in 2010. However, it remains below its pre-crisis level, and the disparities generated by the crisis between countries and sectors have widened. The study further stated that, the SBEs in the construction sector are still in a difficult situation, especially in Spain, Portugal and Italy, although those in the manufacturing industry have benefited from a marked recovery in activity, with performances rising significantly in Germany.

It was also evident from the study that, compared to other European countries, French SBEs are characterized by a low level of bank debt, offset by relatively high trade payables and other debts including inter-company loans. In particular, it was established that, trade credit weighs more heavily on working capital requirements in Southern Europe (Italy, Spain, Portugal) than in Northern Europe (mainly Austria, Germany, Belgium). In the end, French SBEs have been overall relatively resilient to the deterioration in the economic environment, but have not benefited from the economic recovery in 2010 as much as their German counterparts.

Wang (2013) realized that, production of SBEs accounted for over 60% of China's total GDP by March of 2012, increasing from 1% in the 1980s.this growth was attributed to the microfinance which were noted to play a crucial rule in the revenue and profit growth of SBEs. In Vietnam, Nguyen, Gan and Hu (2013) observed that the fastest growing SBEs are those who did not borrow externally and their growth strategy relies on the owner's human capital, direct export and network developed with customers. The study further observed that, the SBEs group that obtained external finance grows faster as their enterprise size increases and they keep financial records.

An analysis by Quaye (2011) on the profile of SBEs in Nigeria showed that, MFIs have had a positive effect on the growth of SBEs and that, some of the critical contributions of MFIs include; greater access to credit, savings enhancement and provision of business, financial and managerial training. The study also identified the cumbersome process associated with accessing credit of which collateral security and high interest rate as the major setback of SBEs in accessing credit. The study went further to recommend that, in other to enhance a sustained and accelerated growth in the operations of SBEs credits should be client-oriented and not product- oriented besides having proper and extensive monitoring activities for clients who are granted loans. Ogunlusi (2014) found out that microfinance banks' strict conditions in granting loans to SBEs in Nigeria do affect the development of SBEs. The study further noted that the banks have put effective mechanisms in place to ensure judicious use of loans granted to SBEs and that when enough funds is not invested into a business, the business will not in any way grow and develop.

Fiaklou, Ntiamoah, Kwamega and Egyiri's (2014) study proved the existence of high positive correlation between the constructs of bank credit facilities and the growth of business among the small and micro enterprises in Ghana. Ahiawodzi and Adade (2012) also noted that, access to credit, increase in total current investment, start- up capital and annual turnover have significant positive effect on the growth of SBEs in manufacturing sector using employment level of the business as prosy for growth among the Small and Medium Scale Enterprises in Ghana. Sampong (2011) noted that access to credit had a strong significant influence on sales performance among the

SBEs in Ghana and that, beneficiaries should be educated to know the implications of their acts on the business as far as the loan repayment is concern. Further studies by Kessey (2014) discovered that some of the challenges facing SBEs in agricultural sector in Ghana include; lack of bank accounts, collaterals, and information regarding the procedure for accessing credits from micro financial institution.

According to the Kenya National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million micro and small scale business enterprises employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP (Ndinya, Cole, Goldberg& White, 2010). The Kenya government has continued to lay emphasis on the growth of micro and small scale business enterprises as an engine of growth and poverty alleviation in rural areas. Currently, their presence is starting to be appreciated in Kenya as they fill voids that continue to enhance the growth of economy and reduce poverty from the micro-levels. Despite this, there is a problem of poor performance of these Small scale business enterprises in many parts of Kenya, which means that sources of livelihoods are lost in the process resulting in increasing poverty (Söderbom & Teal, 2000).

This study sought to investigate the influence of microfinance services on the growth of micro and small scale business enterprises in Kenyenya sub-county. It explored how credit availability, training of the entrepreneurs by MFI, savings and how terms of service influence the growth of small scale business enterprises in Kenyenya sub-county and how such helped in poverty reduction.

1.1 Statement of the Problem

Poverty is estimated to affect close to 60% of the Kenyans who live on less than USD 1 a day (KNBS, 2010). Yet is has been recognized that small scale business enterprises have enhanced the economic growth of many countries and reduced poverty by up to 80% as evidenced by some countries in Asia. In Kenya, the government has continued to lay emphasis on the growth of small scale business enterprise as an engine of growth and poverty alleviation. Currently, the SBEs presence is starting to be appreciated in Kenya as they fill voids that continue to enhance the growth of economy and reduce poverty from the micro-levels. However, there is a problem of poor performance of these Small scale business enterprises in many parts of Kenya, which means that sources of livelihoods are lost in the process resulting in increasing poverty (Söderbom and Teal, 2010).

It has also been shown that problems of poor performance of these small scale business enterprises occur mostly in the rural areas in Kenya. It has been noted that most small scale business enterprises have started borrowing loans from the micro-financial institutions or even from the banks to finance their operations. Despite this, the performance of the small scale business enterprises is still below the expectations in tandem with the borrowed microcredits and therefore poverty alleviation goals are precluded. It is therefore not clear how the microfinance through micro-credit schemes enhance poverty alleviation in the rural areas in Kenya. Therefore, this study explored the influence of microfinance services on the growth of micro and small business enterprises in Kenyenya sub-county – Kisii County, Kenya.

1.2 Purpose of the Study

The purpose of this study was to investigate the influence of microfinance services on the growth of micro and small scale businesses in Kenyenya sub-county - Kisii County, Kenya.

1.3 Objectives of the Study

The objectives of this study were:

i. To determine the influence of credits provided on the growth of micro and small scale business enterprises in Kenyenya sub-county
ii. To explore the extent to which training of entrepreneurs influences the growth of micro and small scale business enterprises in Kenyenya sub-county
iii. To establish the extent to which personal savings influence the growth of micro and small scale business enterprises in Kenyenya sub-county.
iv. To examine the extent to which terms of service influence the growth of micro and small scale business enterprises in Kenyenya sub-county.

1.4 Research Questions

i. How does the amount of credits provided to the micro and small scale businesses influence their growth?
ii. How does the training support given to micro and small micro and scale business entrepreneurs ensure growth of these businesses?
iii. How do savings influence the amount of credit extended to micro and small scale businesses in Kenyenya sub-county?
iv. How do terms of service of microfinance institutions influence the growth of the micro and small scale businesses in Kenyenya sub-county?

1.5 Significance of the Study

This study sough to contribute more information concerning factors affecting the growth of Small scale business enterprises in Kenya. Such information was deemed to be of great interest to various stakeholders as follows: Micro finance institutions assisting small and micro enterprises will find the results of this study useful. These stakeholders will be informed on how to improve the terms of credit by understanding factors that may affect their lending to the small scale business enterprises. For purposes of scaling up loans in subsequent loan cycles, implementers need to keep track of the actual uses to which loans under previous loan cycles were put. This was a determinant as to whether the loan beneficiaries are able to service subsequently higher loans and also an indicator of the future sustainability of the lending institutions. Interested academicians especially in entrepreneurship will use the findings to understand the issues raised and use them as reference material and/ or basis for further research. Microfinances who have committed funds to Small scale business enterprises was interested in finding out how far their objectives of growth are being sustained, which may provide a baseline for further funding.

Information from this study will also help the Small scale business enterprises to improve their overall growth through application of the recommendations of the current findings. The government will also benefit from the current information to help in management of the Small scale business enterprises and enhance their overall growth. This will also serve as a guide to economic policy makers in making the necessary restructuring of the programme if the need be as reference to future researchers who might want to work on aspects of this topic.

1.6 Limitations of the Study

The study was affected by a number of limitations anticipated during the study. First, some of the respondents may not have wanted to provide honest answers. This is because they perceived the information as classified and, if released, would be disclosed to their competitors or some other parties. Secondly, the researcher was limited in the amount of resources to carry out the research in terms of developing the data collected and other areas.

1.7 Delimitations of the Study

In order to counter the problem of failing to disclose all the information by the respondents, the researcher explained to the respondents that the research was purely for academic purposes and that the information given would be treated with confidentiality. As far as the problem of availability of the amount of resources to carry out the research in terms of developing the data collected and other areas was concerned, the study used research assistants in delivering and collection of questionnaires so as to beat the stipulated deadlines.

1.8 Basic Assumptions of the study

The study was guided on the basic assumption that: the sampled 162 small scale businesses in Kenyenya sub-county would provide true reflection of the small scale businesses in rural Kenya, data collection instruments were valid and reliable in measuring the desired outcome and that respondents were willing to give information honestly and objectively.

1.9 Definitions of Significant Terms

Access: Use to refer to obtain amount of money that was requested by the Small scale business enterprises from the financial institutions.

Credits: An amount of money borrowed from the microfinance institutions by the small scale business enterprises with an aim of repaying it at an agreed interest.

Credit borrowing conditions: Refer to the interest charged on the credits, repayment period, actions on default and other legal aspects to be overcome during the credit use and repayment

Effect of credit on an enterprise: Effectiveness of credit in meeting the set objectives by providing growth of the enterprise in terms of, increase in sales, profits, employees and assets.

Entrepreneur: Owner of the small businesses

Loan Utilization: Refers to how the money was used or invested.

Microfinance: Another concept for the provision of small loans (microcredit) or savings services for people excluded from the formal banking system.

Micro finance institution: Informal sector or small scale is synonymously used in study. The definition of these terms followed that of the development plans of 1989 – 1993, 1997- 2001 and the Sessional paper No.2 of 1992, where micro enterprises are designed as any business employing 1-10 persons, has low capital investment, uses simple technology and local materials and utilizes low skills.

Performance: Volume of sales, levels of profit, rate of capital, addition of employees, asset level.

1.10 Organization of the Study

The study consists of five chapters: The first chapter focuses on the introduction, which includes the background of the study, statement of problem, research questions, research objectives, significance of the study, delimitations of the study, limitations of the study, assumptions of the study, and definitions of significant terms. Chapter two of the research study deals with a review of related literature. Specifically, the chapter includes an introduction, overview of Micro-finance services, influence of credits provided on the growth of micro and small scale business, influences the growth of micro and small scale, influence of savings on the growth of micro and small businesses, effects of personal savings influence the growth of micro and small scale business enterprises and the effects of the terms of service on growth of micro and small businesses. The study also has the empirical literature and the conceptual framework for the study. Chapter three forms the methodology of the study. This chapter gives details of how the research was conducted; it includes issues such as research design, target population, the sample size and sampling procedure, the data collection instruments, piloting of research instrument, validity of research instrument, reliability of research instrument, data collection procedures and the data analysis techniques. The fourth chapter involves data analysis, presentation and interpretations of results. Chapter five deals with summary, conclusion and recommendation on the outcome of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on what other scholars have written in relation to the topic under investigation: Influence of micro-finance services in the growth of micro and small scale businesses in the global context, Africa and in Kenya including the local contexts. The chapter includes discussions on microfinance services, the influence of credits provided on the growth of micro and small scale businesses, how training of entrepreneurs influences the growth of micro and small scale businesses, the extent to which savings influence the growth of micro and small scale businesses and the extent to which terms of service influence the growth of micro and small scale businesses in Kenyenya sub-county. It also contains the conceptual framework and the empirical literature.

2.1 Overview of Micro-Finance Services

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

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

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

2.2 Credits for SBEs

Accessing credit is considered to be an important factor in increasing the growth of SBEs. It is thought that credit augment income levels, business expansion, competitiveness increase sales volume and thereby more profits. It enables SBEs to overcome their liquidity constraints and undertake investments (Ngugi & Kerongo, 2014). Without finance, SBEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms.
Several empirical studies have concluded that the lack of access to capital and credit schemes and the constraints of financial systems are regarded by potential entrepreneurs as main hindrances to business innovation and success in developing economies (Marsden, 1992; Meier & Pilgrim, 1994; Steel, 1994). Potential sources of capital may be personal savings, extended family networks, community saving and

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

Studies have also indicated that, Microfinance has allowed millions of households usually excluded from classical financial services to begin their own economic activities or to reinforce existing efforts and become micro entrepreneurs (Dunford, 2001). Because of the collateral requirements from the formal commercial banks, microfinance tends to provide to the poor people financial services exclusive of these conditions (Carter, McNulty & Verbrugge, 2004). For these financial services, the poor people are willing to pay for because of the added advantage they receive for not collateralizing anything.

Various studies have recorded mixed results on the influence of credit on growth of SBEs. For instance, while Kira and He (2012) and Dalberg (2011) found out that access to credits allow SBEs to utilize productive assets to enhance their productivity and economy of scale, it encourages market entry, facilitates growth, reduce risks, fosters innovation and entrepreneurial activity; Allen, Chakrabarti, De, Qian and Qian (2012) differed by documenting that firms in India with access to bank or market finance do not perform better than the others. Similar sediments are shared by Nguyen, Gan and Hu (2013) who lamented that, the reliance on external financing of Vietnamese SBEs in manufacturing and construction proved to be counterproductive. Diagne and Zeller (2001) add by observing that, insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SBEs and overall welfare.

Ahiawodzi and Adade (2012) singled out access to credit, increase in total current investment, start- up capital and annual turnover as items that have significant positive effect on the growth of SBEs in manufacturing sector in Ghana, using employment level of the business as prosy for growth. However, Kessey (2014) contradicted the claim by stating that, although one could conclude that credit has positive effect on earnings of the borrowers, low income and high interest rate have led to high default rate among SBEs borrower in Ghana.

In Tanzania, Selejio and Mduma (2005) observed that credit alone is not a constraint, other issues which include but are not limited to conducive business-supporting environment such as good SBEs sector policy, business premises, equally play part in determining the growth of SBEs. The study went further to discover that, SBEs operators in rural areas are more risk averse than their counterparts in urban areas. The study therefore recommended that, lending institutions should design the lending models/procedures with the element of differentiating their potential clients in rural and urban areas to meet the needs for good performance of each category of borrowers.

2.3 Training for SBEs

In the past, training seemed to be ignored and was not regarded as an activity that could help SBEs create "value" and help them to successfully deal with competitive and environmental challenges. However, this view has changed over time (Yahya, Othman & Shamsuri, 2012). The study observed that enterprises that use innovative training practices are more likely to report better financial performance than their competitors who lack such training. Besides, training helps SBEs to cope with the latest accounting systems, information technology, management concepts and production techniques (Jones, 2004).

Kazooba (2006) found that poor record keeping and lack of basic business management experience and skills were major contributors of failure of SBEs to grow and at the worst close shop as soon as they set up. Roomi, Harrison and Beaumont-Kerridge (2009) point out that, training is mainly geared towards building entrepreneurial skills and traits of the recipients in order to better their businesses practices. It adds to the skills of SBEs owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to perform better. The study further indicates that, with the right skills; the SBEs owners can gain important edges even under stiff competitive environment and that, through training, the enterprise owners/managers can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques.

A study by Kessy and Temu (2010) pointed out that most of MFIs in Tanzania provide credit without business training to their clients. The study further states that micro credit client-enterprises owned by recipients of business training have higher level of assets and sales revenue compared to enterprise owned by non-recipients of training while insignificant differential impact on employment creation was demonstrated. Fiala's (2013) study on Stimulating Microenterprise Growth in Uganda reported that, men who received the loan-with-training intervention perform significantly better than the control group or those that received cash grants or loans without training. However, some studies on the effect of training on growth of SBEs have brought contradicting results to the findings of the above studies. For instance, Karlan and Valdivia (2011), Bjorvatn and Tungodde (2012) found no significant influence of business skills training on performance.

Mel, McKenzie and Woodruff's (2012) on Business Training and Female Enterprise Start-up, Growth, and Dynamics in Sri Lanka, realized that, for women already in business, training alone leads to some changes in business practices but has no impact on business profits, sales or capital stock. In contrast, the study found out that the combination of training and a grant leads to large and significant improvements in business profitability in the first eight months, but this impact dissipates in the second year. It was also evident from the study that, for women interested in starting enterprises, business training speeds up entry but leads to no increase in net business ownership. The findings of Yahya et al. (2012) discovered that, manager's characteristics (education, awareness and skills, among others) and external characteristics (tax, type of training and source of fund) affect the manager's and SBEs involvement in employees training market. The study also noted that training has a positive impact on SBEs performance (profits, revenues and size) among SBEs in Malaysia.

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

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

2.4 Personal Savings for SBEs

Various studies done have disclosed that most entrepreneurs use personal savings as the primary source of working capital (Gathogo, 2014; Kamunge, Njeru & Tirimba, 2014; Mashhenene, Macha and Donge, 2014; Lema, 2013). In reality, it is very difficult to accumulate reasonable amount of money through personal savings which can be used as start-up capital (Mashenene et al., 2014). The findings of Gathogo (2014) on the effect of microfinance institutions on the growth of small scale enterprises in Kiambu County established that savings remains the most important source of finance throughout the business cycle.

A study by Kehinde and Ashamu (2014) revealed that although personal saving is mostly used by the SBEs owner to start the business in Nigeria, it is not a better option than debt finance option by government in growing a small and medium scale enterprises. Kamunge et al.'s study (2014) revealed that most SBEs in Kenya prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. This claim is seconded by Cofie's study (2012) in Ghana which realized that, due to banks' unwillingness to increase loan funding without an increase in the security given, which the SBE owners may be unable to provide, the SBEs have often resorted to dig into their personal savings to fund their enterprises.

Lema (2013) pointed out that there are few loan providing institutions in Tanzania. Regardless, these existing few provides loans with a lot of conditions which include high interest rates and short periods of paying back the loans. As a result, entrepreneurs have been forced to use personal savings as a major source of the initial capital required to start new businesses.

2.5 Terms of Service for Loans for SBEs

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

Mei Qiang (2002) observed that SBEs may shy away from borrowing due to a poor collateral position and lack of requisite information about the capital borrowed, which requires quite a high level of training from the micro-finance institutions. Collateral requirements imply that there would be enterprises that prefer external funds but are unable to apply for such funds (Mookherjee, 1999).

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

Borrowers unable to access credit from commercial banks are therefore unlikely to borrow significant amounts. Whereas rural enterprises which in most cases are small sized borrow low amounts of credit, urban located and larger enterprises borrow more. A positive correlation between enterprise size and credit is therefore in order, since demand for working capital increases with enterprise size (Daniels and Mead, 2010). Most credit providers are urban located so that lower levels of credit use by rural enterprises are also evidence of a credit supply constraint (Daniels and Mead, 2010).

Membership in a support group also increases the level of credit sought for, so that such groups have a strong network side effect. It has also been observed that, repayment rates are typically higher for small scale business enterprises than for many enterprises because of the risks of borrowing to the small scale business enterprises and the tendency to have fewer alternative sources of finance (Malonza, 2007). Small scale business enterprises are also seen as more compliant and reliable. They are perceived to have a higher sense of responsibility and to be more affected by social pressure than men, (Harper, 2003, Simanowitz, 2002).

Is however important to note that, repayment of loans as scheduled is not an accurate indicator that funds were used to invest in successful productive activities. Even when a borrower repays a loan in time the source of income is not necessarily from revenues generated by investing the loan in productive activities, (Gallup, 2003) at times repayment is often delivered from general family income rather than the activity for which loan was provided.

Over time, the payment history of a loan customer accumulates and the firm develops a "private reputation" with its lender (Mintzberg, 2003). In contrast, much bank lending is transactional rather than based on private information collected through long-term relationships with firms. For example, many large banks, and some smaller banks, lend to small firms using credit scoring models, basing their loan decisions on information that can be quantified rather than on private, more qualitative information acquired through direct interaction with the firm. Rather than making more subjective judgments based on direct interactions with a small firm ("soft" information), credit scoring applies statistical methods to "hard" data, summarizing borrower characteristics to produce a “score” that can be used to evaluate the likelihood of the loan applicant repaying the loan (Mei Qiang, 2002). Lending to large firms, on the other hand, is quite different, since larger firms are more established, and lenders typically can evaluate more precisely the credit risk of the firm by using public information (Mookherjee, 1999). Some of this is a consequence of large firms’ access to national debt and equity markets, for example, arising from credit rating agencies, equity analysts, and filings with the Securities and Exchange Commission (SEC). Furthermore, due to the relative transparency of large firms compared to small ones, these large firms typically can borrow from multiple banks under less restrictive loan contract terms (Moyi, 2000). Thus, financial statement lending to large, relatively transparent firms is unlikely to be a source of economic rents to the lender. Similarly, other transactions-based lending technologies, such as fixed-asset lending, are unlikely to earn the lender substantial rents due to asymmetric information, since the technology for valuing collateral is relatively straightforward. Rather, the benefits accruing to the lender would be related primarily to economies of scale.

Nahamya, Ajanga, Omeke, Nasinyama and Tumwine’s (2013) study revealed a number of constraints of SBEs access to the MFIs services in Uganda; such constraints ranged from location, ownership, highest level of education, time period the business has been in existence, amount of business capital, quantity of output produced, assets owned before the loan, liabilities before the loan and loan history of the client. Madole’s (2013) observed that SBEs in Tanzania were required to have collateral before securing loans. The study also revealed that, age or experience of the SBEs owners and size of the firm influence the access of credit. On the other hand, high interest rates, high transaction costs also limited SBEs accessibility to loans.

Chowdhury (2002) cited in Madole (2013) argued that, credit terms have driven local market competition among MFIs in Bangladesh especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a package of low interest rates tied with low amount of loan disbursed and some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed.

2.6 Theoretical Framework

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

Balanced score card is a tool to execute and monitor the organizational strategy by using a combination of financial and non-financial measures. It is designed to translate vision and strategy into objectives and measures across four balanced perspectives. It gives a framework ensuring that the strategy is translated into a coherent set of performance measures.

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

2.7 Conceptual Framework

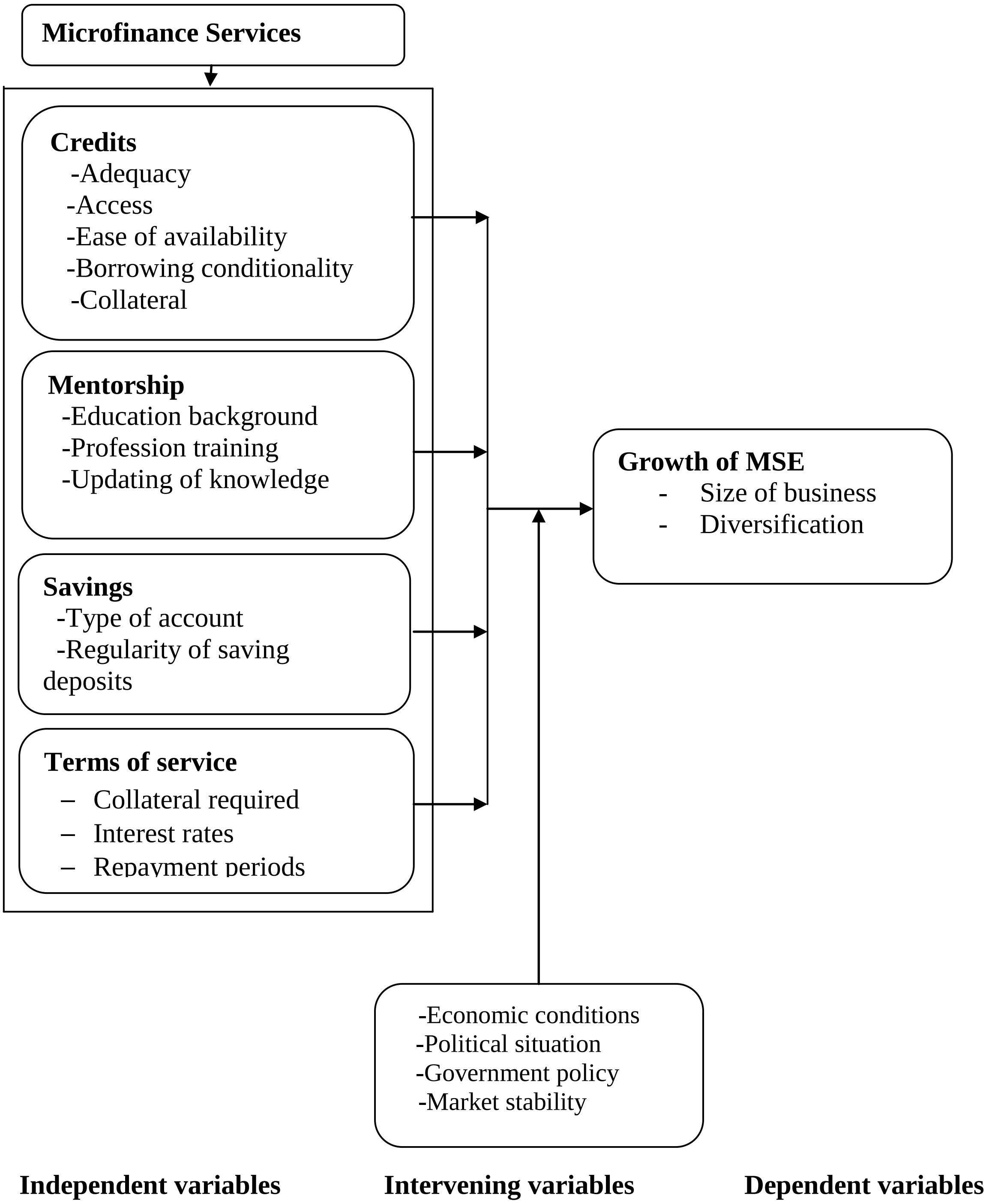

Figure 1: Effect of Microfinance Services on the Growth of SBEs

Source: Researcher (2015)

Figure 1 represents a conceptual framework showing the effects of microfinance services on the growth of SBEs. The independent variables are Microfinance Services which comprise of credits (which constitute adequacy, access, ease of availability, borrowing conditionality); mentorship (which includes education background, profession training, updating of knowledge and collateral), savings (type of account and regularity of saving deposits) and terms of service (collateral required, interest rates and repayment periods). The dependent variable of the study is Growth of SBEs which consists of size of business and diversification. It is perceived that, when an enterprise proprietor meets the conditions of the microfinance services (credit, mentorship, savings and terms of service), they are likely to qualify for a loan ant this in turn will lead to growth of SBEs as will be indicated by increase in size of business and diversification. However, the conceptual framework also has some intervening variables, namely; economic conditions, political situation, government policy and market stability. It is perceived that the presence of these factors may deter an enterprise from achieving growth.

2.8 Summary of Literature Review

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

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Methodology refers to the application of the principles of data collection methods and procedures in any field of knowledge. This section describes the research design, the target population, sample size and sampling procedures, research instruments, piloting of the research instrument, reliability and validity of the research instruments, data collection methods, and data analysis technique.

3.1 Research Design

The study was concerned with ascertaining the influence of microfinance services on the growth of micro and small scale businesses in Kenyenya sub-county – Kisii County, Kenya. Hence, the study adopted a descriptive survey research design. Kothari (2007) states that descriptive survey designs are used when the objective is systematic or description of facts and characteristics of a given population are of interest factually and accurately. Descriptive survey research design gathers data at a particular point in time with the intention of describing the nature of the existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that exists between specific events (Orodho, 2005). As a result, it was suitable as it helped to determine the characteristics of the populations by only taking a sample of the target population.

3.2 Target Population

Jaccard (1983) defined population as the aggregate of all cases to which one wishes to generalize. The respondents were the micro and small scale businesses and the microfinance institutions offering micro-credits. These micro and small scale businesses were selected from across the various sectors namely manufacturing, commerce, trading and service among others in Kenyenya sub-county. Currently in Kenyenya sub-county there are 162 small scale business enterprises in the area (Ministry of Education, Kenyenya, 2012).

3.3 Sample size and sampling procedure

A sample was drawn from the 162 businesses existing in Kenyenya sub-county. The small scale business enterprises were selected proportionally and administered with the questionnaires.

3.4 Data collection Instruments

The overall aim of this study was to investigate the influence of microfinance services on the growth of micro and small scale business enterprises. Here, a questionnaire was used to collect data. A Questionnaire is a research tool that gathers data over a large sample (Kombo et al. 2006). The questionnaire was a convenient tool especially since large numbers of subjects were involved. The questionnaire was structured and designed for both microfinance institutions and small scale business enterprises. To have an objective and realistic picture of the extent to which microfinance services have influenced the growth of micro and small scale business enterprises in Kenyenya sub-county, data collection was based on both primary and secondary sources.

Document analysis involved reviewing the contents of target documents with the aim of obtaining relevant secondary data (Oso & Onen, 2005). The sources included materials from microfinance institutions in Kisii County and finally the quarterly report on the activities of small scale business enterprises from the Kenyenya sub-county development office helped the researcher in data collection.

3.4.1 Piloting of research instrument

Piloting refers to the pre-testing of research instruments to a selected sample which is identical to the actual sample to be used in the study (Orodho, 2005). He further adds that piloting helps to detect deficiencies in the research instruments such as insufficient space, ambiguous questions, and helps reveal if anticipated analytical techniques are appropriate. The researcher piloted the study in Nyamache sub-county – Kisii County, Kenya which presents similar characteristics to Kenyenya sub-county.

3.4.2 Validity of research instrument

Mugenda and Mugenda (1999), define validity as the accuracy and meaningfulness of inferences, which are based on research results. The study applied content validity as a measure of the degree to which data that was obtained from the research instruments meaningfully and accurately reflected the theoretical concept. Besides, the researcher will consult the university supervisor who will proof read the questionnaire and guide on any adjustments that may be required.

3.4.3 Reliability of Research Instrument

According to Mugenda and Mugenda (1999), reliability is the degree to which results obtained from analysis of the data actually represent the phenomenon under study. (Koul 1993) states that the reliability of a test refers to the ability of that test to consistently yield the same results when repeated measurements are taken of the same individual under the same conditions.

The test-retest technique was used to test the reliably of the research instruments, the test involves administering the same instrument twice to the same group of subjects with time interval of one week. To establish the reliability of the questionnaire, the instrument was provided to some small scale business enterprises in the neighbouring Nyamache Sub-County. Small businesses in Nyamache were chosen because they present similar living conditions of a rural area as Kenyenya.

3.5 Data collection procedures

This refers to the collection or gathering of information to prove some facts (Kombo and Tromp, 2006). It involves the actual process of going to the field to get the required information from the selected sample of the target population. The researcher administered the research tools after a prior visit that assisted in refining timings of distribution of questionnaires. It also provided a rough picture of the respondent's expectations. The researchers agreed with the respondents when the research instruments would be administered and specific dates of collecting questionnaires. Adequate time was given to the respondents to respond to the questionnaire. The questionnaires were collected after one week to ensure that answering of questionnaires was allocated enough time for the respondent to give full information.

3.6 Data Analysis Techniques

Data analysis deals with the process of data coding, data entry and analysis in order to interpret information gathered. It deals with the statistics to be used to analyse data that is the organization, interpretation and presentation of collected data (Oson and Onen 2005). Data gathered in this study was analyzed descriptively. Descriptive methods were employed in analysing qualitative data while frequency tables and percentages were used in interpreting the respondent's perception of issues raised in the questionnaires so as to answer the research questions. To summarize the independent variables, frequency and percentages were used.

CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter presents an analysis of the data that was gathered using the tools of research discussed in chapter three. The first part presents the questionnaire response rate. Section 4.3 presents information on the socio-demographic and business background. Section 4.4 provides information in the extent of credit availability on the growth of the SBEs in Kenyenya sub-county. Section 4.5 provide and discusses how training programmes by microfinance firms affect growth of small business enterprises. Section 4.6 provides results and analysis of extent to which personal savings influence the growth of micro and small scale business enterprises. Section 4.7 provides information on extent to which terms of service influence the growth of micro and small scale business enterprises. Tables and figures have been used to summarize and illustrate the findings of the study.

4.1 Questionnaire Response Rate

The study used questionnaires as a tool for data collection. The sample size for this study was 72 small business enterprises receiving micro-credits and another 72 not receiving micro credits as control. Each of the owners of the SBEs and managers of the MFIs was provided with an appropriate questionnaire to answer. Sixty-three (63) respondents with training and 67 respondents without training returned the questionnaires. The researcher therefore decided to use similar number of 63 for those receiving training and 63 receiving no training. The overall response rate was therefore 86.1%. This was good when compared to the recommended response rates to verify consistency of measurements required for analysis (for example 60%, based on Kothari, 2005).

4.2 Socio-Demographic and Business Background

The socio-demographic and business background data of owners of SBEs collected included the age, gender, marital status, highest levels of education, nature of business, reasons for starting the business and business managers.

The overall results showing the personal data for the respondents in Kenyenya sub-county in the current study are indicated in table 4.1.

Table 1: Socio-Demographic Characteristics of the Respondents

		Received credits		No credits	
Demographic	**Characteristics**	**Frequency**	**Percent**	**Frequency**	**Percent**
Gender	Male	22	34.9	20	31.7
	Female	41	65.0	43	68.3
Age	< 25	8	12.7	3	4.8
	25-35	46	73.0	49	77.8
	36-50	5	7.9	7	11.1
	>50	4	6.3	4	6.3
Marital status	Single	26	41.3	10	15.9
	Married	33	52.4	46	73.0
	Divorced	3	4.8	3	4.8
	Widows	1	1.6	4	6.3
Highest levels of education	None	1	1.6	0	0.0
	Lower primary	6	9.5	1	1.6
	Upper primary	18	28.6	6	9.5
	Completed primary	27	42.9	22	34.9
	Secondary	10	15.9	28	44.4
	College	1	1.6	4	6.3
	University	0	0.0	1	1.6
Nature of business	Trade	42	66.7	44	69.8
	Manufacturing	5	7.9	3	4.8
	Services	8	12.6	9	14.3
	Communication	8	12.6	7	11.1
Business managers	Self	45	71.4	39	61.9
	Wife	4	6.3	5	7.9
	Husband	3	4.8	2	3.2
	Employee	8	12.7	6	9.5
	Son	2	3.2	5	7.9
	Other relative	1	1.6	2	3.2

As table 1 shows, the distribution of the respondents by gender indicates that among the respondents that obtained credits and those who did not obtain credits, more than two thirds were females while the remaining third were males. Age distribution indicated that more than two thirds (73% and 77%) of the respondents who obtained or did not obtain credits were aged between 25 to 35 years. Most of the respondents were married with the proportion of married being higher among those who did not obtain credits (73%) than in those who obtained credits (52%). Among the respondents, who obtained credit, highest proportion completed primary school (43%) followed by those who had just reached upper primary levels of education (29%). Among the respondents who did not obtain any credit, 44% had secondary levels of education followed by 35% who completed primary level of education. It was also observed that most of the businesses among respondents were trading regardless of the loan status while majority of the small businesses were established to be owned by self regardless of whether loan was obtained or not.

4.3 Effect of amounts of credit accessed on the growth of SBEs

The first objective of the study was to determine the effect of access to credit on growth of SBEs in Kenyenya sub-county, Kenya. The study revealed that all the respondents (100%) had borrowed money from a financial institution to start or run their current business. The sources of the initial capital for the SBEs were sought from the respondents (Figure 4.1). For 40% of the respondents, sources of capital for SBEs were borrowed from microfinance institutions. Up to 25% of the respondents borrowed money from family and friends and another 18% borrowed money from the bank. It was also noted that up to 13% of the loans were borrowed from shylocks and only 4% used money from own savings.

Table 2: Sources of Initial capital for SBEs

Sources of capital	Percent response
Borrowed from former employer	
Borrowed from Bank	18
Borrowed from family/friends	25
Own Savings	4
Borrow from MFIs	40
Borrowed from shylock	13

As Table 2 above depicts, the study found out that up to 45% of the respondents had borrowed money to start their current businesses while up to 87% have borrowed money to start and run the SBEs. Survey evidence suggests around 50% of SBEs sought finance over last six (6) or twelve (12) month period.

4.4 Reasons for Seeking Credit

The respondents were asked to disclose the reasons for seeking capital from the financial institutions. The results are presented below in table 3.

Table 3: Reasons for Seeking Credit from the Financial Institutions

Reasons for borrowing capital	Percent
Working capital	64
Buying business assets	11
Capital equipment	9
Paying other loans / Improving business	15

The findings of the research revealed that up to 64% of the respondents sought credit for working capital, followed by purchase of business assets e.g. land 11%) and capital equipment 9%, yet up to 15% of the respondents obtained credits to pay other loans or improve their businesses through activities such as marketing, research, training and staff development.

The average amount of loan finance sought was Kshs. 40,000 to 85,000 (400 US$ to 850; Median US$ 650) compared to Kshs. 60,000 to 1 million (US$ 600 to 1000) applied for. It was revealed that the amount of money borrowed as credit was not enough for 73.5% of the respondents and was found to be adequate for only 26.5% of the respondents. The distribution of the amounts of loans among the various categories of SBEs is provided in figure 4.3.

Table 4: Distribution of the amounts of loans to SBEs

SME Sectors	Amounts applied for	Amount given
Agriculture	62,500	45,000
Market trading	70,000	60,000
Manufacturing	60,000	33,000
Communication	39,650	20,000
Financial		30,000
General Service	35,000	21,000

Table 4 shows that there were differences in the amount of capital borrowed among the various categories of SBEs. The highest amount of capital was borrowed by market trading (Kshs. 70,000) followed by SBEs in the agriculture sector (Kshs. 62,500) and the third was SBEs in manufacturing sector (Kshs. 60,000). However, the least amount of loan was borrowed by SBEs in communication (Kshs. 39,650).

4.5 Business Worth of SBEs after Loan Advance

The study also determined the business worth in terms of assets, revenues and costs after receiving the loans from the bank. The initial capital for the business growth was nil and therefore the current net worth is attributed to the credit acquired from the financial institutions. Information concerning the business assets, liabilities and turnover among the small business enterprises in Kenyenya sub-county, Kenya is shown in table 5.

Table 5: Business Assets, Liabilities, Revenues and Costs among the SBEs

Classification	Assets	Liabilities	Turnover
Agriculture	49,579	17,155	2.89
Communication	88,761	22,897	3.88
Financial	83,862	32,163	2.61
General services	95,751	22,988	4.17
Manufacturing	120,658	25,411	4.75
Market trading	140,942	29,234	4.82

As shown in Table 5, it was observed that business turnover returned ranged from 2.9 to 4.8 indicating that the amount of money borrowed increased the business by between 2.9 to 4.8 times. The highest turnover occurred among SBEs in market trading who also had the highest among of credits from the financial institutions while financial sector had the lowest business turnover.

4.6 Profit Margins of SBEs

The researcher also determined the growth of the SBEs using: profit margins and current ratios as shown below in table 6.

Table 6: Growth of the SBEs using Profit Margins and CR among SBEs

Sector	Profit Margin (%)	Credit Ratio
Agriculture	51	2.5
Communication	68	3.92
Financial	58	2.87
General Service	60	3.2
Manufacturing	72	4.74
Market Trading	88	4.82

As Table 6 illustrates, the profit margins of the SBEs ranged from 51% in SBEs in the agriculture sector to 88% in the market trading. The profit margin in the manufacturing sector was also high at 72% while the third most profitable SBEs occurred in the communication sector. On the contrary, lowest profits occurred in the SBEs in agriculture and financial sectors.

Similar growth trends in terms of CR was also observed among the SBEs where the highest CR occurred in the SBEs in the market trading (4.82) followed by manufacturing (4.74) and the third was communication (3.92); the lowest CR occurred in financial sector and agriculture.

4.7 Performance of SBEs after Loan Advance

The researcher determined how the business performed after borrowing of the loan from MFIs over the last five years (Figure 2).

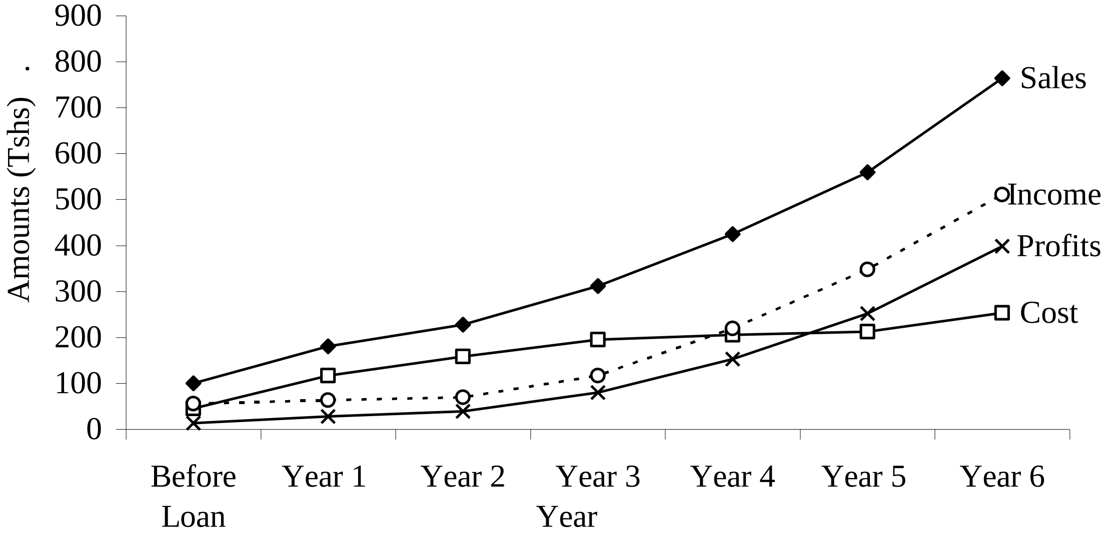

Figure 2: Business Performance Indicators before and after Borrowing Credits from MFIs

The study discovered that, business sales had consistently increased over the 6 years period from Kshs. 100,000 to Kshs 764,000. It was also evident from the study that, income increased from Kshs. 55,000 to Kshs. 510,000 during the same time. However, it was found out that the borrowing over the same time period stagnated and therefore business profits had continued to increase from Kshs. 15,000 to Kshs. 45,000 over the same period, after borrowing the loans by the SBEs entrepreneurs from the banks.

4.8 Profit Margins of SBEs after Loan Advance

Trends in business profit margins and CR before and after borrowing the loans were also determined. Table 7 shows the results obtained.

Table 7: Trends in profit margin and CR before and after borrowing the loans

Year	Profit Margin %	CR
Before Loan	8	1.0
Year 1	10.5	1.6
Year 2	21.1	2.0
Year 3	29.8	2.3
Year 4	30	2.5
Year 5	47	3.5
Year 6	64.5	3.8

The trends in table 7 indicated that the initial profits margins were 5.2% and that the profits had increased to 10.5% after the first years and finally to 64.5% after 6 years of loan utilization. On the other hand, it was observed that the CR was 0.99 before the loan was borrowed and increased to 1.8 after the first year and finally to 3.75 in the sixth year of business operation.

4.9 Effect of MFIs on Business Growth

Finally, the respondents were asked to rank the various sources of microcredit on how they enhance business growth and the responses are as shown in table 4.3.

Table 8: Perceived impact of various sources of microcredit on business growth Values are percentages

	Role of credit on business growth		
	Reduced	**No change**	**Increased**
Money from former employer	44.9	36.7	18.4
Borrowed from banks	23.5	31.6	44.9
Own savings	11.2	33.7	55.1
Funds borrowed from family or friends	48.0	18.4	33.7
Borrowed from MFIs	7.1	17.3	75.5
Borrowed from shylock	68.4	13.3	18.4

Table 8 indicates that most of the SBEs who borrowed from former employers, families and from a shylock reported a generally reduced business growth. On the other hand, those who borrowed from MFIs reported increased role of the microcredit inputs in the overall business growth.

4.10 Effect of levels of Entrepreneurial Training on Growth of the SBEs

The second objective of the study was to determine the effect of entrepreneurial training on growth of the SBEs in Kenyenya sub-county, Kenya. To achieve this objective, the study determined the highest academic qualification of the owners of SBEs.

Table 9: Highest Levels of Education

Highest levels of education of the respondents	Frequency	Percent
None	11	10.4
Primary	51	48.1
Secondary	36	33.9
Tertiary	6	5.6
University	2	1.9
Total	106	100

Table 9 indicates that a greater percentage (48.1%) of respondents had primary level of education; followed by (33.9 percent) those who had secondary levels of education; those with tertiary levels of education accounted for 5.6%. This means that respondents understood the research questions since most respondents had some degree of academic qualifications.

4.11 Entrepreneurial Training among SBEs

The researcher sought information on whether there was any entrepreneurial training among the SBEs in Kenyenya sub-county. The results are presented in Table 10

Table 10: Respondents' Prior Training on Management of MFIs Loans

	Frequency	Percent
Yes	21	19.8
No	85	80.2
Total	106	100

From the table 10, it is evident that 20% of the SBEs had some prior training before loan acquisition while the remaining 80% were not trained and were therefore managing the business without any training.

4.12 Distribution of Training Needs among SBEs

The respondents were asked to disclose the distribution of their training needs. The results are presented in Table 11.

Table 11: Distribution of Training Needs among SBEs

SME sector	Percent
Manufacturing	60
Market Trading	40
Communication	22
Financial	18
Agriculture	10
General Service	10

The study found out that, SBEs manufacturing and marketing trading sectors had the highest training backgrounds (60 respondents and 40 respondents trained respectively) among the respondents while the SBEs from general services and agriculture had the lowest training where 10 respondents were trained.

4.13 Respondents' need for training

The study sought to establish the need for training among the respondents involved in the study. The results were as presented in table 5

Table 12: Areas of training for the SBEs in Kenyenya sub-county, Kenya

Forms of entrepreneurial training	Frequency	Percent
Book-keeping	11	10.4
Contract administration	9	8.5
Leadership and communication	15	14.2
Financial management	22	20.8
Contract document interpretation	7	6.6
Financial control	9	8.5
Cash-flow management	16	15.1
Credit management	28	26.4

Table 12 indicates that the need for training in credit management was identified as the highest proportion of the respondents (26.4%), followed by financial management (20.8%) and the third was cash flow management (15.1%). Nevertheless, respondents reporting training in these areas were less than 30%.

4.14 Required Training Areas for SBEs

The study also sought the information on the required training areas for the SBEs to rank the overall training levels of the SBEs as shown in Table 4.7.

Table 13: Ratings of the competence levels in Various Training Areas among SBEs

Forms of entrepreneurial training	Very competent	Competent	Not sure	In-competent	Very In-competent	Rank scores	Levels of training competent
Book-keeping	6	8	14	44	34	42.6	2
Contract administration	0	7	11	43	45	36.2	1
Leadership and communication	14	11	13	56	12	52.3	2
Financial management	12	11	15	33	35	47.2	2
Contract document interpretation	4	2	8	11	81	29.2	1
Financial control	3	7	8	41	47	37.0	1
Cash-flow management	5	6	12	55	28	42.1	2
Credit management	2	10	8	39	47	37.5	1

Lack of business management skills were recognized as the major barriers by the respondents, strongly agreeing that finance and cash-flow management skills are ranking high. Respondents further agree that the lack of book-keeping, contract administration, leadership and communication, financial control and credit management skills are among the many challenges and constraints faced by SBEs.

4.15 Influence of Personal Savings on Growth of SBEs

The third objective was to determine the Extent to which savings influence the growth of micro and small scale business enterprises in Kenyenya sub-county. The amounts of initial savings by the entrepreneurs are provided in Figure 4.8.

Table 14: Amount of Personal Savings among SMEs

Sector of SMEs	Amount of money saved
Agriculture	20,000
Communication	30,000
Financial	17,000
General Services	36,000
Manufacturing	43,000
Market trading	50,000

Based on Table 14, it was realized that, the highest savings of Kshs. 50,000 was established among traders in market trading while the lowest saving of Kshs 20,000 and 17,000 were reported among SBEs in agriculture and financial markets respectively.

4.16 Influence of Terms of Service on Growth of SBEs

The fourth objective of the study was to determine how the terms of repayments of the borrowed loan affected growth of the SBEs. The researcher first inquired from the SBEs managers on who decided on how the loan would be utilized. The results as are shown in Table 7.

Table 7: Decision on how the Loans Should be Utilized

Decision	**Frequency**	**Percent**
Self	56	57.1
Spouse	15	15.3
Friends	11	11.2
Banks	5	5.1
Business partners	11	11.2
Total	98	100.0

Based on the responses in table 7, it was found out that highest proportion of the respondents decided on their own the mode of loan utilization with another 15% deciding based on spouse and 11.2% being from friends and business partners. Information on how the loans were utilized is provided in Table 8.

Table 16: Utilization of the loans borrowed by the SBEs

Use of the business loans	Frequency	Percent
Invested in other businesses	21	21.4
Invested in the current business	51	52.0
Family responsibilities	11	11.2
Repayment of previous loans	17	17.3
Purchase of other assets	14	14.3

Table 16 reveals that up to 52% of the respondents invested their loans on current businesses, 21% invested the loans or part of the loans on other businesses, and 17% used their loans to repay other loans while up to 11% diverted the loans for family issues.

4.17 Frequency of Loan Repayment

The study sought to determine the frequency of the loan repayment. The findings were as presented on table 17.

Table 17: Frequency of the loan repayment by the SBEs

Frequency of repayment	**Frequency**	**Percent**
Daily	3	3.1
Weekly	4	4.1
Monthly	11	11.2
Semi-annually	15	15.3
Annually	65	66.3
Total	98	100

Table 17 indicates that majority of the respondents repaid their loans annually (66.3%) followed by semi-annually (15.3%). While only 3.1% of the respondents repaid their loans daily.

4.18 Sources of Finances to Repay Loan

The research sought to know the sources of finances from where the respondents repaid their loans. The findings were as shown in table 18.

Table 18: Sources of finance to repay the loans borrowed by the SBEs

Sources of finances	Frequency	Percent
Business sales	26	26.5
Sale of business assets	4	4.1
Borrowing from friends	10	10.2
Borrowings from banks	14	14.3
Borrowing from MFIs	21	21.4
Own savings	22	22.4
Business profits	54	55.1

The study found out that 55% of the SBEs obtained their money to repay loans from business profits, followed by those who obtained money from business sales (26.5%), those who borrowed from the bank and MFIs were about one quarter of the total number of SME managers. The least number of respondents had to rely on business assets to obtain finances. It was also revealed that up to 45% of the borrowers had defaulted compared to 55% who had not. In cases of default all the respondents indicated that they were penalized sometimes up to 40% of the borrowed loans.

4.19 Effects of Harsh Repayment Conditions on Business

Finally, the respondents were asked to what extent they believed that harsh loan repayment conditions affected their business growth and the results are shown in table 19.

Table 19: Impacts of Difficult borrowing conditions on Business Growth

Overall Effect	Percent
Reduced	60
No change	4
Increased	10

The study found out that, up to 60% of the SME managers believed that difficult loan borrowing conditions resulted in reduced small business growth while only 10% of the respondents believed that it could facilitate business growth.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter provides the discussion, conclusion and recommendations arising from the examination of the relevant literature and the findings derived from analysis of data. The literature study suggested that SBEs face a host of problems ranging from those caused by clients, consultants, institutional weaknesses to corruption. The study was conducted to investigate how access to finance and training needs affect growth of business (measured in terms of profit margins (%) and CR).

5.1 Discussion of findings

The findings from the study were based on the analysis of the data that was obtained from the questionnaires that were administered to the respondents.

5.1.1 Effect of amounts of credit accessed on the growth of SBEs

The first objective of the study was to determine the effect of access to credit on growth of SBEs in Kenyenya sub-county, Kenya. The study revealed that 40% of the respondents had borrowed their capital from microfinance institutions, 25% of the respondents borrowed money from family and friends while only 18% borrowed money from the bank. It was also noted that up to 13% of the loans were borrowed from shylocks. Survey evidence suggests around 50% of SBEs sought finance over last 6 or 12 month period. According to the study, the average amount of loan finance sought was Kshs. 40,000 to 85,000 compared to Kshs. 60,000 to 1 million applied for.

It was observed that the amount of money borrowed as credits was not enough for 73.5% of the respondents and was found to be adequate for only 26.5% of the respondents. The findings of the study further revealed that, the business turnover returned ranged from 2.9 to 4.8 indicating that the amount of money borrowed increased the business by between 2.9 to 4.8 times. The profit margins of the SBEs ranged from 51% in SBEs in the agriculture sector to 88% in the market trading. The profit margin in the manufacturing sector was also high at 72% while the third most profitable SBEs occurred in the communication sector. On the contrary, lowest profits occurred in the SBEs in agriculture and financial sectors. Similar growth trends in terms of CR was also observed among the SBEs where the highest CR occurred in the SBEs in the market trading (4.82) followed by manufacturing (4.74) and the third was communication (3.92); the lowest CR occurred in financial sector and agriculture.

5.1.2 Effect of levels of entrepreneurial training on growth of the SBEs

The second objective of the study was to determine the effect of entrepreneurial training on growth of the SBEs in Kenyenya sub-county, Kenya. To achieve this objective, the study determined the highest academic qualification of the owners of SBEs. The study found out that, 48.1% of respondents had primary level of education; followed by 33.9% of the respondents who had secondary levels of education; those with tertiary levels of education accounted for 5.6%. It was also evident from the study that, 20% of the SBEs had some prior training before loan acquisition while the remaining 80% were not trained and were therefore managing the business without any training. The findings of the study also indicated that the need for training in credit management was identified as the highest, followed by financial management and the third was cash flow management. Lack of business management skills was a major barrier by the respondents, strongly agreeing that finance and cash-flow management skills are ranking high.

5.1.3 Influence of savings influence the growth of micro and small scale business enterprises

The third objective was to determine the Extent to which savings influence the growth of micro and small scale business enterprises in Kenyenya sub-county. The study revealed that, highest savings of Kshs. 50,000 was established among traders in market trading while the lowest saving of Kshs 20,000 and 17,000 were reported among SBEs in agriculture and financial markets respectively.

5.1.4 Influence of terms of service on growth of micro and small scale business enterprises

The fourth objective of the study was to determine how the terms of repayments of the borrowed loan affected growth of the SBEs. The researcher first inquired from the SBEs managers on who decided on how the loan would be utilized. The results were that majority of the respondents decided on their own the mode of loan utilization with another 15% deciding based on spouse and 11.2% being from friends and business partners.

It was also evident from the study that, up to 52% of the respondents invested their loans on current businesses, 21% invested the loans or part of the loans on other businesses, and 17% used their loans to repay other loans while up to 11% diverted the loans for family issues. It was also revealed that up to 45% of the borrowers had defaulted compared to 55% who had not. In cases of default all the respondents indicated that they were penalized sometimes up to 40% of the borrowed loans. It was also evident from the study that, upto 60% of the SME managers believed that difficult loan borrowing conditions resulted in reduced small business growth while only 10% of the respondents believed that it could facilitate business growth.

5.2 CONCLUSIONS

Based on the findings from the research, the following conclusion can be made with regard to current study. The majority of SBEs borrowed credits from the microfinance institutions and were granted capital which is less than what is actually applied for. Moreover, most the respondents sought credits for working capital, business assets and capital equipment. Business profit margins of the SBEs ranged from 51% to 88% while CR ranged from 2.1 to 4.92 suggesting improved business prospects. Business growth in terms profit margin (%) and CR were generally improved due to increased access to credit.

The levels of entrepreneurial training were found to low among the SBEs in Kenyenya sub-county, Kenya. Yet, SBEs manufacturing and marketing trading sectors had the highest training backgrounds among the respondents. In terms of individual training needs, training in credit management was identified as the highest proportion of the respondents, followed by financial management and the third was cash flow management. Nevertheless, the overall growth of the business was affected by the levels of training of the SBEs.

The combined effects of credit access and training were found to affect business profit and CR. In summary, it is thus being concluded that the need for credit and training is immense to achieve effective business growth.

5.3 RECOMMENDATIONS

Based on the findings from the analyzed data, the research proposes the following recommendations:

1. From the research findings, it is clear that the SBEs in Kenya urgently need to address the challenges and constraints they are facing in acquiring credits. The Kenya Government should be putting aside money every financial year to lend SBEs without requiring collateral from SBEs except maybe a form of reasonable insurance to be provided.
2. Given the necessary support from stakeholders, programmes and models to offer post credit support could be created make a remarkable difference in easing the plight of SBEs in Kenya.
3. The findings of the study reveal that there is a tremendous need for training in the Kenyan SBEs. Added to this, the study highlights strongly the lack of business management skills. It further recognizes the financing constraints and challenges SBEs are facing. Therefore, the SBEs stakeholders need to urgently implement supportive legislation to create an enabling environment for SBEs to grow access credit and training.
4. In terms of research data, Kenya should embark on strategic programmes to promote the development of skills in areas of management, technical, book-keeping, supervisory, estimating and business management skills to enable entrepreneurs run their firms profitably and in a sustainable manner. This means that SBEs and other stakeholders and development programmes should be carefully integrated into a streamlined effort designed to build their capacity to grow. Programmes for developing SBEs should be implemented with a clear and supportive policy framework which encourages co-operation through joint ventures

5.4 SUGGESTIONS FOR FURTHER RESEARCH

There is need for further research on this topic which will help identify many constraints SBEs are facing in Kenya. Similar research should be conducted at a PhD level to analyze all the constraints and challenges faced by SBEs in Kenya. In addition to that SBEs stakeholders should be informed of the findings of this study in order for them to take an initiative to address these issues. The areas include:

1. Small business institutional weaknesses in Kenya.
2. How the SME sector can further be promoted in Kenya
3. What are the internal and external sources of finance that SBEs require? Do the sources of finance vary with firm size?
4. Does ownership affect firm performance?
5. Have these sources changed since institutions were established to oversee the SBEs? How have these changes affected employment, income, and growth?

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APPENDICES

Appendix I: Letter of transmittal

Hallo. How are you? My name is Lilian Monchari Mogire. I am a student at The University of Nairobi pursuing a Masters Degree in Project Planning and Management. The purpose of this letter is to request you to be part of the respondents selected for this research study. This consent form explains the study and your part in it. Please read carefully and use as much time as you need. You can ask questions where it is not clear.

TITLE

Influence of Micro Finance services on growth of small business enterprises in Kenyenya Sub-County – Kisii County, Kenya

PURPOSE OF STUDY

Small Business enterprise spread across most economic sectors such as manufacturing, trading, communication, agriculture among others are the major sources f income to the people of Kenyenya sub-county, Kisii county – Kenya. However, given the low or lack thereof of personal savings to start and run these businesses, there is need to access credit from different sources majorly microfinance institutions. This study will help identify the influence of micro finance services on growth of small business enterprises. The study will also help find out the extent to which personal savings influence growth of the small business enterprises.

PROCEDURE

If you agree to be in study, you will be asked to fill out all questions in the questionnaire which will be issued to you.

RISKS/ DISCOMFORTS

Study will not present any physical risk to you but some of the questions may be somewhat personal. All the information you share in the questionnaire will be kept only and only with the researcher and the information you give will be used for the purpose of this study only.

BENEFITS

If you are intending to seek additional capital for business expansion or starting a new business in future, you as a business person will receive direct benefit from participating in this study.

Through your voluntarily participation, the proposed study will come up with the influence of microfinance services on the growth of small business in your Kenyenya sub-county.

This information will help the both business people to properly determine amounts of credit to borrow which will be beneficial to their businesses and to microfinance institutions to know proper amounts to lend to businesses and potential increments.

ALTERNATIVES TO PARTICIPATION

Participation is by choice. You may choose to or not to take part.

CONFIDENTIALITY

The information you give will be kept strictly confidential and used ONLY for the purpose of this study.

I have read the consent form for the study. I understand the risks, benefits and any alternatives to study. I wish to proceed with the study to add to the information on Influence of Micro finance services on the growth of small Business enterprises in Kenyenya Sub-County – Kisii County, Kenya.

Name of researcher…………………………………………………………..

Signature…………………….   Date………………………..

If you require further information please contact **The University of Nairobi -Kisii Extra Mural Centre :**

Appendix II

Questionnaire

INFLUENCE OF MICROFINANCE SERVICES ON THE GROWTH OF MICRO AND SMALL BUSINESS ENTERPRISES IN KENYENYA SUB COUNTY – KISII COUNTY, KENYA

Instructions: You are kindly requested to give your response as honestly as possible. The information you give will NOT be used for any other purposes other than the research.

Section A: Background Information

1. Please indicate your gender

   Male [ ] Female [ ]

2. Please identify your age bracket

   Below 25 years [ ]

   25-35 years [ ]

   36-50 years [ ]

   Over 50 years [ ]

3. Please indicate your marital status

   Single [ ] Married [ ] Divorced [ ] Widow [ ]

4. Please indicate your highest level of education

   None [ ]

   Lower primary [ ]

   Upper primary [ ]

   Completed primary [ ]

   Secondary [ ]

   College [ ]

   University [ ]

5. Which type of business activity is your enterprise engaged in ?

   Trade [ ]

   Manufacturing [ ]

   Services [ ]

Communication [ ]

6. Who manages your business enterprise?

Self [ ]

Wife [ ]

Husband [ ]

Employee [ ]

Son [ ]

Other relative [ ]

Influence of Credits Provided on Growth of Micro and Small Scale Business Enterprises

7. Have you ever borrowed money from financial institution(s) to start or fund a business?

Yes [ ] No [ ]

If yes, please identify the initial source(s) for your business from the list below:

Money from former employer [ ]

Banks [ ]

Own savings [ ]

Borrowing from friends/family [ ]

Loans from MFIs [ ]

Shylocks [ ]

Any other (specify)……………………………………………………

8. Please identify the reason(s) for seeking capital from these financial institutions

Working capital [ ]

Buying business assets [ ]

Buying capital equipment [ ]

Paying other loans [ ]

Improving the buildings [ ]

Purchase of land [ ]

Marketing [ ]

Business expansion [ ]

Research [ ]

Training [ ]

Staff development [ ]

Don’t know [ ]

Any other reason (specify)………………………………………………..

9. How much loan did you apply for from the financial institution? Sh……………..

10. Please indicate the amount of money you got from the financial institution?
    Sh……......................

11. Was the amount of loan given sufficient for the purpose for which it was needed?

    Yes [ ] No [ ]

Effect of MFIs on Business Growth

12. By placing a tick in the appropriate box, please indicate the effect of the following sources of microcredit on the growth of your enterprise

	Effect on business growth		
Source of credit	**Reduced**	**No change**	**Increased**
Money from former employer			
Borrowed from banks			
Own savings			
Funds borrowed from family or friends			
Borrowed from MFIs			
Borrowed from shylock			

Influence of Entrepreneurial Training on Growth of micro and Small Scale Business Enterprises

13. Have you ever received any formal training on entrepreneurship?

    Yes [ ] No [ ]

14. Please identify the areas which you feel you need training so as to improve in running your business. Tick appropriate box(es)

Forms of entrepreneurial training [ ]

Book-keeping [ ]

Contract administration [ ]

Leadership and communication [ ]

Financial management [ ]

Contract document interpretation [ ]

Financial control [ ]

Cash-flow management [ ]

Credit management [ ]

15. Please indicate your level of competence in the following areas by placing a tick in

the appropriate box**Forms of entrepreneurial training**	**Very competent**	**Competent**	**Not sure**	**In-competent**	**Very In-competent**	**Rank scores**
Book-keeping						
Contract administration						
Leadership and communication						
Financial management						
Contract document interpretation						
Financial control						
Cash-flow management						
Credit management						

Influence of Entrepreneurial Personal Savings on Growth of micro and Small Scale Business Enterprises

16. Please indicate your initial savings from your enterprise. Sh...

17. Who decides on how the loan should be utilized in your enterprise?

Self	[ ]
Spouse	[ ]
Friends	[ ]
Banks	[ ]
Business partners	[ ]
Any other (specify)	………………………

Influence of Terms of Service on Growth of micro and Small Scale Business Enterprises

18. Please identify the use to which the loans borrowed were used (Tick all that apply)

Use of the business loans	[ ]
Invested in other businesses	[ ]
Invested in the current business	[ ]
Family responsibilities	[ ]
Repayment of previous loans	[ ]
Purchase of other assets	[ ]

19. How often was the loan repayment done?

Daily	[ ]
Weekly	[ ]
Monthly	[ ]
Semi-annually	[ ]
Annually	[ ]

20. Please identify the source(s) from which you got funds to repay the loan (tick all that apply)

Business sales [ ]

Sale of business assets [ ]

Borrowing from friends [ ]

Borrowings from banks [ ]

Borrowing from MFIs [ ]

Own savings [ ]

Business profits [ ]

21. By ticking in the appropriate box, state the effect of loan repayment conditions on the business growth.

Increased growth [ ]

Has no effect [ ]

Reduced growth [ ]

Growth of SBEs

22. Please indicate the present value of sales, liabilities and profits for your enterprise before you received the loan

Sales: Sh……………………………………..

Income: Sh……………………………………..

Costs: Sh……………………………………..

Profit: Sh……………………………………..

	Before Loan	After loan					
		1st year	2nd year	3rd year	4th year	5th year	6th year
Sales							
Income							
Costs							
Profits							
