THE EFFECTS OF ACCESS TO FINANCE ON MICRO AND SMALL ENTETRPRISES INVESTMENT GROWTH IN ONGATA RONGAI TOWNSHIP

BY

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or University other than the University of Nairobi for Academic Credit.

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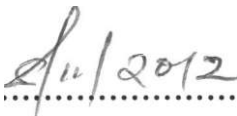
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SUPERVISOR'S DECLARATION

This Research project has been submitted for examination with my approval as the University supervisor.

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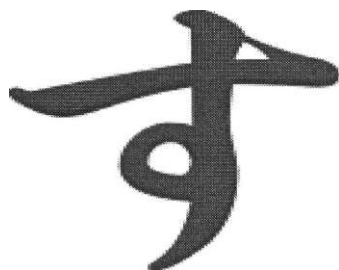
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DEDICATION

In memory of my late mother

MARY   NJERI   GITAU

A PILLAR OF STRENGTH, A FRIEND AND GREAT

MOTHER TO ALL HER CHILDREN"

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I would like to express my sincere thanks and appreciation to my supervisor, Dr. Kisaka E. Sifunjo for having agreed to supervise this study, the patience in reading the drafts, his kindness and well executed professional and intellectual guidance without which the research would not have been a reality.

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May the Almighty God bless you all in abundant.

ABSTRACT

MSEs play an important economic role in many countries. In Kenya, for example the MSEs sector contribution to GDP has increased from 14% in 1993 to about 20% in 2007 (Mbugua, 2010). Despite these contribution, MSEs face constraints like competition, access to finance, security, regulation and literacy that hinder them from growing into large enterprises. The objective of this study singled out access to finance as a constraint and sought to establish the effects of access to finance by MSEs in Ongata Rongai Township on their growth in investments.

The study employed a descriptive design. The study used Secondary and Primary data where secondary data was sourced from reviewing MSEs existing records while a survey method was used to collect primary data to supplemented the existing information where a pre-designed questionnaire was used. Stratified random sampling was employed to collect data from 50 MSES where the data was analyzed descriptively and presented through figures, tables and percentages. A sample of 50 MSEs was selected from 25 forms of businesses in Rongai using Stratified random sampling technique. The collected data was analyzed using descriptive statistics and multiple regression analysis and presented through figures, tables and percentages.

The findings indicated the following: MSEs face the following challenges; competition among themselves and from large firms, lack of access to finance, insecurity, regulation and human resources literacy among others. There was increase in assets when credit facility was first engaged and investment in assets grew with continued access to finance thus a positive relationship between access to finance and investment growth. On comparison to other constraints of MSEs investment growth. Access to Finance was ranked second after competition while the empirical results revealed that financial access, had the largest significance with an alpha of 0.358 followed by security with an alpha of 0.324, then came regulation at 0.253. The least but significant of the four variables was literacy with an alpha of 0.152. This shows that financial access remains a major determinant of MSEs investment growth.

From the findings, the following conclusions can be drawn: First, financial access, Regulation, Security, Eiteracy, competition and other factors like transportation, high rent, and debt collection are all constraints that bar investment growth of MSEs. Secondly, in order of average contribution per MSEs, competition tops the list followed by financial access, security,

regulation, and literacy levels in that order. Therefore access to finance plays a big part in determining the level of MSEs investment growth.

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ABBREVIATIONS

ATM   -   Automatic Teller Machine

CBS   -   Central Bureau of Statistics

EG   -   For example

GDP   -   Gross Domestic Product

GOK   -   Government of Kenya

ICT   -   Information Communication Technology

KRA   -   Kenya Revenue Authority

MFI   -   Micro Finance Institution

MSE   -   Micro Finance Enterprises

OECD   -   Organization for Economic Co-operation Development

ROSCA   -   Rotating Savings and Credit Associations

SACCO   -   Savings and Credit Cooperative Society

SAP   -   Structural Adjustment Programs

SEDOM   -   Small Development Organization of Malawi

SME   -   Small and Medium Enterprise

SPSS   -   Statistical Package for Social Sciences

CHAPTER ONE
INTRODUCTION

1.1 Background to the study

1.1.1   Conceptual Background

The main emphasis in assessments of access to capital has been to examine the sources, utilization and challenges big businesses and Micro & Small enterprises (MSEs) face while operating their businesses. Access to finance is one of the most important issues facing business today (Johnson 2004). At the global level, the 'wall of money' that is cash flowing from resource-rich economies to indebted developed nations - is no more, with the world economy enduring a slow, tentative recovery. (Johnson, 2004).

In capital structure, firms are financed through equity or/and debt. In this study context, access to finance is defined as the supply of credit to MSEs when demanded. Improving access then means improving the degree to which financial services are available to all at a fair price. MSEs in Kenya can borrow from financial sector institutions which by the year 2007 was made up of 43 commercial banks, 1 non-bank financial institutions, 96 forex bureaus, 2 mortgage Finance Institutions, 5122 savings and credit cooperative societies (Sacco's), 6 Development Finance Institutions, 34 Microfmance Institutions and numerous Informal financial services Providers (Nyanjwa, 2008) According to Ayyagari, Thorsten & Asli (2003), there are many MSEs in Kenya which, despite their high potential, have been unable to access financing from existing institutions in the financial sector. Such situations may be due to the inability of the MSE to offer sufficient loan collateral or to operational issues within the MSE requiring more hands-on assistance than commercial banks and leasing companies are normally able to provide.

CBS (1984) in its statistical publication on employment and earnings defines MSEs as consisting of semi -organized and unregulated activities largely undertaken by self employed persons in the open markets, stalls, in undeveloped plots or streets pavements within urban areas and centers. They may or may not have licenses from local authorities for carrying out such activities as tailoring, grocery, kiosks, car repair etc. MSEs are business in both formal and informal sectors, with small enterprises having 10-49 employees while Micro enterprises have 0-9 employees.

This implies that MSEs are enterprises with less than 50 employees. These enterprises cut across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction (Mokagi, 2003).

MSEs are a very heterogeneous group. They include a wide variety of firms; village handicrafts makers, small machine shops, small retail shops, restaurants and cyber cafes. These posses a wide range of sophistication and skills, and operate in very different market and social environment. Their owners may or may not be poor. Some are dynamic, innovative, and growth oriented; others are traditional 'lifestyle' enterprises that are satisfied to remain small (Mokagi, 2003). The MSE sector is the backbone of the economy in high-income countries, but is less developed in low-income countries. The Organization for Economic Co-operation and Development (OECD) reports that more than 95% of enterprises in the OECD area are MSEs. These enterprises account for almost 60% of private sector employment, make a large contribution to innovation, and support regional development and social cohesion.

1.1.2 MSEs Investment Growth
Access to finance helps all firms to grow and prosper (Mokogi, 2003). Ayyagari, Thorsten & Asli (2003) established that access to finance improves a firm performance. It not only facilitates market entry, growth of companies and risk reduction but also promotes innovation and entrepreneurial activity. Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities. Ondiege (1996) also observed that the value of equipment, current value of business assets, amount of savings, as some of the quantitative indicators of performance and growth of MSEs. In our study case, MSEs investment growth is defined as the increase in the MSEs total assets which entails fixed and current assets.Fixed assets include land and buildings, machinery, furniture, equipments and security investments while current assets in this case will be cash and inventory.

1.1.3 Ongata Rongai Township
Ongata Rongai, also locally known as Rongai, is a settlement in Kenya's Rift Valley Province located between the Kaputiei plains and the Western slopes of the Ngong hills all within Kajiado District. It is a fast developing mini-city in the outskirts of Nairobi with an estimated population of over 200,000 people. It is situated 17 km south of Nairobi the capital city of Kenya. The town

is a multi-class area which is however dominated by the middle-class. Although largely a metropolitan district of Nairobi it does not fall within the administrative boundaries of the city and is separated from Nairobi city proper by Mbagathi river (Central Bureau of Statistics, 2007).

To expand their market share, financial intermediaries have expanded their branch networks all over Kenya with Ongata Rongai and Nairobi included. This could have led to improved services such as ease access to loans to the residents of Rongai thus promoting the drastic economic growth experienced, more so growth in MSEs investments, (www.fsdkenya.org/pdf). Today Rongai is a well developed town providing homes to many people most of whom are Nairobi's workers. This has led to increased MSEs activities to sustain the ever growing population of the town among them retail shop operations, motor garage, fruits and vegetable groceries, restaurants, refreshment and entertainment clubs, real estate agents, rearing of livestock for meat and milk just to mention a few. (www.fsdkenya.org/pdf)).

Some researchers in financial sector have studied the impact of credit on various economic variables like employment, increase in household income and enterprise output (Mutua, Dondo, Oketch & Christopher, 1991) and (Coppers & Lybrand, 1991). They found a positive relationship between the two variables. Others like Ellis, Lemma & Rud (2010) in their study "Investigating the impact of access to financial services on household investment" carried out in Tanzania suggested that barriers to finance access could have potentially significant implications for growth, as access to financial services can underpin the investment that is crucial to enable households to build up the physical and human capital that contributes to higher income going forward. World Bank (2008) growth diagnostic analysis of Kenya concludes that investment by smaller businesses could be constrained because of poor and costly access to finance and that improving access to finance for small and rural entrepreneurs is a priority. Consequently, the increased MSEs activities in Rongai could have resulted from ease access to finance from financial institutions among other variables.

Nairobi serves as a headquarter of almost all financial intermediaries operating in Kenya. Rongai being a residential area of Nairobi workers enjoys the services of all these financial institutions operating in Nairobi besides the few with branches there. Rongai is an ideal study

location on the effects of access to finance on MSEs investment growth because of its location in an area with a high prevalence of financial intermediaries and its increased MSEs investment activities (Central Bureau of Statistics, 2007).

1.2 Problem Statement

True to the statement "It takes money to make money" every business needs funds to begin and maintain operations. Lack of access to credit has been rated as a major challenging factor facing SMEs due to their informal nature and their lack of collateral, (GOK Survey, 1999; Ministry of Planning and National Development, 2006). According to Aleke (1991), many MSEs use savings and loans by family members and friends because they cannot access funds from the country's financial system besides several financial infrastructure limitations which include inconsistent government policy on interest rate and unmet credit needs among others. Claessens (2005) found out that more than half of all firms with fewer than 50 employees in Algeria, Kenya, Brazil and Peru complained that access to financing represented a major obstacle to their operation and business growth. Wanjohi and Mugure (2008) observed that many MSEs use affordable inappropriate technologies as they lack collateral to access credit to advance their technology

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

Mwaka (2006) established that there was a strong positive correlation between proportion of capital from MFI and growth of MSEs in relation to assets, while a weak positive correlation existed between internal sources of initial capital and growth in terms of sales and employment. Ganbold (2008) in his study found out that the ability of MSEs to grow its fixed assets and working capital depends highly on their potential to invest in restructuring, innovation and

qualification which need capital and thus finance. It is therefore hypothesized that access to finance leads to MSEs growth in both capital assets and working capital.

Competition among financial institutions in Kenya has led to their expanded branch networks with Nairobi and Rongai included (Nyanjwa, 2008). This study therefore set out to investigate; what is the contribution made by access to finance on investment growth of MSEs operating within Rongai Township?

1.3 Objective of the study

To establish the effects of access to finance by MSEs in Ongata Rongai Township on their growth in investments

1.4 Importance of the study

The findings of this study are expected to be of importance to the following stakeholders:

The results of this study will give feedback to financial intermediaries on the effects of their services to clients thus enabling them to enhance the services to increase customer satisfaction.

The business community and the upcoming MSEs entrepreneurs will gain insight on the various services that financial institutions provide, thus creating job opportunities and investment.

To the government, especially Ministry of Finance and planning, the study will come up with policy recommendations that will assist the policy makers when drawing regulatory measures and guidelines aimed at overcoming the barrier of access to finance by MSEs.

The findings of this study will provide a reference point by scholars and academicians who may be stimulated to venture into studies on effects of finance access on MSEs investment growth in other regions in Kenya and Africa in general as most of the literature available are case studies done in the west and cannot be replicated in Africa Simiyu (2008).

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This chapter reviews the literature on Finance access and investment growth and their relationship in Kenya and elsewhere. In section 2.2 of this study, we have reviewed the theories of finance access and investment growth. In section 2.3 we have analyzed the empirical evidence on the effects of access to finance on micro and small enterprises investment growth. Section 2.4 has analyzed the factors constraining growth of MSEs in Kenya. Finally, in section 2.5 we have summarized the literature review on the effects of access to finance on micro and small enterprises investment growth.

2.2   Theoretical   Literature

The financial services sector which is vital in facilitating economic growth and development is composed of institutions which bring together the surplus spending units and deficit spending units in the economy by channeling funds from lenders to borrowers. They stand between savers and borrower, integrating and satisfying the interests of both. In Africa most countries have embarked on financial sector reforms in the 1980's as part of structural adjustments programs (SAP's) in which the market was assigned a greater role in allocation of resources (Soyibo,1995)

2.2.1   Access to finance

Access to finance in this context means the supply of credit finance to MSEs when demanded. Improving access then means improving the degree to which financial services are available to all at a fair price. (CGAP, 2009. "Financial Access 2009")

Capital structure has proved to be a perennial puzzle in finance (Aleke 1991) The original Modigliani and Miller, 1958 and 1963 propositions highlighted the important issue involved in financial structure decisions namely: the cheaper cost of debt compared to equity, the increase in risk in the cost of equity as the debt increase and the benefit of tax deductibility of debt. The conclusion was that with taxes and deductibility of interest charges, firms should use as much debt as possible. According to Jalilian & Kirkpatrick (2001) and Honohan (2004, there is substantial theoretical literature on financial sector depth which use measures of financial depth

collected from financial institutions themselves, such as the total value of bank deposits, or private credit, which do not capture the distribution of these bank deposits or credit across the population. In many countries, household survey evidence shows that most bank deposits and loans are held by only a small proportion of the population with relatively high incomes, and that relatively few people have access to any kind of formal financial services. Many people rely instead on informal or semi-formal providers such as microfmance institutions or cooperatives etc. for which data is not usually available.

These traditional indicators of financial depth may not therefore be very strongly related to the level of access to financial services for the population as a whole. World Bank/Consultative Group to Assist the Poor (CGAP), and others have been collecting macro-level indicators of access to financial services in recent years, from regulators and banks in a large cross-section of developing countries. They have started to use this data to explore the link between access to financial services and financial sector development, economic activity, firms' financing constraints, inequality and poverty (Beck, Demirguc-Kunt & Martinez Peria (2007), Honohan (2004), and CGAP (2009)). However, these indicators still only capture formal financial services providers for the most part, and it is clear that informal and semi-formal providers reach a much greater proportion of the population in many countries than banks.

Africa's MSEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among MSEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial institutions, which see MSEs as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed however and so provides few financial instruments.

MSEs appear to be disproportionately afflicted by the underdeveloped nature of financial institutions in developing countries. For various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do larger firms. From

the perspective of MSE owners, insufficient credit is frequently the most obvious and pressing challenge hindering firm growth. MSE owners in many countries incessantly bemoan their inability to obtain loans for investment and working capital needs, (Grosh and Somulakae, 1996). Financing is ranked as one of the firms' top three challenges (Schiffer and Weder, 2001).

MSEs receive formal loans relatively infrequently, and must therefore rely on other types of credit. A World Bank survey study of nearly 2,800 manufacturing firms in Cameroon, Ghana, Kenya, Zimbabwe, Burundi, and Cote d'lvoire underscores this point, see appendix I (Bigsten et al., 2000). This shows that, while 20 % of firms with more than 100 employees receive formal loans, this figure is only 2 % for firms with one to five employees. Higher percentages of MSEs outside Africa typically obtain formal loans, but similar patterns emerge. For instance, a study in Chile found that 31 % of micro firms had some type of bank loan, versus 49 % among small firms and 60 % among medium firms (Alvarez and Crespi, 2003). Rather than formal loans, appendix I reveals that MSEs in the African context use trade credit, overdraft facilities, and informal debts to finance their operations.

Trade credit is where suppliers effectively provide working capital loans to MSEs by allowing them to pay for inputs a certain length of time after delivery. Trade credit is frequently allocated selectively based on trust, reaffirming the importance of social networks. Overdraft credit represents another important source of financing in countries ranging from Kenya to Brazil. Although costly and often insufficient, overdraft facilities can sometimes act as a substitute to formal loans, to the extent that researchers may overemphasize firms' inability to access bank financing if failing to account for overdraft credit (Vandenburg, 2003).

MFIs also provide important sources of financing for MSEs. Since their inception in the 1970s, MFIs have become increasingly visible, providing many MSEs excluded from the formal sector with working capital and investment loans, as well as other financial services. In many developing countries, however, microfinance portfolios are still tiny in comparison with large volumes of informal trade credit. In some sectors, such as agriculture, the supplier credit portfolio may be as much as 100 times the size of the traditional microfinance loan portfolio

(Tybout 2000). Informal mechanisms such as rotating savings and credit associations (ROSCAs) are also common, reaching up to 80 percent of the population in some African countries (cf Vandenburg, 2003). Although penetration is high, ROSCA financing is often designed to finance consumer purchases or household needs rather than enterprise expansion.

Across the world, entrepreneurs typically start firms primarily through their own savings because oflimited access to startup capital (Mokogi, 2003). Indeed, an IDB study in Latin America, Asia, and Europe found that personal savings was the most important source of startup financing in all countries, especially in Latin America where access to banking is relatively more limited (Kantis, Angelelli, and Koenig, 2004). Even after the start-up hurdle is overcome, a lack of credit frequently hinders growth during MSEs' earlier years, because younger firms tend to find financing even more difficult than older firms (Schiffer and Weder, 2001). In Pakistan, MSEs' insufficient access to formal and informal capital markets creates difficulty meeting investment needs. As a result, older firms typically use out modeled tools and machines (Burki and Terrell. 1998). In Chile, smaller firms typically invest less due to credit constraints, leading to lower capital per worker and older machinery than in older firms (Alvarez and Crespi, 2003)

In Kenya, purchases of new machines are primarily funded through the slow process of accumulating retained earnings. Two-thirds of small firms relied solely on savings to finance their most recently purchased machine (Vandenburg, 2003).Dynamic firms do tend to seek credit more actively. Indeed, the earlier-mentioned IDB study revealed that in Brazil and Mexico, dynamic firms have a greater desire to use better, more expensive technology, and are thus relatively more affected by financing constraints (Kantis, Angelelli, and Koenig, 2004).In its development strategy, Vision 2030, Kenya identifies the need to increase access to affordable financial services and products for a wider section of Kenyans, particularly poor, low-income households and micro-, small- and medium- scale enterprises (MSMEs) ,(Ndungu, 2011).

2.2.2   Rational for Small Enterprise Growth

Why pay attention to small enterprises? The proposition that small firms offer unique development advantages is as old as the concept of economic development itself (Snodgrass and Biggs, 1996). Proponents of policies and programs to support small firms have long claimed that

they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs.

Though small firms are widely recognized as contributing to growth in many developed economies (such as the United States, Italy, Japan, and the "East Asian tigers"), the presence of large numbers of MSE in developing economies often carries a stigma, especially when the firms are informal and concentrated in markets with low barriers to entry. So, is the presence of a large number of small firms an indicator of economic health or not? Recent data in this case is neutral, showing that a higher contribution by small enterprises is associated with, but not a cause of, higher growth (Tybout, 20003).

MSE development has also for long been viewed by policymakers as a means to increase incomes of the poor. MSE owners and workers do tend to be disproportionately poor, with the incidence of poverty within MSEs higher than in medium and large firms. However, current thinking on the part of international donors focuses less on the size of enterprises and more on outcomes, seeking patterns of economic growth that are beneficial to the poor, or "pro-poor." Growth that is broad-based by both region and sector is more likely to be faster and provide greater opportunities for the poor. Similarly, rapid growth in regions where the poor live and sectors of the economy in which they work is likely to result in poverty reduction (OECD, 2004).

In today's global economy, large multinational firms are increasingly concentrating their efforts on branding and marketing rather than production. These firms prefer to source from flexible networks, rather than setting up large production plants. The result is a new, extended supply chain reaching far into developing countries and providing new opportunities for small firms. Small firms offer a number of potential advantages as partners in value chains, often serving as a flexible and low-cost production resource, offering proximity to markets and access to land and other key resources, providing a "storyline" for companies and consumers interested in social responsibility, and supplying unique products (Goldmark and Barber, 2005). The trend toward outsourcing described above may provide an important ingredient for small firm growth—a set of clear opportunities in the form of "demand pull." Market opportunities, however, are only one

side of the equation. Firms that wish to compete and survive over the long term must demonstrate their capabilities—for example, in meeting certain quality or productivity standards. While this study focuses specifically on small firm growth, it does not assume that firm's growth is always the most desirable outcome, nor that small firm growth, for its own sake, should be the objective of most private-sector development projects. Rather, it seeks to clarify in which cases firm growth, upgrading, or both may happen, and to stimulate thinking on how and when small enterprises growth is a contributor to economic growth and poverty reduction. In some cases small enterprises growth is not realistic; in others it may not be necessary. For example, some entrepreneurs may view their enterprises as important sources of household incomes and wish to avoid risk-taking. Others may actively seek to enter new markets and earn increased incomes; such activities may generate local investment.

2.2.3 MSEs Investment Growth

The notion that small firms grow to become large is a popular fairytale in the United States. As the story goes, a company is created through the almost single-handed efforts of a dynamic, hardworking entrepreneur (usually male) who slaves around the clock for years in his garage—until one day, "the big break" comes. At this point some combination of investors and customers recognize the value of the entrepreneur's unique product idea and "poof" the fledgling business is on its way to becoming a household brand name. The truth is we know very little about how businesses grow. What studies have confirmed is that often the "winning product idea" that catapults a lone entrepreneur from his garage into multimillion-dollar offices is the exception rather than the rule (Collins and Porras, 1994). Moreover, while the scenario above may be believable when the garage in question happens to be located in Palo Alto, California, it becomes downright implausible if the start-up is based in a place like La Paz, Bolivia; Nairobi, Kenya; or Dhaka, Bangladesh. According to Collins and Porras (1994), developing-country entrepreneurs have to be twice as creative as their counterparts in wealthier nations, if they are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources.

The rapid growth of MSE sector can be attributed to adjustment programmes that have resulted in widespread retrenchment both in public and private sector besides increased population. Many retrenched workers have sought alternative employment in the informal sector (Mwaka, 2006). As globalization intensifies and with global competition in labour intensive tasks, large enterprises have sought and will continue to seek to evade mandated protection to labour by subcontracting to unprotected labour in the informal sector, therefore leading to the growth of the informal sector. (Mead, interview, 2004).

The urban informal sector comprises of semi organized registered and unregistered activities undertaken by self employed persons in the open air markets, market stalls, undeveloped plots or street pavements within the urban centres with or without licenses from local authorities. The reason why informal sector flourishes in Kenya is the operation of business without many restrictions or regulations, the entrepreneurs' flexibility in meeting customer's needs and the goods and services provided depending on demand as perceived by entrepreneurs. (Mead, interview, 2004). To take advantage of business opportunities, entrepreneurs must also possess appropriate capabilities, such as skills, resources, or technology. Some MSEs may face potentially lucrative business opportunities, but be unable to take full advantage of them due to inadequate capabilities. Although these "ponies" may expand quickly for short durations while trying to harness these opportunities, they often lack endurance as they do not have requisite capabilities for sustained growth. (Nichter, 2004).

2.2.5 Measuring Growth of MSEs

Growth of MSEs can be reflected in terms of graduation in the following dimensions; legal dimensions- a business that fulfills the requirements necessary to be a legally licensed enterprise, social dimensions, which makes the personal development of the entrepreneurs the focal point and financial dimension entrepreneurs leaves the credit program of the MFIs to become a client of the formal financial sector. (Mwaka, 2006). The value of equipment, current value of business assets, amount of savings, sales volume, number of employees as some of the quantitative indicators of performance and MSEs growth, (Ondiege, 1996). Prasad et al (2001) includes success rate in loan application and MSEs growth measured by growth in sales, profits, assets,

number of employees as some indicators of growth. Other factors suggested to give an indication of growth are increase access to credit, increased information in available markets opportunities, improved production techniques for small scale manufacturing and training focused on skills development (Ronge, Ndungu and Nyangito 2002).

Economic theory supports the premise that higher productivity causes MSE growth, since productivity can be a source of competitive advantage such as low-cost production. Adopting the framework presented above and its treatment of the role of capabilities in MSE growth, the causal model would go something like this: factors such as education and experience can directly increase the capabilities of MSE owners and employees; these individuals are then more likely to adopt or create practices that heighten productivity levels, and this added productivity then contributes to growth (Tybout 2000).

Firm Productivity at the most basic level, refers to how much output a firm can produce with a given level of inputs. Economists differentiate between three primary types of productivity: labor productivity (output per unit of labor), capital productivity (output per unit of capital), and total factor productivity (output per unit of labor, capital, and other inputs combined). Although labor and capital productivity are easier to measure, total factor productivity is generally considered a more indicative measure of relative productivity levels, since it takes into account all of the possible ways that productivity could rise, and is not affected by simple substitutions (for example, labor productivity might rise simply because capital is substituted for labor). For this reason, this study refers to total factor productivity whenever "productivity" is mentioned, unless otherwise noted. In the literature on competitiveness, Michael Porter defines productivity as "the value of goods and services produced per unit of labor and capital" (Mwaka, 2006). In addition, Porter explains that productivity refers to the value of products or services produced as measured by the prices a firm can command.

The relationship between firm productivity and growth is endogenous. The initial productivity of firms is a significant determinant of subsequent growth. An endogenous, virtuous cycle ensues:

more productive firms get larger and, in the process, obtain access to resources and information enabling them to become even more productive. Some MSEs manage to achieve high levels of productivity, while others do not. (Aw, 2001).

Some evidence suggests that while MSEs are not inherently unproductive, one-person enterprises do tend to be systematically less productive than larger enterprises. GEMINI research found that relative to one-person firms, MSEs with two to five workers had substantially higher efficiency (in terms of returns per hour of family labor), and those with six to nine workers had even higher efficiency (Mead and Liedholm, 1998). The studies suggested that productivity costs of being small were surmountable, once the one-worker threshold had been traversed. Unfortunately, the threshold was extremely difficult for many micro entrepreneurs to cross, as the majority of MSEs remained one-person enterprises (e.g., 79 percent of MSEs in Lesotho).

2.2.6   The relationship between financial access and growth

There is a substantial theoretical literature, establishing the link between financial sector depth and growth, (see for example King Levine (1993), Levine (1997), and Calderon & Liu (2003)). There are also a number of studies linking financial sector depth to poverty reduction (e.g. Jalilian & Kirkpatrick (2001) and Honohan (2004) - this literature was also reviewed in a DFID Working Paper (2004)).   According to the theoretical literature, there are several mechanisms through which the two may be related - and this also varies depending on which financial services we are talking about.

First, and the main hypothesis, is the idea that access to financial services facilitates greater MSE's level investment in productivity-enhancing assets, and that this increases MSE income in future (Solow (1956). Investment is the active redirection of resources by an economic entity, from being consumed today, to creating benefits in the future. The hope is that the investment will yield greater benefits in future than would be yielded by consuming those resources today. The investment may take the form of savings, of a financial instrument (e.g. an equity

investment), of physical capital (e.g. a new tool or piece of equipment that improves productivity such as agricultural machinery), or of human capital (e.g. education).

According to growth theory (e.g. Solow (1956), and Romer (1990)), growth depends on the stock of human and physical capital in the economy, as well as technological progress. Investment at the level of the firm or the individual can contribute to all of these things, and thus plays an important role in facilitating long run economic growth. Mwaka (2006) argues that by reducing the financial risks faced by MSE'S in this way, access to financial services may decrease the proportion of low-risk, low-return assets held by MSE's for precautionary purposes (such as jewellery), and enable them to invest in potentially higher risk but higher return assets, (such as education or a rickshaw), with overall long-term income enhancing impacts. Ghosh, Mookherjee & Ray (1999) argue that credit is essential in allowing capital investments among producers (such as farmers) who are not able to save, as well as giving households the ability to obtain money in an emergency. Nyanjwa (2008) & De Gregorio (1996) argues that access to household credit can have a positive impact on growth through its impact on human capital accumulation, and that this is affected by the initial distribution of wealth; richer families are better able to invest in human capital accumulation leading to increased growth. Beegle, Dehejia & Gatti (2003), and Jacoby (1994) also found out that access to risk-reducing financial services increases investment in schooling.

A second channel through which access to access to credit, may affect economic growth is by facilitating the entry of new firms (Klapper, Laeven and Rajan, 2004) and the Schumpeterian process of "creative destruction". They argue that access to credit permits greater market entry by talented new entrants, who would otherwise be constrained by their lack of inherited wealth and absence of connections to the network of well-off incumbents.

A third channel of impact relates to the effect of access to credit on savings, and this provides a more complicated story. The level of savings is an important determinant of the overall level of investment in an economy, and thus is directly linked to growth. Given that savings may be

considered less of a necessity when credit is available, Jappelli and Pagano (1994) argue that alleviating credit constraints on households reduces the savings rate, with negative repercussions for economic growth, and they provide empirical evidence to support this argument, based on a sample of middle and high income countries. Beck, Buyukkarabacak, Rioja & Valev (2008) also provide empirical evidence showing that access to credit for enterprises does increase growth in GDP per capita.

2.3   Empirical Literature

Empirical work on institutions and MSEs has shown that institutions are important for business growth in general and the development of MSEs in particular. A study by Mnenwa and Maliti (2005) showed that small business contributed to poverty alleviation through income generation in form of profits to entrepreneurs, salaries to workers and job creation. According to Mnenwa and Maliti (2005), there is a positive correlation between firm size and the potential to increase income and employment creation.

Empirical work has also shown that in many instances institutions are inadequate in supporting MSEs. Studies such as one by Wangwe (1999), Lund et al. (2005), Kimuyu (2002) and Kilindo et al. (2006) investigated the role of institutions in promoting MSEs, and found that the institutional framework for the promotion of MSEs is poorly coordinated. Another important set of studies consists of those which, among other issues, touched on the characterisation of MSEs. While some of micro businesses are one-person operations, in developing countries there tends to be heavy reliance on the family unit (Berger, 1991). The main lesson from these studies is that most of them had focused on the role of institutions. Their link to MSEs growth and constraints with less accent on the capacity of the institutions to support MSEs. In the available literature less has been said regarding the capacity of institutions in promoting MSEs and strategies to improve their capacity.

A number of studies have been conducted on financial services. Coopstake 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 were below national poverty

line. Those who graduated from their first to a second loan on average experienced significantly higher growth in their profits and household income, as compared with other similar business operators. The borrowers also diversified their business activities more rapidly. However some borrowers were worse off particularly among the 50% or so who left the programme after receiving only one loan.

Alarape (2007) conducted a study to examine the impact of owner/manager of small business participating in entrepreneurship programs on operational efficiency and growth of small business in Nigeria. The study was across sectional analysis of the impact of exposure of owner/ manager of small business on their performance i.e. operational efficiency and growth rate. The data was collected from primary and secondary sources. Both descriptive and inferential statistics were employed for the analysis. The findings were that small businesses whose owners/manager had experience of participating in entrepreurship programs exhibited superior management practice, had higher gross margin rate of growth than business whose owner/manager did not have super experimental learning.

Kuzilwa (2000) did a survey study on the role of credit for small business success in Tanzania. The Tanzania government through parliament's approval was to provide loans to MSEs. The funds were supposed to be loaned out initial borrowers and recovered with interest so that new businesses would borrow. All potential borrowers were supposed to go through special training as one of the preconditions for receiving credit. 7610 applications were received with only 20% being successful for funding, Out of which 81% were in urban areas whereas 19% of were from rural areas. All entrepreneurs used the loan for the intended purpose with majority using the credit to fund business start-up while some undertook investments. The success indicators were; increase in demand for products, change in investment level, expanding business space, creation of employment and increase in profits.

Ryan (1993) conducted a survey study of 50 firms in Malawi that had received loans from SEDOM on ex-post facto evaluation. An assessment on the impact was done, by looking at whether or not the enterprises achieved the stated objectives of the scheme such as employment generation, technology employed and backward/forward linkages. The results showed that the

scheme on the whole created 1873 jobs. It also showed significant backward linkages to agriculture sector were created as a result of loans received by manufacturing firms.

Mokogi (2003) did a study to determine the effects of MFI credit schemes on the performance of MSE in Kenya and to determine the rate of graduation of MSE from borrowing from MFIs to borrowing from commercial banks. The study was a survey of all MFIs that provided credit to MSEs in Kenya and all the MSEs in Nairobi that had been financed by the MFIs over the years. A random sampling was used to ensure that all the MFIs had equal chance of being selected. Primary and Secondary data were used. Secondary data was obtained from relevant literature and records available in Libraries, government offices and relevant offices of the MFIs and the MSEs. The response rate was 72% while 28 % did not respond. The findings were that MSEs financed by MFI are mainly located in slums areas of Nairobi and other towns. The loans borrowed were used to boost working capital, purchasing fixed assets, personal consumptions and other needs. The entrepreneurs experienced tremendous growth in their business such as increased fixed assets, increased net income, increased savings, no of employees and the space occupied by the business. The study also established that the more the number of loans taken the bigger the period of participation in the credit programs and the more the growth experienced by MSEs.

Inziani (2006) did a study on informal finance as a source of funds for SMEs, a case study from Dandora slum in Nairobi Kenya. The objective of the study was to determine the proportion of funds for start up and expansion of SMEs that are sourced from informal markets, to determine whether the funds are fully utilized in the business and to identify the challenges faced by SMEs in Dandora slums in sourcing for funds. The study was a survey of all the SMEs operating in Dandora slums. Primary data was used and analyzed using descriptive statistics. That is mean, percentage and frequency. The findings were that informal financial markets are the main source of funds for SMEs, they represented 40% of sources of funds.

Maghanga (2007) did a survey study in Nairobi with an objective of establishing the perceived effects of the micro finance loans by recipient as a poverty alleviation tool and how micro finance loans recipients perceive the effects of interest charges in their business. The sample size

was 100 MFI loan borrowers. He used primary and secondary data. The primary data was collected through semi structured question using the drop and pick method in addition to attending group meetings and requesting those who met the research criteria to fill the questionnaire. Secondary data was obtained from relevant literature and respective MFI offices. The findings of the study were that though the loans were perceived to have improved the business, the state of the MSEs before entry into an MFI credit was not bad as they had the start up capital and they also felt they were not poor. The interest rate charged by MFI was perceived to have very little effect on the performance.

Mushumiyamana (2008) did a survey study to analyze the link between access to finance and business performance for women owned SMEs in Nairobi. Semi structured questionnaire was administered to the women SMEs using a drop and Pick method. The study found out that access to finance enabled women to hire more employees and increase turnover. Mbugua (2010) conducted a survey study with an objective of establishing the impact of micro finance services on performance of MSE entrepreneurs in Kenya. The study population consisted of all SMEs in Nairobi and adopted systematic random sampling method with an interval of fifty MSEs. The sample size was 47 SMEs. The researcher used primary and secondary data. Primary data was collected through the use of semi-structured and structured questionnaires. Quantitative data was analyzed using descriptive and inferential statistics. The study found out that all SMEs borrow investment capital and use it for the purpose intended. Most of them had MFI as the only source of financing. Return on Assets increased with each consecutive loan thus indicating MFI loans enhance profitability of MSEs in Kenya.

2.4   Factors Constraining growth of MSEs in Kenya

The MSEs play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). It is generally recognized that MSEs face constraints, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The constraints include:

2.4.1 Legal and Regulatory Environment

The legal and requlatory environment still impend business operations, thus scaring away potential investors and squeezing revenues from those in operations. As such, there is need for a business environment that is at par with international best practice so that the country can attract the requisite private investments. There has been complains regarding tedious registration and certification process in Kenya. Various bodies have their requirements and require money and time. One option left to an entrepreneur is to evade the process but this process is more expensive at the end because of penalty charged (Wanjohi, 2009).

Registration of business names, obtaining licences, adhering to statutory requirements, taxation and contracting still poses major challenges to MSEs in Kenya. Contracts involve long legal processes such as leasing, drawing up business contracts, legal representation and other aspects that place the MSEs in a disadvantaged position. Most of these enterprises find these processes lengthy and time consuming, hindering growth or expansion of enterprises (Muraguri, 2010).

According to KRA (1994), the principle factor contributing to poor tax collection include; poor compliance at the informal sector economy, narrow coverage of the existing tax instruments, poor administration and tax collection efforts. As a result of poor taxation system, the costs of running business in Kenya continue to heighten.

2.4.2 Challenge in accessing Finance

According to Tagoe, Nyarko & Anuwa-Amarh (2005), the main challenge facing MSEs is access to affordable credit over a reasonable period. This is determined by the financing needs of MSEs and the action of investors. MSEs financing needs, reflect their operational requirements. The management of this challenge depends upon various factors; government borrowing, the general economic climate, availability of collateral, quality of MSEs record keeping, & MSEs investors relations skills.

Other financial challenges that face small enterprises include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising financial

freedom among the 'little investors,' through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits (Wanjohi and Mugure, 2008).

Another study by Wanjohi and Mugure (2008) found out that credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

2.4.3 Security Issues

Globally, crime and violence are increasing becoming recognized as a development problem, particularly in urban areas. The incidence of crime, robbery and gang violence, as well as gender based domestic violence, undermines both macro-and micro-economic growth and productivity of a country's development as well as societal and individual well being. The response especially for women is usually to avoid certain places after dark (Muraguri, 2010). A study conducted by Starrou, (2002) on crime in Nairobi established that 37% of all Nairobi residents had been victim of robbery and 22% were victim of theft at least once during the previous year. A further 18% had been physically assaulted during the year preceeding the study.

In regard to business sector, the study found that a total of 30% of all commercial enterprises revealed that they had been victims to burglary during the year preceding the survey. In addition, 29 % admitted to having settled for a bribe in order to either do away with a problem or as part of their operational activities. Shoplifting, theft of goods being delivered in or out, theft and assaults on employees and staff were other security concerns raised by Starrou in his study. The findings reveal a worrying trend that can affect greatly the normal operations of business not only in Nairobi central business district but also its environment and the whole country in general, because of trickling down effect. Despite the fact that a number of interventions have been made, security issues still continue to raise concern.

2.4.4 Management Literacy

Education and skills are needed to run MSEs. Research shows that majority of the lot carrying out MSEs business in Kenya are not quite well equipped in terms of education and skills. Those

entrepreneurs with more education and training are more likely to be successful in the SME sector (King and McGrath 2002).

In addition many MSEs owners or managers lack managerial training and experience, and end up using trial and error as their own approach to management. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Mbugua, 2010). Although this attitude is the key strength at the start-up stage of the firms as it provides the creativity needed, it may present problems when complex decisions have to be made. (King &McGrath, 2002)).

2.4.5   Other Factors

According to Muraguri (2010), Other constraints include Gender based issues -the work-home conflict more so the tension caused by the dual responsibility of managing a business and maintaining a family, technology changes where many MSEs are unaware of the technology and if aware it is not affordable, Poor infrastructures which in Kenya has lagged behind over years, lack of sufficient market information and negative perception where potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously.

2.5   Summary

fhe potential contribution that access to financial services can make to growth and poverty reduction is now widely accepted in academic and policy circles, and thus improving access has become an issue of increasing focus for developing country governments and donors (Honohan (2004)). Several studies have been conducted to show this relationship. Example Kuzilwa (2005) did a study in the role of credit for small business success, Ryan (1993) conducted a study on ex-post evaluation of the source of finance for small businesses in Malawi. Alarrape (2007) did a study to examine the impact of owners /managers of small business participating in entrepreneurship programs on operational efficiency and growth of small business in Nigeria. Mokogi (2003), Mwaka (2006) and Inziani (2006) conducted local studies. Mokogi (2003) did a study on implication of lending of Micro Finance Institution on MSE in Kenya, Mwaka (2006) looked at how financial structure affects growth of MSEs in Nairobi while Inziani (2006) did a

study on informal finance as a source of fund for SMEs, with a case study from Dandora slums in Kenya.

This study is necessary because the empirical link between access to financial services and growth of MSE investments has not been well established in the academic literature, despite a range of theoretical literature suggesting about the potential economic linkages that may exist between the two. The availability of robust empirical evidence to support or disprove these theories has been limited to date, due to a lack of adequate data on access to financial services, which is now being remedied through data collection efforts by DFID, the World Bank and others (Honohan (2004)).

According to Mbugua (2010), Firm access to Finance, Age, Value Chain Linkages, Macroeconomic Context Location and Sector Social Networks Gender / Household Formality Infrastructure, Education Experience, Technology Regulations / Institutions all are factors that affect growth of a firm. Access to finance is a major variable of MSE investment growth, but growth accompanied by improvements in productivity is likely to contribute to the desired development effects discussed earlier, such as broad-based economic growth leading to graduation. As any businessperson will attest, firms exhibiting fast growth tend to be more productive than are their slow-growth competitors. What does this correlation imply? Does acess to finance cause MSE investment growth leading to higher productivity?

MSE's investment growth Will entails Capital assets and working capital investment growth. Access to finance on the other hand will be the independent variable and is the borrowed funds

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the analysis of principles of methods, rules and techniques (Mbugua 2010). In this chapter section 3.2 explains the research design that will be used in the study. Section 3.3 analyses the target population and sample chosen. Section 3.4 reviews the data and explains the method that will be used to collect valid and reliable data. Section 3.5 summarizes details of the methods that will be used to analyze the data.

3.2 Research Design

This research study employed a descriptive design since it sought to determine the relationship between access to finance and MSEs investment growth. Descriptive research studies are meant to obtain pertinent and precise information relating to current status of phenomena and whenever possible to draw a valid general conclusion from the facts discovered, (Karuri 2010).

A survey method which involves the use of a pre-designed questionnaire to ask participants questions on how they feel, what their views are and what they have experienced as the main was used, (Karuri 2010).

3.3 Population and Sample

As Mbugua (2010) stated, a population is the collection of all possible observations about which we wish to make some inferences. Since there was no official register of individual entrepreneurs operating in Rongai Township, it was not possible to have a listing of the MSEs thus the study's target population was all the MSE's proprietors operating in Ongata Rongai township.

A sample is a collection of observations representing only a portion of the population. 50 MSEs were sampled using stratified random sampling technique which is a two step process. First the target population is partitioned into strata's and then elements are selected from each stratum by simple random sampling. E.g. of Stratum in this context were; Small retail shops, Petrol stations, Small garages and workshops, Milk bars, Mpesa and telephone calling cards dealers.

3.4 Data and Data Collection Methods

This study used Secondary and Primary data. Secondary data, which is data originated for purpose other than that of the research at hand (Mwaka, 2006), was sourced from reviewing existing records, for instance, Asset register, cash book and Statement of affairs of MSEs existing financial reports. Primary data supplemented Secondary data where there were no existing records. To collect primary data, which is originated for the purpose of the research at hand (Mbugua, 2010), a questionnaire was used. The questions were in the form of close ended alternative questions, where the respondents were to choose among the stated choices and open ended questions, designed to permit a flexible response from the respondent. The Researcher/ agent first inquired on the firms' employee's number, if less than 50 he used the drop and pick method to administer the questionnaire and if 50 or more, he ignored.

3.4.1 Data Validity

Validity is the extend to which the findings are really, that is the success of the measurement scale in measuring what was set out to be measured (Mbugua, 2010). In validating the questionnaire, a pilot test was conducted. A sample was selected from the strata and served with the questionnaires to fill. This enabled the researcher to refine the questionnaire to eliminate problems to the respondents while answering the questions and during data recording. The researcher also engaged the pilot study respondents in a discussion to iron out ambiguity and misinterpretation by respondents in the main study survey.

3.4.2 Data Reliability

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

3.5   Data Analysis

The collected data was thoroughly examined and checked for completeness and comprehensibility. Quantitative data was analyzed using descriptive and inferential statistics. Descriptive statistics such as frequency distribution, percentages change, Mode and Mean was used to analyze the data and enabled the researcher to meaningfully describe measurements using few indices or statistics. Inferential statistics was used in order to generalize the results from the sample population and was analyzed using Regression analysis.

Statistical package for social sciences (SPSS) version 17 was used for qualitative data analysis to determine the relationship between financial access and MSEs investment growth. Data was coded and entered into the SPSS version 17 for analysis. SPSS is good in organizing and summarizing the data by the use of descriptive statistics such as tables.

3.5.1   Conceptual Model

The following function shows the mathematical relation of dependant and independent variable.

IG=f (FA, REG, SEC, LIT)....................................(1)

Where:
1G = Investment growth
FA = financial access
REG = Legal and Regulations
SEC=Security
LIT=Education, Management Skills and Experience

IG was measured by increased value of business assets and portfolios which entails land and building, Furniture and Equipment, Machinery, Investments, stock and cash.

On the other hand, FA was measured by the number and value of debt from external sources such as; friends, banks, MFI among other institutions, government and will depend on presence of collateral, quality of MSEs records kept and cost of taking loans among other indicators. REG was measured by the number and cost of licenses required to trade, penalty for defaulting to acquire licenses, length of registration process and the level of taxation while SEC was measured by the number of thefts, crimes and violence reported by the proprietor, corruption cases reported and assaults on employees.

LIT was measured by the highest level of academic and professional qualification the proprietor and key staff posses, management and mentorship courses attended, number of years one has been in business and the success attained.

This multivariate model shows that MSE investment growth in the economy depend on the level of: financial access, regulation, security, Literacy of the management. The study used 2007 or the business start date whichever was later as the base year and then for the independent variables, the respondent was asked to indicate the extend to which Investment growth was affected by each of the independent variables on their enterprises on a percentage basis. The mean of each of all this variables for years 2009-2011 was determined and used to determine the empirical model coefficients.

It was therefore expected that when the rate of MSE's investment growth is high, any or all of the following occurrence may apply: Finance is accessible, less regulation of MSEs, high level of management training, education and experience of the owner and improved MSEs assets security occurred and vice versa for all the variables when there was low investment growth

3.5.2 Empirical Model

This study employed an empirical model to determine the relative significance of each of the four main investment growth constrains with respect to investment growth as follows:

$$IG = a_0 + a_iFA - a_2REG + a_3 SEC + a_4LIT + et \ldots \ldots \ldots (2)$$

In this model a o is a constant while (ai-a4) are coefficients of the different respective variables while et is the random error term. The other variables are as defined in the Conceptual Model on page 30.

The higher the value of IG the higher the rate of growth of investment which will imply higher rate of financial access, secure environment, high level of literacy but less regulations. The strength will be determined by the coefficient of each variable ranging from 0 to 1.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1   Introduction

This chapter looks at the study findings and discusses the findings in length. The study targeted MSEs in Ongata Rongai Township where 50 MSEs were sampled using simple random sampling procedure from each stratum (business category), as explained in chapter three. Section 4.2 gives the summary statistics of the collected data. Section 4.3 explains Financial Access and MSE Growth. Section 4.4 discusses the findings. Section 4.5 summarizes details of the results obtained from the data collected.

4.2   Summary Statistics

The study targeted a sample of 50 MSEs from which 37 filled and returned the questionnaires making a response rate of 74%. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulations that a response rate of 50% is adequate for analysis and reporting: a rate of 60% is good while a response rate of 70% and over is excellent.

4.2.1   Gender of Business owners

The study's MSEs respondents comprised of 62% male while 38% were female as shown below.

Figure 4.1: Gender of Business Owners

Males
Fom..tie-
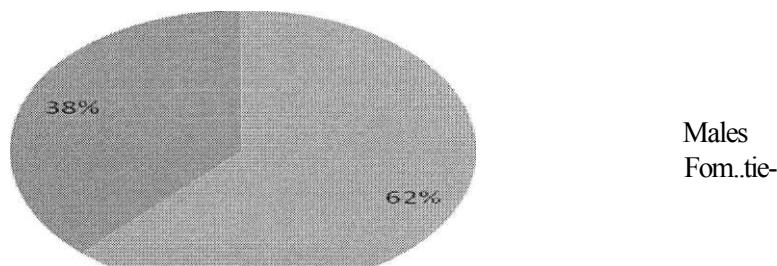
Source: Research data

4.2.2   Nature of Business

Fifty MSEs were sampled from twenty five forms of business in Rongai Township from which Thirty Seven responded as shown in Table 4.1 on page 32.

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Table 4.1 Nature of Business within Ongata Rongai Township

Nature of Business	Frequency	Percentage
Animal Feeds	2	5.4
Bakery Shop	1	2.7
Bar	1	2.7
Boutique	1	2.7
Butchery	1	2.7
Chemist	2	5.4
Cyber Cafe	1	2.7
Furniture Dealer	2	5.4
Garage	1	2.7
General shop	2	5.4
Hair Clinic	2	5.4
Hardware	2	5.4
Hospital	1	2.7
Mobile Phone Accessories	1	2.7
Petrol Station	1	2.7
Restaurant	1	2.7
Schools	2	5.4
Stationery Shop & Bookshop	2	5.4
Studio Shop	2	5.4
Supermarkets	2	5.4
Tailoring and designer shops	2	5.4
Transport business	2	5.4
Vehicle Auto spares	2	2.7
Welding	1	2.7
Total	37	100
Source: Author's computation		

4.2.3 Forms of Business ownership

Figure 4.2 shows the various forms of business ownership. Sole proprietorship had the lion's share of 76%, followed by partnership (16%), companies had 8% while other forms of ownership had no respondents.

Figure 4.2: Forms of Business ownership

• Sole proprietorship
» partnership
s Company

Source: Research data

4.2.4 Age of Business enterprise and Position of Respondent

From the study results, most of the organizations were established between 1994 and 2011. The study also sought to establish the position that the respondents held in their organization. From the findings, 92% of the respondents held positions such as directors and business owner/proprietors while only 8% were employees.

4.2.5 Respondent Education Background

Table 4.2 and Figure 4.3 show the respondent education background. The respondents were in various levels of education. Diploma/Certificate had the largest share of 41%>, followed by High School with 35%, bachelor had 16%, masters and above had 5% while Primary level had 3%.

Table 4.2 Respondent Education Background

Education Level	Frequency	Percentage
Masters and Above	2	5
Bachelors	6	16
Diploma/Certificate	15	41
' High School	13	35
Primary School	1	3
Total	37	100

Source: Author's computation

Figure 4.3: Respondent Education Background
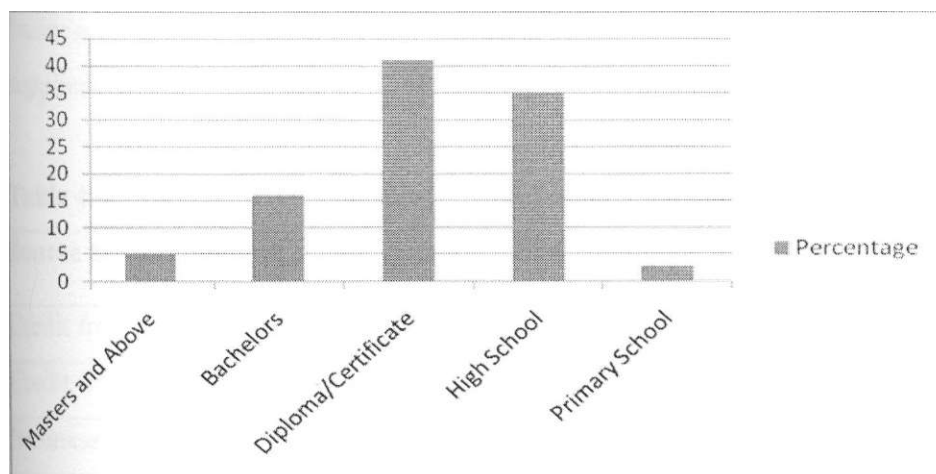
Source: Research data

4.2.6 Value of Assets and Number of Employees for MSEs in Rongai Township

From table 4.3, MSEs were found to offer employment in good numbers with a mean and a median of 3 employees. The mean value of MSEs assets was Ksh. 1,404,000.00 with a median of 960,000.00.

Table 4.3 Value of business assets and Number of Employees

	Value of Business Assets	Number of Employees
Respondents	35	37
Missing	2	0
Mean	1,404,000	3
Median	960,000	3

Source: Author's computation

4.3 Financial Access and MSE Growth

This section looks at access to finance and the factors that were found to influence MSEs business investment growth in Ongata Rongai township.

4.3.1 Sources of Finance

There are different sources of finances from which MSEs in Ongata Rongai obtained funds to be able to grow their investments. From table 4.7 below, 24% of the respondents got finances from

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financial Institutions, 40% from self, friends, family members and other relatives, 30% from business savings while 6% of the respondents got finances from other sources such as lines of suppliers' line of credit.

Table 4.4 Percentage Distribution of sources of finance

Source of Finance	Percentage of Financing
Credit from Financial Institutions	24
Credit from Self, Friends & relatives	40
Business Savings	30
Others	6
Total	100

Source: Computed from survey data

Figure 4.4: Percentage of Finance sources

- Credit from Financial Institutions
- 11 Credit from Friends & relatives
- Business Savings
- i Others
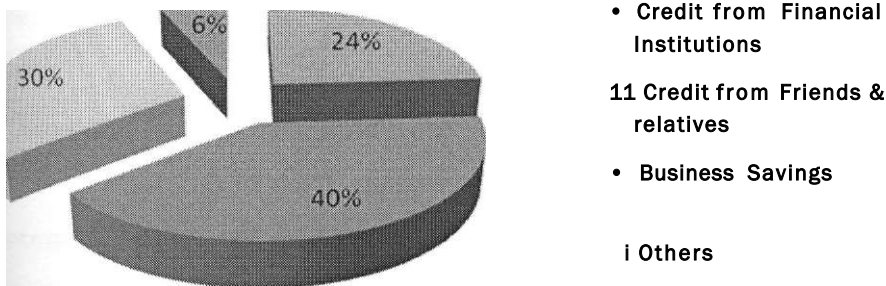
Source: Research data

4.3.2 Utilization of credit facility by Respondents

From table 4.5 below, out of the thirty seven respondents, 81% indicated that they had taken credit to further their business operations while 16% had never taken credit. One respondent did not respond to this question. For those who had at least taken up credit, lack of collateral was a major challenge with an average rating of 70%. Lack of proper kept records, high cost of repayment and lack of awareness were other obstacles. For those who had never utilized the credit facility, the following were some of the obstacles

a) The need for collateral which they did not have.

b) The vetting procedure employed by the financial institutions in order to qualify for credit

c) Financial institutions insisting on guarantors when awarding credit, who were to pay incase of default.

d) The long procedure and delays in processing example filling of forms by applicants

e) Multiple transaction costs and high interest rates.

f) Fear of financial institutions

g) Some financial institutions require credit applicants to be employed and then use the salary check off system to get repaid the principal and interest.

h) Lack of information about credit facility and its existence.

Table 4.5 Utilization of credit facility by Respondents

	Frequency	Percentage
Yes	30	81
No	6	16
No response	1	3
Total	37	100

Source: Computed from survey data

4.3.3   Accomplishment of Loan objective by Respondents

Out of the 30 respondents who had taken credit facility, 29 had achieved the intended credit facility purpose while one indicated otherwise. This is illustrated in table 4.6 below.

Table 4.6 Accomplishment of Loan objective by Respondents

	Frequency	Percentage
Yes	29	78
No	1	3
Not applicable	7	19
Total	37	100

Source: Computed from survey data

Respondents who had accomplished the loan objectives gave the following as some of the achievements of the facility

a) Increasing the volume of stock and cash
b) Expanding the business space
c) Buying fixed assets
d) Venturing into real estate
e) Acquiring business premises

4.3.4 Comparison of Number of Employees over Time

Table 4.7 shows that most respondents indicated that there was an increase in the number of employees at present compared to five years ago or start of business whichever was latter.

Table 4.7 Comparison of Number of Employees over Time

Response alternative	Frequency	Percentage
Tremendous Increase	11	30
Increase	**14**	38
Some Increase		24
A decrease		
No Change		
Total	37	100

Source: Author's computation

4.3.5 Value of Business assets

Table 4.8 and figure 4.5 indicates that before receiving credit, most MSEs were operating in very low capacities. Credit here means assistance from friends, family members & relatives, other organization owned by the same proprietor, financial institutions and other external sources other than business savings. The researcher examined data of the last five years prior to the year of study. The findings showed that after taking credit, the value of fixed assets increased tremendously before it started falling gradually over years. This was as a result of depreciation in value. The value of working capital increased gradually, first at a high rate but then at a declining rate. On capital investment, the value kept growing gradually over time.

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The changes in the value of assets above were attributed to the following variables

a. Access to Credit

b. Improved Security

c. Less Regulations

d. Education and training

TABLE 4.8: value of Business assets

Assets	Before Taking credit Kshs'000	2007 Kshs'000	2008 Kshs'000	2009 Kshs'000	2010 Kshs'000	2011 Kshs'000
Fixed Assets	200,000	610,000	530,000	460,000	403,000	350,000
% change			-13	-13	-12	-13
Capital Investments	0	30,000	50,000	100,000	250,000	500,000
% change	0		67	100	150	100
Working capital	30,000	350,000	400,000	500,000	550,000	550,000
% change			14	25	10	0
Total Assets	230,000	990,000	980,000	1,060,000	1,203,000	1,400,000
% change		330	0	8	13	16

Source: Computed from survey data

Figure 4.5: value of Business assets

Source:* Research data

35
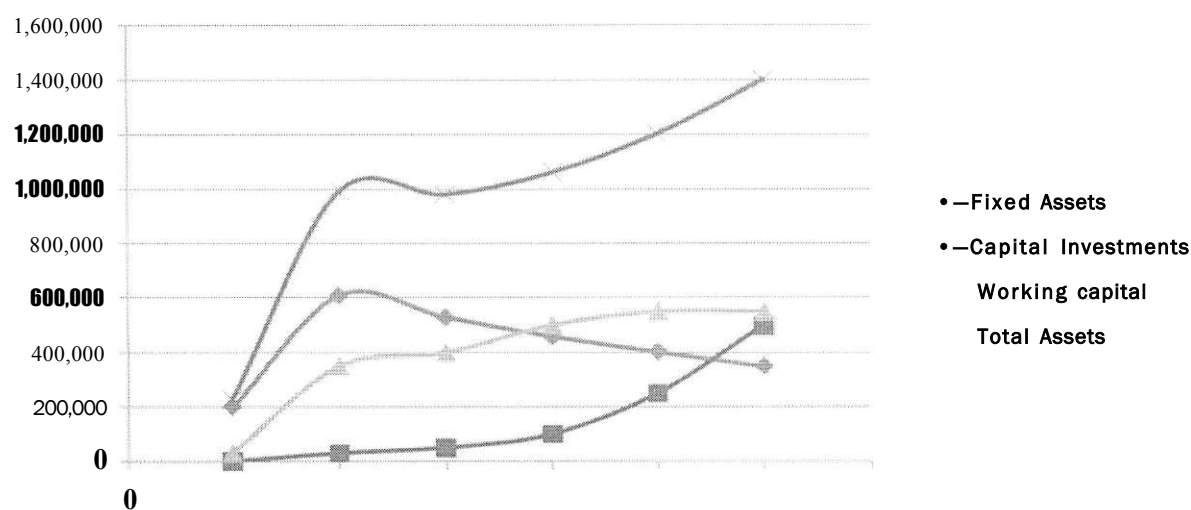
4.3.6   Effects of credit facility on value of Assets

Table 4.9 and figure 4.6 indicates that after receiving loan, working capital and fixed assets rose by 100% meaning that there was unused capacity due to lack of finances. The fixed assets change started declining even to negative growth rate. This was because of their depreciating nature and once bought, it takes long before subsequent purchases. For working capital, the increase was at a reducing rate until zero increase where the MSEs had reached an optimum stock holding capacity. This later increased with expansion of business and stock variety. For capital investment, this started from zero and continued increasing gradually. The increase was however subject to inflation and stability of the economic climate.

TABLE 4.9: Change in Assets after credit facility

	FACTOR(S):	After 1st Loan (%)	After 2nd Loan (%)	After 3rd Loan (%)	After 4th Loan (%)	After 5th Loan (%)
1.	Working Capital	100	10	0	50	10
2	Capital Investments	0	50	70	50	80
J	Fixed Assets	100	25	-25	10	-20
I	**Total Assets**	**100**	**18**	**-5**	**40**	**2**

Source: Computed from survey data

Figure 4.6: % Change in Assets after credit facility
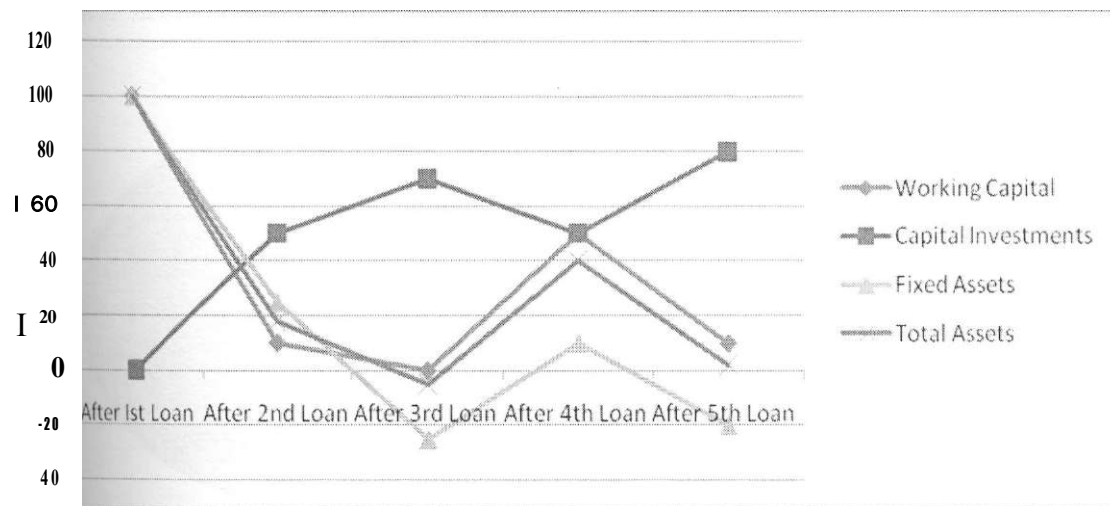
Source:* Research data

4.3.7 Determinants of Investment Growth

From Table 5.1 and figure 4.7, we discover that access to finance is ranked second among the challenges MSEs face in growing their investments. Though initially left out, MSEs stated competition as the biggest challenge to their investment growth with respondents rating it at an average of 21%. Access to finance came in second with 18% on average. This provided answers to our research question that access to finance plays a big role in MSEs investment growth. Security conditions had 17%, regulation had 16%, with literacy and other factors such as transportation, High rent, debt collection both having 14%.

TABLE 5.1: Ranking of business challenges

Business challenges	Mean (%)	Median (%)
Insecurity	17	19
Lack of credit	18	26
Regulation	16	15
Literacy	14	13
Increased competition	21	25
Others (transportation, High rent, debt collection etc.)	14	10
Total	**100**	

Source: Computed from survey data

Figure 4.7: % ranking of business challenges

Insecurity

- Lack of credit

- Regulation

- Literacy

!ncreasect competition

Others {transportation. High rent, debt collection etc.)

Source:* Research data

37
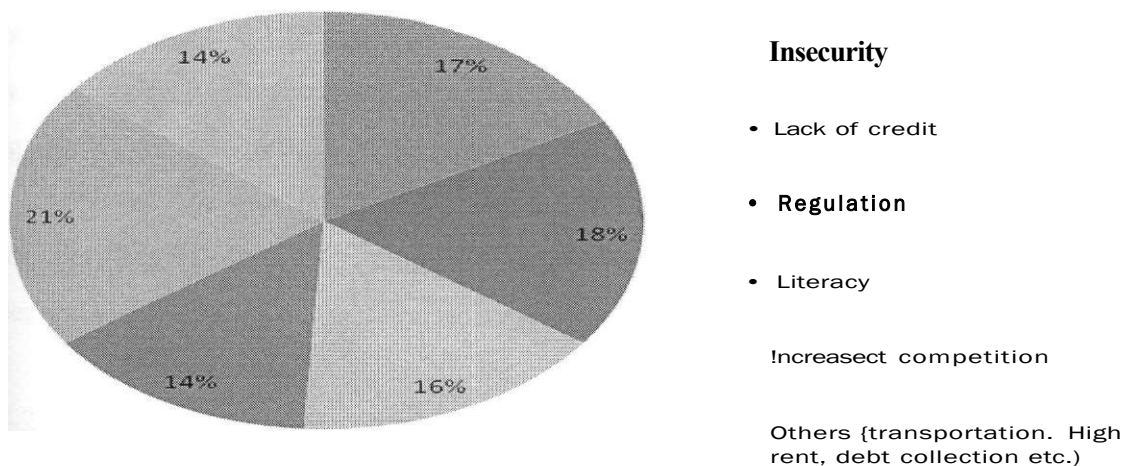
4.3.8 Regression Analysis

The researcher conducted a multiple linear regression analysis so as to determine the relationship between the investment growth and its different determinants.

TABLE 5.2: Estimated coefficients of variables

Model		Unstandardized Coefficients		Standardized coefficient	t	Significance
		a	std error	Alpha		
1	Constant	0.401	0.303		1.262	0.125
	financial Access	0.169	0.053	0.358	3.281	0.003
	Regulations	-0.182	-0.106	-0.253	-2.779	0.000
	Security	0.172	0.102	0.324	3.081	0.001
	Literacy	0.263	0.110	0.152	2.071	0.041

Source: Computed from survey data

The unstandardized alpha coefficients column in Table 5.2 above were used to obtain the overall equation as suggested in the empirical model (Equation 1). When these alpha coefficients are substituted in the equation, the model becomes:

IG= 0.401+ 0.169FA -0.182REG + 0.172SEC+0.263LIT +et

This means that even without the four independent variables (Financial access, Regulation, Security and Literacy), the performance of micro enterprise is expected to stand at 0.401 (Y-intercept). 0.169,-0.182, 0.172 and 0.263 are the coefficients of Financial access. Regulation, Security and Literacy respectively. With the exception of Regulation, the rest are positive, meaning that as the magnitudes of the independent variables (Financial access, Security and Literacy) increases, the magnitude of the dependent variable (MSEs investment growth) also increases. For Regulation as its magnitude increases, the magnitude of investment growth decreases and vice versa.

Table 5.2 also shows the unique contribution of the independent variables. This is shown by the alpha values under the standardized coefficients column. The standardized coefficients assess the

contribution of each independent variable towards the prediction of dependent variable, since these values have been converted in the same scale to enable comparison. Financial access, having the largest alpha of 0.358 has the largest effect on performance. The second most important variable was security with an alpha of 0.324 followed by regulation at 0.253. The least important predictor of these four variables is literacy with an alpha of 0.152. The t-test statistic shows that all the **'a'** coefficients of Financial access, Regulation, Security and Literacy are significant.

4.4   Discussion of Results

The research found out that most of the business owners are male 62% and the main form of ownership was sole proprietorship 76%. The gender biasness resulted from the fact that most men were employed and had access to bank accounts and collateral which is mostly a condition with many financial institutions for one to access credit. The population was divided into twenty five forms of businesses, with one or two samples of individual enterprises being selected from each form of business. Though most of the businesses were sole proprietorship (76%), family and friends came in to help in boosting their finances with an average of 40% of the finances coming from them, an average of 24% came from financial institutions while on average 30% of the finances were from business savings.

Lack of awareness of the existence of credit services, lack of collateral, banks vetting procedures, requirements of a guarantor, cost of loans and the employment as a security issue were some of the obstacles mentioned as hindering utilization of the available credit facilities. 81% of the respondents had at one point used credit facility as a source of financing, 78% of these respondents had achieved the credit facility intended purpose which portrays a high degree of proper loan management. This reflects well on the literacy of the respondents with 97% of them having at least high school level of education. Some of the reasons the respondents gave for taking loans were to: Increase inventory and liquidity levels, expand the business space, buying of fixed assets, venturing into real estate and acquiring business premises among others.

92% of the respondents indicated a growth in the number of employees over time. This coincided with the growth in assets investment and thus showing a positive relationship between access to

finance and growth in MSEs assets and the number of employees which are both forms of investment growth. The mean business assets value in Rongai was found to be Ksh. 1,404,000 with a median of Kshs 960,000.00.This shows that many MSEs had their assets valued below the mean while a few like petrol station, schools, transport business, supermarkets and petrol station had very high assets value. MSEs were found to offer employment in good numbers with 3 employees as mean and median on average per business.

There was a tremendous increase in enterprises total assets between the year just before MSEs started using credit as a source of financing and the year 2007. The total assets increased by 330%. This shows that before receiving credit facility, there was deficiency in terms of finances to the MSEs considering that the oldest enterprise was established in year 1994. Toping the list were fixed assets which grew from Kshs. 200,000.00 to Kshs.610,000.00 but due to depreciation, their value kept declining over the years. This shows how the businesses were operating with inadequate machineries, equipments, buildings and furniture before accessing credit. The use of proper fixed assets usually increases efficiency and effectiveness (Mbugua 2010). Working capital increased steeply from Kshs. 30,000.00 to Kshs. 350,000.00 and then to Kshs. 400,000.00. This shows that the enterprises were operating below their capacity due to inadequate finances to operate the working capital of the business entailing stock and cash. Increase in the volume of stock usually increases sales thus returns of an enterprise (Mbugua 2010). Capital investments trend increases gradually over time and represents the application of business surplus funds. Capital investment represents the assets the firm invests on to increase other sources of incomes which do not form the normal recurrent activities of the business.

Table 4.9 and figure 4.6 demonstrates the percentage increase in the value of total assets before and after taking subsequent loans. First, there was a 100% increase in total assets which indicates that MSEs were greatly restrained by lack of finances in their operations. At this point, there were no capital investments as enterprises concentrated on fixed assets and inventory which would directly enhance the MSEs performance. Fixed assets percentage changes on subsequent loans continued declining even to negative figures. This was because of depreciation given that once a fixed asset is bought; it takes a long duration before replacement although its value will continue declining due to wear, tear and lose of fashion (Karuri, 2010. Working capital also

increases at a declining rate until an optimal holding capacity is reached. Capital investment will grow as the business generates more income. This is evident from figure 4.6. On average there is a high increase of total assets after the first loan, on subsequent years, there is an increase but at a declining rate.

Access to Finance when compared to other constraints of MSEs growth is ranked highly with an average of 18% after competition with 21%. At first, the researcher had not projected that competition could be an influential factor but from the research data, it proved to be a major constrain in MSEs individual investments growth in Ongata Rongai Township. Competition came as a result of copy paste type of entrepreneurs' behavior leading to so many duplication and congregation of the same business in one area, resulting to low investment growth among the MSEs. Insecurity had 17% on average, regulation had 16%, and literacy contributed 14% while other factors such as infrastructure, rental costs had 14%.

The relationship between Investment growth and the different independent variables can be expressed using the following empirical model.

IG= 0.401+ 0.169FA -0.182REG + 0.172SEC+0.263LIT +et

From this equation, even without the four independent variables (Financial access. Regulation, Security and Literacy), the performance of micro enterprise is expected to stand at 0.401 (Y-intercept). Financial access, Security and Literacy have positive relationship with investment growth meaning as the magnitudes of financial access, Security and Literacy increases, the magnitude of the dependent variable (MSEs investment growth) also increases. For Regulation it has negative relationship implying that as its magnitude increases, the magnitude of investment growth decreases and vice versa.

The alpha values under the standardized coefficients column in table 5.2 assess the contribution of each independent variable towards the prediction of dependent variable and since these values have been converted in the same scale to enable comparison. Financial access have the highest contribution with an alpha of 0.358, the second most important variable was security with an alpha of 0.324 followed by regulation at 0.253. The least important predictor of these four

variables is literacy with an alpha of 0.272. The t-test statistic shows that all the 'a' coefficients of Financial access, Regulation, Security and Literacy are significant.

Therefore, to answers our research question, access to finance plays a big role in MSEs investment growth. This strong positive relationship demonstrated by increase in assets as a result of taking credit facility, growth in assets investment as businesses continue using credit facility and the high ranking of access to finance compared with other constraints shows the high contribution access to finance has on MSEs investment growth.

4.5   Summary

The data collected was useful in answering the research question: what is the contribution made by access to finance on investment growth of MSEs operating within Rongai Township? From the analysis of data collected, access to finance was found to contribute significantly to the investment growth of MSEs operating within Rongai Township. What this means to entrepreneurs is that they should capitalize on available sources of finance to grow their investments. This is evident in:

First there has been an increase in the value of total assets from year 2007 to year 2011 besides the drastic increase in the value of all the assets when the firm took the first loan. Secondly, with the use of credit facility, there has been gradual increase in the value of total assets held and the number of employees employed by the MSEs. On average, when compared with the other challenges restraining MSEs investment growth, the respondents indicated that access to finance had 18% influences on investment growth.

Competion, access to finance, security, regulation, literacy levels and other factors were factors identified to affect MSEs investment growth into large business enterprises. This is an opportunity for financial institutions which include MFIs and banks, to come up with attractive loan packages for small enterprises or better the existing packages to attract more loan intakes from these enterprises. This financial institution should strategize on ways of creating awareness of their products to customers by providing information. They should also organize training to their cliental entrepreneurs, spread their reach even further to potential clients, and minimize the stringent requirements before one can access their services which include vetting of loan

applicants, large collateral in terms of assets or employment and need of many guarantors. The government should also endeavor to improve on security, provide good environment for fair competition, improve on infrastructure and flex regulatory conditions to enable these small entrepreneurs grow their investments and thus Kenyan economy.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1   Introduction

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

5.2   Summary of Key Findings

The objective of the study was to to establish the effects of access to finance on MSEs investment growth in Ongata Rongai Township. In order to realize the objective of the study, available internal secondary data was reviewed in addition to the use of a survey method, since most of the firms did not keep proper records. The survey method provided supplementary primary data. The target population included MSEs in Ongata Rongai Township, in Kenya. The primary data was collected using both structured and unstructured questionnaire. Data collected was first edited in order to check for completeness. Thereafter, it was coded and formatted before being analyzed to obtain percentage and frequency distribution tables.

The study found out that most of the business owners are male and sole proprietorship is the dominant form of MSEs ownership. In financing of the business, family and friends played a big role in helping the business owners boost their operations with an average of 40% of the finances coming from them, an average of 24% came from financial institutions while on average 30% of the finances were from business savings.

Financial institutions need to take note that lack of awareness of the existence of credit services, lack of collateral, banks vetting procedures, requirements of a guarantor, cost of loans and the employment as a security issue are some of the obstacles hindering utilization of the available credit facilities. A big proportion of entrepreneurs had utilized credit facility and achieved their target credit facility purpose thus indicating proper loan management.

The number of employees and investment in assets grew with access to finance indicating a positive relationship between access to finance and investment growth. There was a tremendous increase in enterprises total assets between the year just before MSEs started using credit as a source of financing and the year 2007 indicating that MSEs were greatly restrained by lack of finances in their operations. On average there was a high increase of total assets after the first loan and a declining rate of increase on subsequent years.

Access to Finance when compared to other constraints of MSEs growth is ranked second after competition. Other constraints are: Insecurity, regulation and literacy levels. With the exception of Regulation, the rest are positive, meaning that as the magnitudes of the independent variables (Financial access, Security and Literacy) increases, the magnitude of the dependent variable (MSEs investment growth) also increases. For Regulation as its magnitude increases, the magnitude of investment growth decreases and vice versa.

Among the independent variables (Financial access, Regulation, Security and Literacy) and using the standardized coefficients which assess the contribution of each independent variable towards the prediction of dependent variable, financial access, had the largest alpha of 0.358 meaning it has the largest effect on MSEs investment performance. The second most important variable was security with an alpha of 0.324 followed by regulation at 0.253. The least important predictor of these four variables was literacy with an alpha of 0.152. This shows that financial access remains a major determinant of MSEs investment growth and thus the strong positive relationship demonstrated by increase in assets as a result of taking credit facility, growth in assets investment as businesses continue using credit facility and the high ranking of access to finance compared with other constraints shows the high contribution access to finance has on MSEs investment growth.

5.3   Research Conclusion

From the findings, the following conclusions can be drawn: First, MSEs derive their finances majorly from: family and friends, business saving and financial institutions both formal and informal. Secondly, financial access, Regulation, Security, Literacy, competition and other factors like transportation, high rent, and debt collection are all constraints that bar investment

growth of MSEs. In order of average contribution per MSEs, competition tops the list followed by financial access, security, regulation, and literacy levels in that order. Therefore access to finance plays a big part in determining the level of MSEs investment growth.

5.4   Limitation of the Study

This research did not go without challenges. The research was marred by various unexpected interferences such as the respondents need to attend to their business besides serving customers which sometimes led to premature discontinuation. Some respondents opted not to respond to some questions, increasing the number of missing values while some were reluctant to fill the questionnaire forcing the researcher/ agent to fill on behalf thus consuming time. Other respondents treated the researcher/ researcher agent with suspicion as they thought perhaps we were spies from the government or tax authorities. This may have led to us loosing some important information.

Language barrier, especially in Kwale region was also a limitation. We had to interpret the questions which sometimes took a lot of time to extract information from the respondents. It was evident that some respondents expected compensation for the information they diverged with some even asking openly whether they would get 'something' in return to their information. Finally some research questions required the respondents to give very personal information, for example value of their fixed assets, Working capital, and level of education among others. This was a major problem because they felt that the researcher was seeking too much personal information and thus they attracted some resistance.

5.5   Recommendations for Further Research

The study recommends that further research should be done on the Impact of financial access on investment growth of MSEs in other regions of Kenya especially in rural areas. This will help in establishing whether this study finding can be generalized across settings and time. A study should also be conducted to establish Impact of financial access on investment growth of large businesses since their strategic approach and their financial footing is different from that of MSEs.

This study concentrated on the effects of finance access on MSEs investment growth. Further research should be done to establish what the owners of MSEs think should be done to assist them in preventing the high mortality rate that exists in the sector. For the MSEs sector to grow, small business must link with the rest of the economy. Most of these businesses are so small that creating the link seems almost impossible. Further research should be done in this area to establish the best ways of linking MSE with large companies in the economy.

In conclusion, this study can be termed as a success because it was able to address not only the research question but also the research assumptions and objectives. This study proved that financial access is a major factor contributing to MSEs investment growth. However, the recommendations for further study given in this study should be carried out, to comprehensively look at economic growth more so the investment growth of MSEs.

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APPENDICES

APPENDIX 1: TABLE A-l: CREDIT MARKET PARTICIPATION BY FIRM SIZE IN SIX AFRICAN COUNTRIES

	Micro(l-5 employees)	Small (6-25 employees)	Medium (26-100 employees)	Large (100+ employees)
Received Formal Loan	2%	7%	11%	20%
Firms with Trade Credit	32%	53%	70%	90%
Firms with Overdraft Facility	10%	30%	64%	86%
Firms with Informal Debts	16%	16%	9%	9%

Source: Bigsten, et al., 2000

APPENDIX II: LETTER OF INTRODUCTION

Peter Macharia Gitau
UON, School of business
P.O Box 30197,
Nairobi.

Dear Sir/Madam,

I am a masters' degree student in the school of Business, University of Nairobi.

In partial fulfillment of the MBA degree, I am conducting a study on "The effects of access to finance on MSEs investment growth in Ongata Rongai Township".

You have been selected to form part of this study. To this end, I kindly request your assistance in completing the attached questionnaire. The information and data required is needed for academic purposes only and will be treated in strict confidence.

A copy of the research project will be made available to you on request.

Thank you in advance

Peter M. Gitau
MBA student.

APPENDIX III: QUESTIONNAIRE

This questionnaire is meant to collect information on the Effects of Access to Finance on Mcro and Small Entetrprises Investment Growth in Ongata Rongai Township. Kindly answer the following questions by writing a brief answer statement or ticking in the spaces provided as will be applicable.

PART I: Background

1. What is your name (Optional)?

2. What is your Gender?

    Male   [ ]   Female   [ ]

3. What is the name of the enterprise?

4. What is the nature of the enterprise business?

5. What is the form of enterprise ownership

    Sole Propriator   [ ]   Partnership   [ ]
    Company   [ ]   other, specify [ ]

6. When was your enterprise established?
7. What is your position in this organization?
8. What is your highest Level of Education?

    Masters and above   [ ]   Bachelors   [ ]
    Diploma/Certificate   [ ]   High School   [ ]
    Primary School   [ ]

PART I: Financial Access and MSEs Investment Growth

9. (a)How many employees work in your enterprise?

    (b) How do you compare this number with the number of employees five years ago or when you started your business, whichever is latter?

    Tremendous Increase [ ]   Increase   [ ]   Some Increase   [ ]
    A decrease   [ ]   Tremendous decrease [ ]   No Change   [ ]

10. How is your business financed? Indicate in percentages.

Credit from Financial Institutions   %

Credit from Friends & relatives   %

Business Savings   %

Others (Specify)........-%

11. a) Have you ever obtained a loan to further your investment?

Yes   [ ]   No   [ ]

If yes, please indicate the extent to which the following problems hindered you while obtaining the loan using the following linkert scale.

Scale   1 Very low   2 Low   3 Moderate   4 High   5 Very high

Lack of collateral   \ ]   Lack of business performance records   [ ]

High cost of repayment [ ]   Gender discrimination   [ ]

Other reasons (Specify)

If no, what are the reasons?

(b) Did you meet the objective of the loan?

Yes   [ ]   No   [ ]

Explain?

12. Which of the following formed your financial needs at the time you received financial funding?

Initial Capital   [ ]   Working Capita   [ ]

Additional Capital   [ ]   purchase of Fixed assets   [ ]

Others (Specify)

13. How has the access of credit affected you as a proprietor of MSE in Ongata Rongai township?

14.   What is the current value of your business total assets

Please Ignore Question 17 if you can provide the financial statement for the years specified

15. Please indicate the value of your various firm assets in the years indicated. The values should be in the nearest thousand Kenya shillings. (If no real figures are available, give an estimated value).

	Assets	Before taking loans Kshs'000	2007 Kshs'000	2008 Kshs'000	2009 Kshs'000	2010 Kshs'000	2011 Kshs'00
1.	Land &Building						
2.	Machinery						
3	Furniture& Equipments						
4.	Security Investments business						
5.	Cash						
6.	Inventory						
	Total Assets						

16. How would you describe your organization after you started receiving Financia Institution services (Please provide a percentage change in terms of the following)

	FACTOR(S):	After 1st Loan	After 2nd Loan	After 3rd Loan	After 4th Loan	After 5th Loan
1.	Inventory					
2.	Cash and bank balances					
3	Machinery					
5.	Land and building					
6.	Furniture and Equipments					
7.	Security Investments					
8.	Total Assets					

17. What can you attribute to the changes in question 16 above?

Access to Credit   [ ]   Improved Security   [j

Less Regulations   [ ]   Education and training   [ ]

Other Specify   [ ]

18. How would you rate the following constraints hindering MSEs Investment growth for the period 2009-2011? Please indicate the percentage applicable to each. The total should add up to 100%

CONSTRAINT	%
Financial Access	
Regulations	
Security	
Literacy	
Competition	
Others (specify)	
Total	100

20. Any other comment or opinion or observation about the Effects of finance access to the MSEs investment growth in Ongata Rongai Township

Thank you for giving your honest opinion while filling this questionnaire.

END