

**INFLUENCE OF MICROFINANCE INSTITUTIONS ON GROWTH OF  
SMALL BUSINESS ENTERPRISES IN KENYA:  
A CASE OF WEBUYE DIVISION, BUNGOMA COUNTY**

**BY**

**GLADYS NANYAMA**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE AWARD OF MASTER OF ARTS DEGREE  
IN PROJECT PLANNING AND MANAGEMENT OF THE UNIVERSITY OF  
NAIROBI**

**2014**

## DECLARATION

I declare that this Research Project is my original work and has not been submitted to any other University or institution of higher learning for examination Purpose.

Signature .....

Date.....

**Muyundo Gladys Nanyama**

**L50/75605/2012**

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

Signature .....

Date.....

**Dr. John Mbugua,**

**Department of Extra mural studies**

**University of Nairobi**

Signature .....

Date.....

**Mr Vincent Marani**

**Department of Extra mural studies**

**University of Nairobi**

## **DEDICATION**

I dedicate this Research Project report to my children; Jocelyn, Donald, Norman and Joseph and my brothers and sisters.

## **ACKNOWLEDGEMENT**

I thank my supervisors Dr. John Mbugua and Mr. Vincent Marani for the constant guidance, advice and their unlimited support that they exercised in writing this Report. Special thanks must be accorded to the Department of Extra Mural studies University of Nairobi for their timely coordination. I cannot forget the encouragement and support from my fellow students.

To all my friends for the assistance offered, during my entire study period, I thank you all and may the almighty God bless you abundantly. Special thanks to my house help who worked tirelessly round the clock to do all the routine house chores as I did my studies.

I also acknowledge my children; Jocelyn, Donald, Norman and Joseph and my brothers and sisters who constantly encouraged me to pursue this undertaking and provided their moral support. My father would have been proud to see me this far .

Special thanks go to my friend Lorna Shihundu Aseka who has been my source of inspiration. Madam Beryl Namalwa Mutekhele, who pushed me to the end including her financial support. Above all, immeasurable gratitude to the Almighty God for this far he has brought me.

## TABLE OF CONTENTS

| TITLE  | PAGE |
|--|------|
| DECLARATION .....  | ii   |
| DEDICATION .....   | iii  |
| ACKNOWLEDGMENT .....   | iv   |
| TABLE OF CONTENTS.....   | v    |
| LIST OF TABLES.....  | vii  |
| LIST OF FIGURES.....   | viii |
| ABBREVIATIONS AND ACRONYMS .....   | ix   |
| ABSTRACT.....  | x    |
| <br>   |      |
| CHAPTER ONE: INTRODUCTION .....  | 1    |
| 1.1 Background of the study .....  | 1    |
| 1.2 Statement of the problem.....  | 3    |
| 1.3 Purpose of the Study .....   | 4    |
| 1.4 Objectives of the Study.....   | 4    |
| 1.5 Research Questions.....  | 5    |
| 1.6 Significance of the study.....   | 5    |
| 1.7 Basic Assumptions of the Study .....   | 5    |
| 1.8 Limitation of the Study .....  | 6    |
| 1.9 Delimitation of the Study.....   | 6    |
| 1.10 Definition of Significant Terms as Used in the Study .....                                | 6    |
| 1.11 Organization of the Study .....   | 7    |
| <br>   |      |
| CHAPTER TWO: LITERATURE REVIEW .....   | 9    |
| 2.1 Introduction.....  | 9    |
| 2.2 Access to credit and Growth of Small Scale Business Enterprises .....                      | 9    |
| 2.3 Entrepreneurial Training and Growth of Small Scale Business Enterprises .....              | 11   |
| 2.4 Business Savings and the Growth of Small Scale Business Enterprises .....                  | 14   |
| 2.5 Regulatory Framework/Terms of repayment and the Growth of Small Business Enterprises ..... | 15   |
| 2.6 Theoretical framework.....   | 18   |
| 2.7 Conceptual framework.....  | 20   |
| 2.8 Summary of Literature Review.....  | 21   |
| CHAPTER THREE: RESEARCH METHODOLOGY .....  | 22   |
| 3.1 Introduction.....  | 22   |
| 3.2 Research Design .....  | 22   |
| 3.3 Target Population.....   | 22   |
| 3.4 Sample size and sampling procedure.....  | 23   |

|   |    |
|---|----|
| 3.4.1 Sample size.....  | 23 |
| 3.4.2 Sampling procedure .....  | 23 |
| 3.5 Data collection instruments .....   | 24 |
| 3.5.1 Piloting of the study .....   | 24 |
| 3.5.2 Validity of Research Instrument .....   | 24 |
| 3.5.3 Reliability of the instruments .....  | 25 |
| 3.6 Data Collection Procedure .....   | 25 |
| 3.7 Data Analysis.....  | 26 |
| 3.8 Ethical considerations .....  | 26 |
| <b>CHAPTER FOUR: DATA ANALYSIS, PRESENTATIONS, INTERPRETATIONS<br/>AND DISCUSSIONS.....</b> |    |
| 4.1 Introduction.....   | 27 |
| 4.2 Questionnaire Response Rate .....   | 27 |
| 4.3 Demographic Characteristics of the Respondents .....                                    | 28 |
| 4.3.1 Respondents by Gender .....   | 28 |
| 4.3.2 Respondents by age.....   | 28 |
| 4.3.3 Occupation .....  | 29 |
| 4.3.4 Micro finance institutions .....  | 30 |
| 4.3.5 Nature of business .....  | 30 |
| 4.3.6 Management.....   | 31 |
| 4.3.7 The Length of SBEs.....   | 31 |
| 4.4 Access to Credit for the Small Scale Business Enterprises .....                         | 32 |
| 4.4.1. Borrowing .....  | 32 |
| 4.4.2. Amount borrowed .....  | 33 |
| 4.5 Entrepreneurial training and Small Scale Business Enterprises .....                     | 35 |
| 4.5.1 Education level for managers.....   | 35 |
| 4.5.2. Entrepreneurial training .....   | 35 |
| 4.5.3. Skills.....  | 36 |
| 4.5.4. Training areas covered.....  | 37 |
| 4.6. Business Savings and the Growth of Small Scale Business Enterprises .....              | 39 |
| 4.6.1. Contribution of a savings Account to profit margins.....                             | 39 |
| 4.6.2. Changes in sales volume after saving in Banks .....                                  | 39 |
| Table4.16. Changes in sales volume after saving in Banks.....                               | 39 |
| 4.7 Government regulatory framework .....   | 40 |
| <b>CHAPTER FIVE: SUMMARY OF THE FINDINS, CONCLUSIONS AND<br/>RECOMMENDATIONS.....</b>       |    |
| 5.1.Introduction.....   | 44 |
| 5.2 Summary of Findings.....  | 44 |
| 5.3 Conclusions.....  | 46 |
| 5.4 Recommendations.....  | 46 |
| 5.5. Suggestions for Further Research.....  | 47 |
| REFERENCES.....   | 48 |
| APPENDICES .....  | 56 |

## LIST OF TABLES

|   |    |
|---|----|
| Table 3.1: Sample size .....  | 23 |
| Table 4.1: Instrument return rate .....                               | 27 |
| Table 4.2; Gender .....   | 28 |
| Table 4.3; Age .....  | 29 |
| Table 4.4; Occupation .....   | 29 |
| Table 4.5; MFI .....  | 30 |
| Table 4.6; Nature of business .....                                   | 31 |
| Table 4.7; Management.....  | 31 |
| Table 4.8; How long .....   | 32 |
| Table 4.9; Borrowing .....  | 32 |
| Table 4.10; Amount borrowed.....                                      | 33 |
| Table 4.11; Education level for managers .....                        | 35 |
| Table 4.12; Entrepreneurial training.....                             | 36 |
| Table 4.13; skills.....   | 37 |
| Table 4.14; Training areas covered.....                               | 37 |
| Table 4.15; Contributions of a Savings Account to Profit margins..... | 39 |
| Table 4.16; Changes in sales volume after savings in Banks.....       | 39 |
| Table 4.17; Growth of SBEs .....                                      | 40 |
| Table 4.18; Regulatory Framework.....                                 | 41 |

**LIST OF FIGURES**

Figure 1: Conceptual framework.....20



## ABBREVIATIONS AND ACRONYMS

|               |   |
|---------------|---|
| <b>AFDB</b>   | African Development Bank  |
| <b>BSC</b>    | Balanced Score Card   |
| <b>BSD</b>    | Banking and Supervision Directorate, Bank of Kenya                    |
| <b>CAS</b>    | Country Assistance Strategy   |
| <b>CBO</b>    | Community-Based Organization  |
| <b>CBS</b>    | Central Bureau of Statistics  |
| <b>CGAP</b>   | Consultative Group to Assist the Growth of small business enterprises |
| <b>CIDA</b>   | Canadian International Development Agency                             |
| <b>DANIDA</b> | Danish International Development Assistance                           |
| <b>DFID</b>   | Department for International Development (United Kingdom)             |
| <b>ERP</b>    | Enterprise Resource Planning Systems'                                 |
| <b>FIDPII</b> | Financial Sector Project II (World Bank project)                      |
| <b>GTZ</b>    | German Agency for Technical Cooperation                               |
| <b>IDA</b>    | International Development Association                                 |
| <b>IFAD</b>   | International Fund for Agricultural Development                       |
| <b>IMF</b>    | International Monetary Fund   |
| <b>MFI</b> s  | Micro Finance Institutions  |
| <b>NBFI</b> s | Non-Bank Financial Institutions                                       |
| <b>NMB</b>    | National Microfinance Bank  |
| <b>PRSP</b>   | Growth of small scale business enterprises Alleviation Strategy Paper |
| <b>PTF</b>    | Presidential Trust Fund, a Kenya n NGO                                |
| <b>RMFSP</b>  | Rural and Micro Financial Services Project (World Bank project)       |
| <b>SACA</b>   | Savings and Credit Association  |
| <b>SACCO</b>  | Savings and Credit Cooperative Society                                |
| <b>SBE</b> s  | Small Business Enterprises  |
| <b>UNDP</b>   | United Nations Development Programme                                  |
| <b>USAID</b>  | United States Agency for International Development                    |
| <b>YOSEFO</b> | Youth Self-Employment Foundation, a Kenya n NGO                       |
| <b>K-REP</b>  | Kenya Rural Enterprise Programme                                      |
| <b>KWFT</b>   | Kenya Women Finance Trust   |

## ABSTRACT

Many small business enterprises (SBEs) in Kenya borrow capital from the microfinance institutions to enhance the operation of their businesses. Some of the micro finances also provide training to the SBE. The aim of this study was to determine the influence of micro financing on growth of small business enterprises (SBES) in Kenya: case of small business enterprises in Webuye Division, Bungoma County. Specifically the objectives were: to determine the effect of access to credit, to establish the effect of entrepreneurial training, to assess the effect of savings and to determine the effect of regulatory framework of microfinance institutions on the growth of the SBEs in Webuye Division, Bungoma County. This study was conducted through descriptive survey research design. The target population was 4,213 consisting of registered and licensed SBEs financed by MFIs and credit and lending officers in Webuye Division. Sampling methods were used to select 351 small scale business enterprises and credit and lending officers to be used in the current study. Structured questionnaires and interview schedules were developed, pre-tested and used for collecting quantitative data for the study from the small scale business entrepreneurs. There were two kinds of data generated in this research. Quantitative data from credit accessed was analysed using the Statistical Package for Social Science (SPSS) software to compute frequencies and percentages. The qualitative data in this study was obtained from training. Such data was analyzed by descriptive statistics such as frequency distributions and percentage. The study showed that MFIs have played an important role in promoting the running of SBEs. More regulatory frameworks should be put in place to ensure the small scale entrepreneurs access credit to finance venture.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

There is increased awareness that small business enterprises (SBEs) are engine for economic growth (Von Pischke, 1992). The SBEs continue to play a significant role of economic cycles of many countries especially the developing countries by providing employment, increasing income at the household levels and generally enhancing the micro-economic conditions of the country. Over the last four decades, there have been tremendous efforts aimed at expansion of these SBEs in many countries (Steel and Andah, 2003). Thus, governments throughout the world focus on the development of the SBEs sector to promote economic growth (Storey, 2009). Without access to finance, good ideas cannot be converted to practices. However, access to finance alone cannot guarantee returns to the funds invested as some levels of entrepreneurial skills are required (Roth, 2004). Increased access to financial resources reduces the liquidity constraints that may be faced by the SBEs, and can enhance their operations.

In Sub-Saharan Africa, most small businesses fail in their first year due to lack of finance to sustain their development (Brix and McKee, 2010) and growth of small business enterprises levels of entrepreneurial skills among the SBE owners (Porteous, 2004). Small and Medium Enterprises, are reputed to be behind most of the socioeconomic transformation in South East Asia, and play a significant role in Kenya's development process (Barnes, 2011). In Kenya, there are close to 550,000 SBEs employing nearly 1.5 million people and contributing 26% of overall GDP and 35% of non-agricultural GDP, yet only 40% of these businesses can have access to formal credits (Berger and Udell, 2002) and a further 17% receive credit and other financial services (Carter, McNulty and Verbrugge, 2004). Some financial institutions including banks provide financial services including micro loans, savings, micro insurances and other financial innovations to the SBEs.

Improved access and efficient provision of savings, credit, and insurance facilities in

particular can enable the SBEs to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises and enhance their income earning capacity (Pilipinas, 2002). However, in spite of the importance of the SBE sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. The potential of using institutional credit and other financial services for small business growth in Kenya therefore appears quite significant (Chijoriga, 1997).

The Government of Kenya policy documents, the Development plan (1997-2001), economic survey (1998) and the Sessional papers No. 2 of (1992), recognizes the role SBEs play in economic growth and development and emphasizes plans to support SBEs in the informal sector. The recent SBEs Baseline Survey showed that only sixteen percent of SBEs successfully applied for and used credit (GoK, 2010). Therefore this indicates that the SBEs are generally under-capitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals (Kimuyu, 1997). It is unclear how the remaining 84% meet their working capital and investment needs.

It is generally accepted that without permanent access to institutional microfinance and proper training, most SBEs would continue to rely on meagre self-finance or informal sources of microfinance, which limits their ability to actively participate and benefit from development opportunities. The main proponent of credit approach (Yunus, 2007) argues that people who live in developing countries might improve their living standards by becoming micro entrepreneurs and that financial institutions should support their initiatives with small loans. This is true because well established and sustainable small business enterprises in many societies contribute to the growth of national income, more employment opportunities and better standard of living. However, according to the International Finance Corporation (IFC, 1994), 60% to 69% of the SBEs in many African countries has no access to conventional financial institutions.

Against this background, the National Micro Finance Policy was introduced with the main objectives of establishing a basis for the evolution of an efficient and effective

micro financial system in the country, which serves the SBEs in the society, and thereby contributes to their growth. The policy focuses at the provision of financial services to small and micro-enterprises in rural as well as in the urban sector. It covers range of financial services, including savings, credit and payment (GoK 2000). As a result of this policy, many SBEs were expected to borrow from the micro finance institutions. Available information shows that currently there are 71 MFIs in the country of which 51 are mainly concentrated in the urban areas only (Kessey and Urio, 2012).

Despite the proliferation of micro-credit institutions and the wide range of credit products and services, it seems very little attention has been paid to help the SBEs to improve their business (Rubambey, 2001). Moreover, the recognition of the dynamic role of credit to small business enterprises, few business owners have access to, and benefit from, the available financial services. It is still not clear whether there is low access to credits or other aspects such as collateral, interest or their coverage affect the growth of small business enterprises (Bagachwa, 1994; NBST, 2004).

According to Kessey and Urio (2012), more than 70% of the small scale enterprises close due to lack of finance or due to inadequate financing. According to Moyi (2008), factors responsible for development of the SBEs include access to finance, proper training of the entrepreneurs and conditions of the borrowed capital. If these factors are not carefully evaluated then growth of the SBEs may be compromised. It remains unknown how the above factors affect the growth of SBEs in Kenya especially in the rural areas where there are few microfinance institutions. The purpose of this study seeks to fill the gap by investigating the effect of micro-financing on growth of small business enterprises in Bungoma County, Kenya.

## **1.2 Statement of the problem**

It has been recognized that SBEs have enhanced the economic growth of many countries in Asia and their presence is starting to be appreciated in Africa including Kenya as they continue to enhance the growth of economy from the micro-levels. Access to finance has been identified as a dominant constraint facing the growth of small scale business

enterprises. It has also been shown that problems of growth of small business enterprises (Tarimo, 2010) occur mostly in the rural based area in Kenya. Other survey reports indicate that among five areas surveyed in Kenya, Bungoma County was the most affected with many small business enterprises facing closures. Most of these SBEs have started borrowing loans from the financial institutions to finance their operations. Yet despite this, the growth of the SBEs is yet to improve in tandem with the borrowed bank loans. Earlier report had also indicated that Bungoma is one of the Counties with the highest illiteracy level of business skills. However, some of the microfinance institutions have started training programmes for the entrepreneurs of SBEs. However, it is not clear how access to credit, training, repayment conditions and sources of credit have enhanced growth of SBEs in Bungoma County of Kenya. Therefore, the study seeks to fill the gap by investigating the influence of micro-finance institutions on growth of small business enterprises in Webuye Division, Bungoma County, Kenya.

### **1.3 Purpose of the Study**

The purpose of this study was to determine the influence of micro-financing on growth of small business enterprises in Webuye Division, Bungoma County, Kenya.

### **1.4 Objectives of the Study**

The overall objective of this study was to determine the effect of micro-financing on growth of small business enterprises in Webuye Division, Bungoma County.

Specifically the study aimed at achieving the following objectives:

1. To determine how access to credit has influenced the growth of SBEs in Webuye Division, Bungoma County.
2. To establish the extent to which entrepreneurial training has influenced the growth of the SBEs in Webuye Division, Bungoma County.
3. To assess how savings has influenced growth of the SBEs in Webuye Division, Bungoma County.

4. To determine the extent to which regulatory framework has influenced microfinance institutions on the growth of the SBEs in Webuye Division, Bungoma County.

### **1.5 Research Questions**

The study was guided by the following research questions

- 1 How does access to credit influence the growth of SBEs in Webuye Division, Bungoma County?
- 2 To what extent does entrepreneurial training influence the growth of the SBEs in Webuye Division, Bungoma County?
- 3 How does saving influence growth of the SBEs in Webuye Division, Bungoma County?
- 4 To what extent does regulatory framework influence microfinance institutions on the growth of the SBEs in Webuye Division, Bungoma County?

### **1.6 Significance of the study**

From this study more information concerning factors affecting the growth of Small scale business enterprises in Kenya was available. The information was of great interest to various stakeholders as follows: This study is of benefit to financial institutions, policy makers, small scale business enterprises and community at large. The study explored and recommend potential areas where small scale enterprises need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings will provide informed suggestions on how policy can be improved. For purposes of training firms and government agencies this is a determinant of impact of training to small business enterprises in the country. Interested academicians especially in entrepreneurship will use the findings to understand the issues raised and use them as reference material and or basis for further research in relation to this study.

### **1.7 Basic Assumptions of the Study**

This study was guided by the assumptions that the participants selected would be

cooperative and able to give the required information without any reservations and that the response given by the respondents would be true reflections of the business enterprises. It was also assumed that all the questionnaires would be returned on time and that those to be interviewed would be available and willing to participate and provide honest, accurate, complete answers, and that the researcher would have adequate time to complete the study.

### **1.8 Limitation of the Study**

The study was affected by a number of limitations anticipated during the study. This study was limited by time considerations as very little time was allocated to the entire research study. However, time constraint was mitigated by using more than one research assistants to ensure faster data collection. Accessibility was also another drawback expected during the study. Poor road network, coupled with unfavourable weather conditions was the major hindrance in reaching some areas.

### **1.9 Delimitation of the Study**

The study covered the six major MFIs financing SBEs in Webuye Division. The records indicated that a total of 4207 SBEs are financed by the MFIs. The major MFIs operating in Webuye are KWFT, Faulu Kenya, K-REP, Equity, SMEP and ECLOF. The study was concerned with the influence of micro-financing on growth of small business enterprises in Webuye Division, Bungoma County, Kenya.

### **1.10 Definition of Significant Terms as Used in the Study**

|                                  |  |
|----------------------------------|--|
| <b>Access to finance:</b>        | Refers to obtaining of money that was requested by the Small scale business enterprises from the financial institutions.   |
| <b>Credits:</b>                  | An amount of money borrowed from the microfinance institutions by the small scale business enterprises   |
| <b>Entrepreneur:</b>             | Owner(s) of small scale enterprises in Bungoma District  |
| <b>Loan Utilization:</b>         | Refers to how the money was used or invested.  |
| <b>Microfinance institution:</b> | Designate financial institutions dedicated to assisting small enterprises, the growth of small business enterprises, and households who have no access to the more |



institutionalized financial system, in mobilizing savings, and obtaining access to financial services.

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

**Small scale enterprises:** Business enterprises that normally employs 1 to 8 people.

**Source:** Providers of the microcredits to the small scale business enterprises.

**Training:** Acquisition of additional entrepreneurial skills through formal programmes.

### **1.11 Organization of the Study**

This research report is organized in five chapters: Introduction, Literature review, Research methodology, Data analysis, presentations and interpretations, Summary, conclusion and recommendation. It has a cover page and preliminary. pages containing declaration, dedication, presentation, acknowledgement, abstract, table of content, list of figures, list of tables, abbreviations and acronyms.

Chapter one (Introduction) contains; background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, delimitation of the study, limitations of the study, assumptions of the study, definition of significant terms and the organization of the study.

Chapter two (Literature review) contains; Introduction, access to credit, entrepreneurial training, savings, regulatory framework of microfinance institutions, theoretical framework, conceptual framework and summary.

Chapter three (Research methodology) contains; Introduction, research design, target population, sampling procedures and sample size, data collection instruments and their validity and reliability, methods of data collection, data analysis techniques, operational definition of variables, ethical considerations and summary.

Chapter four (Data analysis, presentations and interpretations) contains; Introduction, questionnaire return rate, demographic characteristics of the respondents, influence of

access to credit, influence of entrepreneurial training, influence of savings and influence of government regulatory framework by the government on growth of small scale businesses.

Chapter five (Summary, conclusion and recommendation) contains; Introduction, summary of the study, conclusions, recommendations and suggestions for further studies

The report also has references and appendices; questionnaires for small scale enterprises, time schedule and proposed research budget.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

This chapter focuses on what other scholars have written in relation to the topic under investigation: influence of micro-financing on growth of small scale business enterprises in the global context, Africa and in Kenya including in the local contexts. The chapter is presented under the sub-titles; access to credit, entrepreneurial training, and savings for growth and regulatory framework of micro-finance institutions.

#### **2.2 Access to credit and Growth of Small Scale Business Enterprises**

Lack of access to credit is a major constraint inhibiting the growth of SBEs sector. The issues and problems limiting SBEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SBEs (Wangwe and Semboja, 1997).

Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SBEs continues to be a constraint in the growth and expansion of the sector.

Formal financial institutions perceive SBEs as high risk and commercially unviable. As a result only a few SBEs access credit from formal financial institutions in the country.

Various types of assistance have been provided to SBEs to boost their growth and development by making them more profitable (Institute of Economic Affairs & Society for Economic Development [IEA/SED, 2001]). Several Organizations including business associations, voluntary organizations and other nongovernmental organizations have set up programs to enhance the factors that influence development of SBE especially as it relates to enterprise growth and development.

There are number of studies (Hulme and Mosley, 1996; Ferrand et al., 2004; Imboden, 2005; Hossain and Knight, 2008; Gonzalez, 2010) conducted seeking to link the access to credit to the growth of small scale business enterprises levels worldwide. In the developed world, microfinance faces challenges in effectively increasing growth of small scale business enterprises (Carr and Tong, 2002). Although it has been proven to improve

the lives and increase the income of people across Asia and other developing countries in the world (Chemin, 2008; Hossain and Knight, 2008), it has faced difficulties in significantly impacting the growth of small business enterprises in more advanced countries, such as the United States. A study conducted by Schreiner and Morduch (as cited in Carr and Yi Tong, 2002) reveals that there are two important factors which affect the performance of SBEs in the United States. They are: 1) the structure of U.S. economy, which is rather more complicated than those of developing countries and have more barriers to entry for micro entrepreneurs, and 2) the small size of micro-enterprise sector in the country. Because of these factors, which make establishment and management of micro-enterprises difficult, a number of SBEs have closed down because they could not repay their loans. Therefore SBEs in the United States (and other industrialized countries as well) must adapt a diversity of approaches to achieve the best structure of which they can work well in countries, which greatly differ from developing nations (Carr and Yi Tong, 2002).

Mosley (2009) assessed the impact of credit on growth of small business enterprises. The study was conducted through small sample surveys of four microfinance institutions, two urban and two rural, using a range of growth of small scale business enterprises concepts such as income, asset holdings and diversity, and various measures of vulnerability. All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of growth of small business enterprises households choosing to invest in low-risk and low-return assets. This study revealed also that in comparison with other anti-growth of small scale business enterprises measures, micro credit appears to be successful and relatively cheap at increasing the growth of small scale business enterprises. However this was also revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme growth of small business enterprises. The study further proposed actions that appear to be promising for further growth of small scale business enterprises in Bolivia which can also be useful for other developing countries like Kenya . Despite this contribution, the study by Mosley (2009) has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this sample

size might not be adequate for the generalizations made above. Also the growth of small scale business enterprises concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the SBEs have created capacity to employ more people or not.

Credits are important for growth of small scale business enterprises. Credit for investment will influence the growth of small scale business enterprises if the project is profitable. But credit for consumption is likely to reduce the growth of small scale business enterprise. In the long run, if the shock (e.g. crop failure) does not repeatedly occur or is not too prolonged, the credit may facilitate growth of small scale business enterprises by creating opportunities for the borrower to participate more fully in the production process through more healthy and trained population. Therefore, credits are important for the rural growth of small business enterprises in Kenya.

### **2.3 Entrepreneurial Training and Growth of Small Scale Business Enterprises**

Good entrepreneurship skills mostly obtained from training refer to an individual's ability to turn ideas into action. It includes creativity, sense of initiative, innovation and risk-taking, as well as the ability to plan and manage projects in order to achieve objectives (Ellsrott, 1997). Therefore, managerial weaknesses may be at the heart of (small) firm failure. When combined with the observation that the individuals who own/manage many smaller businesses are (generally) less well educated than those working in managerial positions in large firms, and are less likely to be formally trained, the inference is that small-firm managers “need” training (Porteous, 2004). This implies that, if training were provided, it would enhance managerial skills and so lead to improved firm performance as reflected in lower failure rates. The untrained managers of small scale enterprises do not have the experience, knowledge or vision to run their businesses (Ferreand, Gibson and Scot, 2004).

According to (Kirkpatrick and Maimbo, 2002) the entrepreneurship competence includes therefore transversal skills and attitudes as well as more specialized knowledge and business skills. In a broad sense, entrepreneurship should be considered as a mindset that

supports everyone in day-to-day life at home and in society, and provides a foundation for entrepreneurs establishing a social or commercial activity such as a small business enterprise. Entrepreneurship is a key competence for lifelong learning.

According to the Storey (2009), study on high-growth small business enterprises, good management is vital for better performance: It is striking to observe the array of managerial and organizational instruments used by high-growth firms. They are no longer the privileged attributes of large corporations. The key factor in business competitiveness is better organization of the innovation process and other functions more than innovation itself. Available evidence (Wood, 2004), indicates that there is a relationship between the degree of management training and the bottom-line performance of the small scale businesses enterprises. In some instances, this “bottom-line” performance is expressed in terms of survival and it is reflected in higher profits or sales and increase in the number of employees.

In the United States, there is a clear relationship between firm size and the provision of formal external training. Studies show that managers in large firms spent an average of 0.29 hours in formal training per week, compared with 0.18 for managers in small firms (Huselid, 1995). Huselid pioneered the US studies which found that the heavy use of a number of specified management practices was associated with an increase in firms’ profits of nearly USD 4000 per employee per year. A study of formal training provision in Canadian workplaces (Gonzalez, 2010), also found positive outcomes for firms which trained: “Organizations with training programmes had more favourable performance trends in a number of areas including revenues, profitability, employee relations, quality and productivity and their business viability and outlook. Multivariate analysis sustained this link between training and firm performance.

Even after controlling for other establishment characteristics, it was found that establishments with the strongest commitment to training were significantly more likely than other firms to report positive revenue and productivity trends over the previous two years” (Gardner, Moynihan and Wright, 2003). However, there is a case for caution in

hypothesizing a direct link between management training and firm performance. In the case of the Huselid analysis, this is based entirely on large firms which are known to be much more likely than small firms to provide training for their workers. Such firms are also unlikely to fail so the impact of training on survival cannot be assessed. The main Huselid result is that it is the combination of management measures which influences performance. These measures include not only training but also recruitment, employment security, use of self-managed teams, wages linked to performance and information-sharing.

Available evidence indicates that smaller firms are relatively and absolutely less likely than larger enterprises to provide external training to all grades of workers (CGAP, 1983; Chemin, 2008). In addition to financial constraints, information gaps make smaller firms less aware of the benefits they would obtain from management training and few see training as a strategic tool (Chao-Béroff, 2003). Due to higher turnover in managerial staff, small firms may not realize the same benefits from training investments as larger firms. And since training providers must group a number of small scale businesses together to realize scale economies, such generic training may be of more limited value to a small firm than to a larger firm receiving more targeted courses. For these reasons, and to realize the social benefits from high-performance small businesses, many governments have implemented programs to enhance entrepreneurial management training.

Analyses of the links between management training and firm performance in smaller firms have certain methodological weaknesses: the influence of training falls when more “controls” are introduced or when other non-training managerial practices are included (Bennett, 2008). These are shown to have a stronger link to performance than training; no link between training and productivity trends is apparent and, even if a positive correlation were to exist, the methodology is unable to disentangle whether small firms that train perform better or whether small firms that perform better can afford to train. The implication is that prior performance may generate the resources to undertake training, but that is difficult to assert that training expenditure enhances future performance.

Further data and analysis are needed to confirm empirically the link between management training and performance of the small business enterprises. Although considerable information on education and training is available in the developed countries (Berger and Udell, 2002; Carr and Tong, 2002; Carter et al., 2004), it is difficult to separate management training from other forms of training. It is also problematic to isolate the proportion of training budgets that are management training and those that are not, and it is rare for statistics to distinguish by firm size.

#### **2.4 Business Savings and the Growth of Small Scale Business Enterprises**

According to Mwajuma (2012), access to safe and flexible savings services can play a critical role in poor people's strategies for minimizing risks, mitigating income fluctuations, facing unexpected expenditures and emergencies, and building a small asset base over time. In particular, the very poor living in rural areas, who may lack investment opportunities and safe ways of keeping their savings, greatly value access to safe savings services. Most poor families do save and often in a non-financial form, for example, small gold items or stockpiling goods, because they frequently lack access to good formal savings facilities. In-kind savings are suboptimal options, because they are subject to fluctuations in commodity prices, and destruction by pests, fire and theft. While micro-finance institutions offer both good loan services and good voluntary savings services, worldwide experience shows that there is usually more demand for savings than for loans.

Better availability of safe savings facilities increases self-financing capacity and thus reduces the need to borrow, with its inherent risks. When a poor household needs a relatively large amount of money for an investment purpose, saving is a less risky way to obtain it than taking on a debt with a fixed repayment obligation. Traditionally, micro-finance mobilization of savings has taken place in the form of compulsory savings under group or individual lending methodologies. Often a percentage of the loan amount is required as mandatory savings and is meant to guarantee group loan repayment. Compulsory savings were also seen as a way to instill savings habits in poorer households. Experience has shown, however, that compulsory saving is not conducive to



encouraging clients' saving habits, but rather is considered as one of the requirements for accessing loans. It is the mobilization of voluntary savings, ensuring safety, flexibility and accessibility, which can have the strongest impact on poor people's lives. With the right products and incentives, micro-finance institutions can rapidly mobilize very significant resources. Ensuring the existence of safe and accessible savings services for forest-based small-scale enterprises should be a priority for any microfinance development programme. Possible ways for microfinance institutions to make the service available at lower costs include mobile banking, microfinance officers visiting rural communities on market days, and facilitating groups in collecting and depositing individual voluntary savings.

Krassowska, (2004), indicates that mobilizing the savings of small-scale enterprises implies risk, however, and microfinance institutions allowed to do so should clearly show their capacity to mobilize savings safely. Accordingly, they should demonstrate strong governance and professional management, strength and reliability, adequate internal controls, financial management and information systems, the guarantee that deposits and savings are not used to cover their operating expenses and records of strong loan portfolio quality management. In most countries, mobilization of public savings is restricted to banks, where regulations should be in place for effective supervision. Credit cooperatives are also a very important instrument for mobilizing savings, although generally limited to cooperative members. It is important that sound provisions regulating and supervising cooperatives' operations are in place to prevent governance weaknesses that would ultimately damage depositing members.

### **2.5 Regulatory Framework/Terms of repayment and the Growth of Small Business Enterprises**

The government of Kenya awareness of the need for credit by small scale business enterprises has facilitated several credit programs to assist Small scale business enterprises in accessing credit, Weidmann (1992). Yet, the terms of payment stipulated by the microfinance institution has also been found to be a crucial factor that affects the acquisition of credits by the small scale business enterprises. These programmes charge

the commercial rate of interest to cover costs and to ensure sustainability. These programmes are intended to influence welfare of household, reach directly the poorest of the economically active to make sure that in mixed groups Small scale business enterprises are not left out.

For many micro finance providers, the reason they focus on small scale business enterprises clients is mainly of a practical nature. Repayment rates are typically higher for small scale business enterprise than for large ones although they are perceived to have high risk and they have a tendency to have fewer alternative sources of finance (Malonza, 2007). Small scale business enterprises are also seen as more compliant and reliable. They are perceived to have a higher sense of responsibility and to be more affected by social pressure than large enterprises. (Harper, 2003 Simanowitz, 2002). Despite all the efforts channeled towards assisting Small scale business enterprises, they are faced by diverse challenges like repayment of the credits. Despite earning a living, Small scale business enterprises have little control over the household's finances or even over their own earnings. The men in the family continue to decide on expenditures. As long as Small scale business enterprises continue to lack social resources such as access to education they will only be able to make limited use of the financial resources they have so obtained. As Cheston and Kuhn (2002) observe:

Repayment of loans as scheduled is not an accurate indicator that funds were used to invest in successful productive activities. Even when a borrower repays a loan in time the source of income is not necessarily from revenues generated by investing the loan in productive activities (Gallup, 2003). At times repayment is often delivered from general family income rather than the activity for which loan has been provided. Control over loans is by itself not a good indicator of Small scale business enterprises independence in management of an enterprise. Thirty seven percent of loan retention may already be a significant achievement in a gendered society (Cheston and Kuhn, 2002).

Indeed cooperation between Small scale business enterprises may already be a form of empowerment and can also be considered an improvement in management of such enterprises due to group solidarity whereas on its own, a small scale business enterprise may find it difficult to make decisions pertaining to their businesses. Several scholars

have had a lot of interest on impact of repayment conditions of the micro finance loans on the performance of Small scale business enterprises. It is evident that many scholars have prescribed microfinance loans as a panacea for all the problems bedevilling Small scale business enterprises. It is imperative that microfinance loans have had positive impact on the performance of small scale business enterprises, but whether these loans result into significant business growth is yet to be established. It is not yet known however how Small scale business enterprises go about making repayment decisions and how to invest the money and the factors that influence such decisions since Small scale business enterprises entrepreneurs are not independent entities but rather operate as members of households.

Oketch (1991) found in analysis of 126 successful micro enterprise credit recipients in Kenya that 24% of the borrowers diverted portions of their loans to items not specified on the loan application and therefore it was difficult to repay. The factors affecting small scale business enterprises ability to repay loans were also not investigated. Goetz and Sen Gupta (1996) however found out that Small scale business enterprises do not actually fully control their loans. Their findings cannot however be generalized to the Kenyan situation due to major cultural and religious differences of the 2 countries. Amendariz (2005) in a study of two Grameen replications in the Philippines found that most clients found it difficult to repay their loans. In a survey of clients in repayment arrears and clients who had exited the program (Faulu a local MFI) found that 74% of their clients had diverted their last loan and therefore failed to repay. If credit meant for business development is diverted to consumption needs, the borrowers still have to repay the loans. Consequently the business does not expand and it cannot therefore service subsequently higher loans. Loan repayments may require the borrower to forego the gratification of basic needs or to default. It is important however to find out why loans are diverted leading to non payment.

Over time, the payment history of a loan customer accumulates and the firm develops a “private reputation” with its lender (Mintzberg, 2003). In contrast, much bank lending is transactional rather than based on private information collected through long-term

relationships with firms. For example, many large banks, and some smaller banks, lend to small firms using credit scoring models, basing their loan decisions on information that can be quantified rather than on private, more qualitative information acquired through direct interaction with the firm. Rather than making more subjective judgments based on direct interactions with a small firm (“soft” information), credit scoring applies statistical methods to “hard” data, summarizing borrower characteristics to produce a “score” that can be used to evaluate the likelihood of the loan applicant repaying the loan (Mei Qiang, 2002).

Lending to large firms, on the other hand, is quite different, since larger firms are more established, and lenders typically can evaluate more precisely the credit risk of the firm by using public information (Mookherjee, 1999). Some of this is a consequence of large firms’ access to national debt and equity markets, for example, arising from credit rating agencies, equity analysts, and filings with the Securities and Exchange Commission (SEC). Furthermore, due to the relative transparency of large firms compared to small ones, these large firms typically can borrow from multiple banks under less restrictive loan contract terms (Moyi, 2000). Thus, financial statement lending to large, relatively transparent firms is unlikely to be a source of economic rents to the lender. Similarly, other transactions-based lending technologies, such as fixed-asset lending, are unlikely to earn the lender substantial rents due to asymmetric information, since the technology for valuing collateral is relatively straightforward. Rather, the benefits accruing to the lender would be related primarily to economies of scale.

Out of the foregoing discussion, it follows that there is scanty empirical data on credit repayment among small scale business enterprises entrepreneurs in Kenya. Given the disparities among countries may not readily apply to Kenya. A country’s specific study of the kind proposed herein is quite wanting.

## **2.6 Theoretical framework**

This study will rely on the grass root models of development to explain how the access to credit and training can help in growth of small scale business enterprises. In the development debate, there are different arguments depending on ones ideology for

example the neo-liberals believe in economic growth which they argue will lead to the trickledown effect reaching the growth of small business enterprises (Mosley, 2003). After severe disappointments with mainstream models and their failure to deal with the problem of growth of small business enterprises it is better to focus on the Bottom-up approach given the whole context of rural small scale business and informal sector. This study requires models that create change, promote grass root participation in growth of small business enterprises.

According to Todaro (2000) the persistent massive growth of small scale business enterprises signalled that something was very wrong with the narrow definition of development. Indeed, there is need to address the issue of growth of small scale business enterprises using “home grown” grass root development approaches which reflect the social, economic and political realities of growth of small business enterprises in underdeveloped economies. According to theorists’ view the process of development is a series of successive stages of economic growth through which all countries must pass. Mainstream models of development and the policies based on them had been challenged for failing to address the question of mass growth of small scale business enterprises in developing countries

Analyses of the links between management training and firm performance in smaller firms have certain methodological weaknesses: the influence of training falls when more “controls” are introduced or when other non-training managerial practices are included (Bennett, 2008). These are shown to have a stronger link to performance than training; no link between training and productivity trends is apparent and, even if a positive correlation were to exist, the methodology is unable to disentangle whether small firms that train perform better or whether small firms that perform better can afford to train. The implication is that prior performance may generate the resources to undertake training, but that it is difficult to assert that training expenditure enhances future performance.

## 2.7 Conceptual framework

The conceptual framework for this study is research based; the framework is depicted in Figure 1. In the framework the researcher intends to determine how access to capital, training and capacity building, sources of capital for growth and terms of repayment influence the performance of small scale business enterprises.

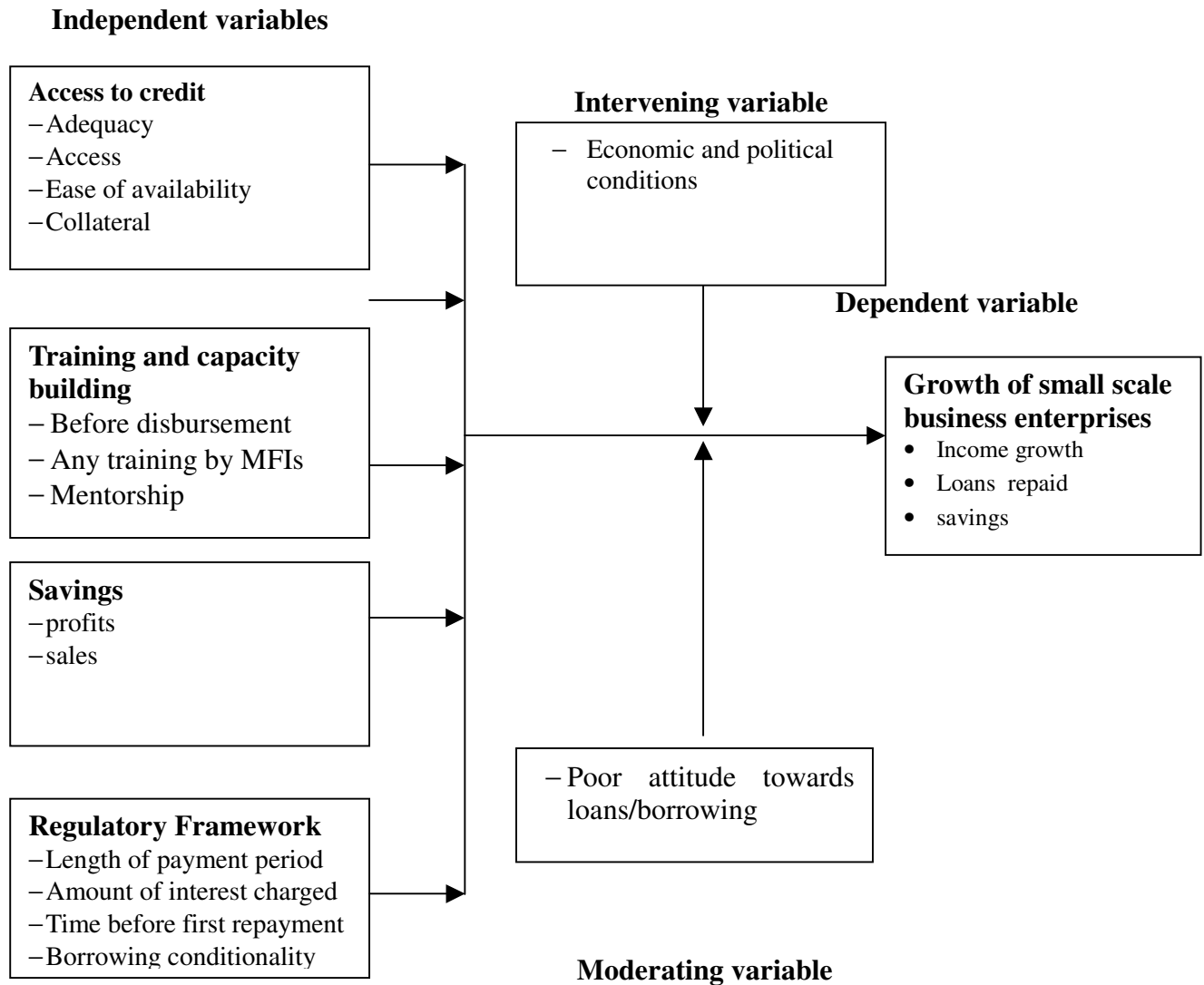


Figure 1: Conceptual framework

## **2.8 Summary of Literature Review**

Credit and training can be obtained by the SBEs. A number of case studies conducted in Bangladesh, Indonesia, Africa, Latin America and other countries have already proven the positive impact of financial institutions especially microfinance on the economic status of the growth of small business enterprises while recognizing its ability in providing new knowledge through training, and contributing psychological benefits to SBEs. Influence of credit access on the growth of small scale business enterprises at the global level is not supported by rigorous research, as critics claim. Stories of success are also not enough to accurately measure the extent to which these variables impacted the growth of small business enterprises. Financial institutions like MFIs are also criticized for charging high interest rates in the pursuit of becoming self-sustainable organizations because this decision ultimately affects their impoverished clients and borrowers. Meanwhile, MFIs in developed countries face challenges in effectively helping SBEs, as microfinance has not yet become the main tool in fighting growth of small scale business enterprises in developing countries.

This chapter reviewed the literature influence of micro-financing on the growth of small business enterprises from the financial institutions until it is narrowed to Kenya. Both quantitative and qualitative studies have illuminated a number of challenges as contributing to the persistence of accessing credits and training by the small scale business enterprises. The issues discussed in the literature review are important in determining the influence of access to credit and training on growth of small scale business enterprises. In this chapter, it has been clearly indicated that there is a greater need for more information on the influence of micro-financing on the growth of small business enterprises in Webuye Division, Bungoma County, Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

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

#### **3.2 Research Design**

The design of the methodology for this study was greatly influenced by the works of Mosley (2009). The study therefore adopted descriptive survey research design. Mugenda and Mugenda (1999) perceives a survey as an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. Surveys can be used for explaining or exploring the existing status of two or more variables at a given point in time.

The study investigated the influence of micro-financing on the growth of small business enterprises in Webuye Division, Bungoma County Kenya. Therefore, it described the characteristics of the small scale enterprises in Webuye Division, Bungoma County.

#### **3.3 Target Population**

The target population for this study included the SBEs and MFIs operating within Webuye Division and registered by the Ministry of Trade and licensed by the town council. There are six MFIs providing funds to 4,207 small business enterprises. The six credit and lending officers from the six MFIs (one from each) form part of the study population; hence the total target population .was 4,213 individuals .



### 3.4 Sample size and sampling procedure

This section describes the sample size and sampling procedure employed for this study.

#### 3.4.1 Sample size

According to Krejcie and Morgan (1970) tables (see appendix iii), a suitable sample size of 4,213 as a target population is 351. This comprised of six credit and lending officers and 345 SBEs.

#### 3.4.2 Sampling procedure

Purposive sampling was used to ensure that all the six credit and lending officers from the respective MFIs are interviewed. Stratified sampling was used for the 345 SBEs where the MFIs were treated as the strata and percentage weight considered for each MFI. Therefore the sample distribution based on weighted percentages was as shown in table 3.1. This was followed by simple random sampling to select respondents within an MFI.

**Table 3.1 Population and sample size**

| <b>MFI</b>   | <b>POPULATION</b>  |               | <b>SAMPLE SIZE</b> |
|--------------|--------------------|---------------|--------------------|
|              | <b>No. of SBEs</b> | <b>%age</b>   | <b>No. of SBEs</b> |
| KWFT         | 954                | 22.7          | 79                 |
| FAULU KENYA  | 722                | 17.2          | 60                 |
| K-REP        | 473                | 11.2          | 37                 |
| EQUITY       | 649                | 15.4          | 53                 |
| SMEP         | 891                | 21.2          | 73                 |
| ECLOF        | 518                | 12.3          | 43                 |
| <b>TOTAL</b> | <b>4207</b>        | <b>100.00</b> | <b>345</b>         |

### **3.5 Data collection instruments**

The study employed different methods of data collection. The main instrument for data collection was questionnaires and document analysis. Questionnaires were administered to owners of small business enterprises to collect the primary data. The questionnaire was a convenient tool especially where there are large numbers of subjects to be involved. Document analysis involved reviewing the contents of target documents with the aim of obtaining relevant secondary data (Oso and Onen, 2005). The sources included materials from financial institutions especially MFIs and finally the quarterly report on the activities of small scale business enterprises from Webuye Division. Information on access to finances, amount of borrowed capital, amount of capital applied for and levels of entrepreneurial training by MFIs were collected.

#### **3.5.1 Piloting of the study**

Piloting is trying out of research instruments on the respondents who will not be used in the main study. Groll (1986) notes that a pilot study is necessary because a researcher embarking on classroom research for the first time will find it valuable to spend some time in the classroom using one or more established systems and looking at the kind of issues which will arise in turning his/ her own research questions into a set of criteria and definition for use in the classroom. It is important for a pilot study to be carried out before any research is done as stated by Peter (1994). He states “even the most carefully constructed instrument cannot guarantee to obtain a hundred percent reliable data”. Therefore it will be necessary to pretest the instruments of the research on a small sample of respondents in a preparatory exercise to find out if there is any weakness so that it can be corrected. In this study, ten small business enterprises from the neighbouring kimilili Sub County which will not take part in the main study will be selected for piloting.

#### **3.5.2 Validity of Research Instrument**

Validity is the extent to which the instrument measures what it appears to measure according to the researcher’s subjective assessment (Nachmias: 1958). Validity deals with the adequacy of the instruments for example, the researcher needs to have adequate questions in the written task in order to collect the required data for analysis that can be

used to draw conclusion.

Fraenkel (1993) suggests that the individual who is supposed to render an intelligent judgment about the adequacy of the instruments should be given the instruments before the actual research is carried out. The instruments were amended according to the expert's comments and recommendations before they were administered.

### **3.5.3 Reliability of the instruments**

Koul (2003) states that the reliability of a test refers to the ability of that test to consistently yield the same results when repeated measurements are taken of the same individual under the same conditions. Basically, reliability is concerned with consistency in the production of the results and refers to the requirement that, at least in principle, another researcher, or the same researcher on another occasion, should be able to replicate the original piece of research and achieve comparable evidence or results, with similar or same study population. To establish the reliability of the questionnaires, the instrument was provided to a total of 40 small scale (at least 10% of the sample size) business enterprises in the neighbouring Busia County. This County was chosen because it presents similar living conditions of informal rural area as Bungoma County. The reliability of the items was based on the estimates of the variability among the items. The reliability coefficient was determined using the Cronbach-Alpha coefficient. A reliability coefficient of at least 0.5 was considered high enough for the instruments to be used for the study (Kothari, 2005).

### **3.6 Data Collection Procedure**

The researcher obtained a letter from the National council of Science and Technology to be given permission to conduct research. The researcher carried the letter during data collection and presented it to the selected officers and staff to be given permission to conduct research. The researcher then proceeded to collect data after permission was granted.

### **3.7 Data Analysis techniques**

Frequency tables and percentages were used to analyze the quantitative data. The responses to open ended items (qualitative data) in form of phrases and words were organized followed by creating categories, themes and patterns related to research questions. This was analyzed and reported by descriptive narrative (Mugenda & Mugenda, 1999). The results of the data gave the researcher a basis to make conclusions about the study.

### **3.8 Ethical considerations**

This study was conducted within the strict ethical code guiding research at University of Nairobi. During the development of the proposal, data collection, analysis and final proposal write up, plagiarism was avoided as much as possible by citing relevant sources and authorities of the secondary sources of information. The data obtained from the small scale business enterprises in Webuye Division, Bungoma County of Kenya was kept confidential for the sole purpose of the research. No data transfer to any other third party was done during the course and after the research.

**CHAPTER FOUR**  
**DATA ANALYSIS, PRESENTATIONS, INTERPRETATIONS AND DISCUSSIONS**

**4.1 Introduction**

This chapter presents and discusses the analysis of the data collected from various respondents. The data was interpreted according to the research questions. The data was analyzed and presented in form of frequency and percentage tables. It also contains the summary of data analysis of all the four variables access to capital, entrepreneurial training, and credit for growth and regulatory framework of micro-finance institutions.

**4.2 Questionnaire Response Rate**

This study targeted SBEs within Webuye Division and the credit officers working for the Micro Financing Institutions. Table 4.1 shows the distribution and return rates of respondents for this study.

**Table 4.1; Questionnaire Response rate**

| Target category         | Number targeted | Number responded | Return rate (%) |
|-------------------------|-----------------|------------------|-----------------|
| SBEs                    | 345             | 245              | 71.0            |
| Credit/Lending officers | 6               | 4                | 66.7            |
| <b>Total</b>            | <b>351</b>      | <b>249</b>       | <b>70.9</b>     |

Out of 351 questionnaires and interview schedules administered to the SBEs and Credit officers, 249 responded, representing a return rate of 70.9% ( $249/351 \times 100$ ). The return rate of 70.9% is acceptable in view of the confidentiality of the business information as perceived by some SBEs.

### 4.3 Demographic Characteristics of the Respondents

This section presents the demographic characteristics of the respondents with the aim of establishing the general background of the respondents that participated in the study. The areas to be discussed include gender, age, educational level, position held as an official and how long the respondent had served in the position.

#### 4.3.1 Respondents by Gender

An item was included in the questionnaire which sought information on the gender of the SBEs operators responding to the survey. Table 4.2 gives the summary of the respondents by gender.

**Table 4.2; Gender**

| <b>Gender</b> | <b>Frequency</b> | <b>Percentage</b> |
|---------------|------------------|-------------------|
| Male          | 33               | 13.5              |
| Female        | 212              | 86.5              |
| <b>Total</b>  | <b>245</b>       | <b>100</b>        |

Out of the 245 interviewed, 212 which represent 86.5% were female and 33 which represented 13.5% were male.

This finding reveals that majority of the small businesses are operated by women who are mostly served by the MFIs.

#### 4.3.2 Respondents by age

The study sought to establish the age of the respondents and table 4.3 summarizes the respondents age brackets.

**Table 4.3; Age**

|                    | Frequency  | Percentage   |
|--------------------|------------|--------------|
| Less than 25 years | 26         | 10.6         |
| 26-35 years        | 75         | 30.6         |
| 36-50 years        | 93         | 38.0         |
| More than 50 years | 51         | 20.8         |
| <b>Total</b>       | <b>245</b> | <b>100.0</b> |

Table 4.3 shows that 10.6% of respondents are less than 25 years, 30.6% of the respondents lies between 26-35 years, 38.0% of the respondents lies between 36-50 years and 20.8% of the respondents are 50 years and above. The findings show that majority of the respondents are 26-50 years of age

### 4.3.3 Occupation

The researcher was interested to find out the occupation of the SBEs operators beside their enterprises. The findings are shown in table 4.4

**Table 4.4; Occupation**

|              | Frequency  | Percentage   |
|--------------|------------|--------------|
| Unemployed   | 79         | 32.2         |
| Employed     | 22         | 9.0          |
| Farmer       | 93         | 38.0         |
| Others       | 51         | 20.8         |
| <b>Total</b> | <b>245</b> | <b>100.0</b> |

Table 4.4 shows that 32.2% of respondents are unemployed, 9.0% of the respondents are employed, 38.0% of the respondents are farmers and 20.8% of the respondents are others. The findings show that majority of the respondents are unemployed and farmers.

#### 4.3.4 Micro finance institutions

The study also sought to find out which MFI are the SBEs members of or which MFIs are financing businesses in the area. Table 4.5 summarizes the MFI membership by the respondents.

**Table 4.5; MFI**

|             | Frequency | Percentage |
|-------------|-----------|------------|
| KWFT        | 56        | 22.9       |
| Faulu Kenya | 43        | 17.6       |
| Equity      | 37        | 15.1       |
| ECLOF       | 31        | 12.7       |
| K-REP       | 17        | 6.9        |
| SMEP        | 61        | 24.9       |
| Total       | 245       | 100.0      |

Table 4.5 shows that 22.9% of respondents are KWFT, 17.7% of the respondents are Faulu Kenya, 15.1% of the respondents are equity, 12.7% of the respondents are ECLOF, 6.9% of the respondents are k-rep and 24.9% of the respondents are SMEP. The findings show that majority of the respondents belong to SMEP and KWFT.

#### 4.3.5 Nature of business

The researcher was interested to find out the nature of businesses operated by the SBEs. Table 4.6 summarizes the various types of businesses that the respondents to the study are engaging in.



**Table 4.6; Nature of business**

|                    | Frequency | Percentage |
|--------------------|-----------|------------|
| Trade and commerce | 165       | 67.3       |
| Manufacturing      | 23        | 9.4        |
| Service            | 57        | 23.3       |
| Total              | 245       | 100.0      |

Table 4.6 shows that 67.3% of respondents engage in trade and commerce, 9.4% of the respondents engage in manufacturing, 23.3% of the respondents are in service industry. The findings show that the majority of the respondents engage in Trade and commerce.

#### 4.3.6 Management

On the aspect of management, the study sought to find out who manages the SBEs beside the owners. Table 4.7 summarizes the findings of the study.

**Table 4.7; Management**

|           | Frequency | Percentage |
|-----------|-----------|------------|
| Self      | 111       | 45.3       |
| Wife      | 43        | 17.6       |
| Husband   | 37        | 15.1       |
| Employees | 22        | 9.0        |
| Son       | 17        | 6.9        |
| Relative  | 15        | 6.1        |
| Total     | 245       | 100.0      |

Table 4.7 shows that 45.3 % of the SBEs are managed by the owners, 17.6 % by wives, 15.1 % by husbands, followed by 9 % employees, 6.9 % by son or daughter and 6.1 % by other relatives.

#### 4.3.7 The Length of SBEs

It was also important to establish for how long the SBEs have been in existence. Table 4.8 gives a summary of the findings:

**Table 4.8; The Length of SBEs**

|                  | Frequency | Percentage |
|------------------|-----------|------------|
| Less than 1 year | 22        | 9.0        |
| 1-3 years        | 79        | 32.2       |
| 3-5 years        | 93        | 38.0       |
| Over 5 years     | 51        | 20.8       |
| Total            | 245       | 100.0      |

Table 4.8 shows that 9 % of the respondents have existed for less than one year, 32.2% between one to three years, 38% between three to five years and 20 8% over five years. This observation is important because most MFIs do not provide capital for startups but prefer enterprises that have been in existence..

#### **4.4 Access to Credit for the Small Scale Business Enterprises**

This section focuses on question items that elicit responses related to access to initial capital for the small scale business enterprises.

##### **4.4.1. Borrowing**

The researcher posed the question “Did you borrow the money you invested in the business from a financial institution?” The findings are shown in table 4.9

**Table 4.9; Borrowing**

|       | Frequency | Percentage |
|-------|-----------|------------|
| YES   | 207       | 84.5       |
| NO    | 38        | 15.5       |
| Total | 245       | 100        |

Table 4.9 shows that 84.5% of the respondents borrowed the initial capital and 15.5% of the respondents did not borrow the initial capital. The findings shows that majority of the respondents have borrowed capital at some point to boost their SBEs.

#### 4.4.2. Amount borrowed

To further understand this aspect, a follow up question item that sought to establish the amount of loans borrowed was posed “How much money did you borrow for the business?” The findings are shown in table 4.10

**Table 4.10; Amount borrowed**

|                  | Frequency | Percentage |
|------------------|-----------|------------|
| Less than 5,000  | 21        | 8.6        |
| 5,000-9999       | 76        | 31.0       |
| 10,000-29999     | 94        | 38.4       |
| 30,000-49999     | 38        | 15.5       |
| 50,000 and above | 16        | 6.5        |
| Total            | 245       | 100        |

Table 4.10 shows that 8.6% of the respondents borrowed less than 5000, 31% of the respondents borrowed 5000-9999, 38.4% of the respondents borrowed 10000-29999, 15.5% of the respondents borrowed 30000-49999, and 6.5% borrowed 50000 and above. The findings show that majority of the loans borrowed by respondents is between Kshs. 5000-30,000

In overcoming poverty, many poor people in developing countries depend on self-employment through micro enterprises. Whether they are small farmers, traders or artisans, poor people need to be able to build their own businesses themselves. But for many, the potential to better manage their assets, earn higher income and improve their lives, is hindered by lack of basic financial services. It is clear that if poverty is to be

reduced on a sustainable basis, governments, the private sector and development organization must each do their part to ensure that poor people have access to basic financial services (Consultative Group to Assist the Poor (GAP), 2012).

Financial institutions serving poor people must be self-sustaining. This is the only way they can provide services on a continuing basis and be integrated into national financial systems. For formal financial institutions, weak financial infrastructure and communication in rural areas are among the biggest obstacles to delivering services to rural poor people. It is also more expensive to extend loans to populations dispersed over large areas than in the cities.

Scott (2003) defines savings as income not spent or deferred consumption. The savings mobilization has recently been recognized as a major force in microfinance. In the past, micro finance focused almost exclusively on credit; savings were the "forgotten half" of financial intermediation. The importance of savings mobilization has been highlighted in several papers in the context of micro finance. Microenterprise programs can play a significant role to foster savings among the poor populations, with considerable benefits both for the savings and for the programs. Harper (2003) says that domestic savings provide the assets for the economy's investment in future production. Without them, the economy cannot grow unless there are alternative sources of investment. People's propensity to save varies significantly. Common astuteness states that as a person's disposable income increases, so does his or her capacity and willingness to save.

In a study on women SBEs in Zambia the situation looks different with regard to accessing credit by SBEs where 10 per cent said that they used their retrenchment benefits as start-up capital, which could also be considered as personal savings. Very few of the women had managed to access funds from financial institutions. In Ethiopia those women in small enterprises felt that the loans offered by MFIs were inappropriate to their needs, as they were too small in size and used the group lending methods of delivery, which did not suit them. In Tanzania only three of the women entrepreneurs had managed to get a start-up loan from a bank, with a further 8 getting a loan from an MFI. As for the remainder of the women entrepreneurs, the main source of funds was the woman herself

and her family (Finnegan et al, 2004).

#### **4.5 Entrepreneurial training and Small Scale Business Enterprises**

This section finds out how various aspects of capacity building influence the growth of such things as abilities of SBEs to develop business plans, handling leadership issues within the groups, project selection processes, trainings on customer care and good relations and capacity building in terms of financial management skills.

##### **4.5.1 Education level for managers**

The researcher sought to find out how many SBEs owners have undergone any training that would enhance their management skills.. The findings are shown in table 4.11

**Table 4.11; Education level for managers**

|            | Frequency | Percentage |
|------------|-----------|------------|
| None       | 21        | 8.6        |
| Primary    | 99        | 40.4       |
| Secondary  | 87        | 35.5       |
| Tertiary   | 33        | 13.5       |
| University | 5         | 2.0        |
| Total      | 245       | 100.0      |

Table 4.11 shows that 8.6% of respondents had no formal education, 40.4% of the respondents had primary education, 35.5% of the respondents had secondary education, 13.5% of the respondents had tertiary training, and 2.0% had university education. The findings show that most of SBEs owners had only primary and secondary education.

##### **4.5.2. Entrepreneurial training**

The researcher sought to find out if SBEs owners have undergone Entrepreneurial training that would enhance their management skills. The findings are shown in table 4.12

**Table 4.12; Entrepreneurial training**

|       | Frequency | Percentage |
|-------|-----------|------------|
| YES   | 182       | 74.3       |
| NO    | 63        | 25.7       |
| Total | 245       | 100        |

Table 4.12; shows that 74.3 % of the respondents had undergone entrepreneurial training, and 25.7% had not done so.

The findings shows that majority of the respondents have undergone some training courtesy of their respective MFIs. For enterprises to perform well, proper management and training should be put in place.

The current business world requires that entrepreneurs possess basic skills in managing day to day operations of their establishments. Technical, managerial and financial knowledge become essential for a prospective entrepreneur since it guarantees better decision making in all aspects of management.

### **4.5.3. Skills**

A further question sought to really establish if the trainings were meant for providing them with the necessary skills. The findings are shown in table 4.13

**Table 4.13; skills**

|       | Frequency | Percentage |
|-------|-----------|------------|
| YES   | 167       | 68.2       |
| NO    | 78        | 31.8       |
| Total | 245       | 100        |

Table 4.13 shows that 68.2% of the respondents had attended such trainings and 31.8% had not done so. The findings show that most of the trainings provided them with the necessary skills

#### **4.5.4. Training areas covered**

The study set out to discover whether financial management skills would influence the growth of the SBEs. Table 4.14 gives the summary of the responses to the question.

**Table 4.14; Training areas covered**

|                             | YES  | NO   |
|-----------------------------|------|------|
| Basic accounting,           | 62.4 | 37.6 |
| Financial analysis          | 69.8 | 30.2 |
| Overall business management | 70.2 | 29.8 |

Table 4.14 shows that out of the respondents who participated, 62.4% had been trained on basic accounting, 69.8% had been trained on financial analysis skills which are key to the growth of SBEs and 70.2% had received training on overall business management skills. These trainings were being facilitated by the respective MFIs who thought that by enhancing the growth of SBEs then their investment in the outstanding loans would be safeguarded.

The findings show that majority of the respondents suggested that knowledge on developing business plans affects the growth of the SBEs. Developing business work

plans is a challenge to many people including youths. Poorly formulated or developed work plans do not contribute towards the performance of enterprises since they will not have the guidance and frameworks within which to operate. Business plans provide a forecast and future direction and also controls for any enterprise that seeks to remain profitable and on course.

A study conducted in Zambia had similar findings. It was revealed that there was lack of demonstrable entrepreneurial skills among the beneficiaries. Kekelwa (1998: 26) notes that most of the youths who benefited from the scheme lacked entrepreneurial skills and knowledge on how to manage projects. As a result, most of them failed to pay back the loans. However, reports suggested that in some provinces, particularly Luapula, the monies as at December 1998 were genuinely revolving. Over time, the loan funds meant for onward disbursement to other youth proprietors got tied up in uncollected debts. Eventually, this type of service ceased to be available.

The research by Meager, Martin and Carta (2011) represent one of the most important sources for statistical analysis of the links between self employment and business skills. The evidence suggests that a wide range of the generic competences are important for success in self-employment over and above any occupational skills which may be required. These include: the individuals values, beliefs and attitudes; 'soft' skills including interpersonal, communication and networking skills; realistic awareness of the risks and benefits of self-employment; functional business skills; and relevant business knowledge. Further, the research underscores the importance of prior work experience, particularly if it includes previous spells of self-employment, contributes to success in self-employment. Highlighting the relationship between business skills and formalization, Pugh et al. (in Karim, 2003), drawing from empirical evidence, points out that a firm's growth also means a better structuring of its activities. Such bureaucratisation is expressed in more extensive standardization, an increase in formalization and higher specialization.



#### **4.6. Business Savings and the Growth of Small Scale Business Enterprises**

This section focuses on question items that elicit responses related to Business Savings for the small scale business enterprises.

##### **4.6.1. Contribution of a savings Account to profit margins**

The study set out to discover whether **savings Account** would influence **profit margins**.

Table 4.15 gives the summary of the responses to the question

**Table 4.15. Contribution of a savings Account to profit margins**

| Profits margins and savings accounts | frequency | percentage |
|--------------------------------------|-----------|------------|
| No increase of profit margins        | 75        | 30.6       |
| An increase in profit margin         | 170       | 69.4       |
| TOTAL                                | 245       | 100        |

From table 4.15, 30.6% of the respondents had no change in the profit margins before and after they opened a savings account with the MFIs. 69.4% of the respondents had increase in profit margins after saving their profits with the MFIs.

##### **4.6.2. Changes in sales volume after saving in Banks**

The study set out to discover whether **savings Account** would influence Changes in sales volume. Table 4.16 gives the summary of the responses to the question

**Table 4.16. Changes in sales volume after saving in Banks**

| Sales volume after use of savings account | Frequency | Percentage |
|---|-----------|------------|
| No increase in sales                      | 58        | 23.7       |
| Increase in sales                         | 187       | 76.3       |
| TOTAL                                     | 245       | 100        |

Only 23.7% had not experienced the increase of the sales volume after the opening and operating a savings account with the MFIs while 76.3 % had an increase of sales volume after the savings with financial institutions.

#### **4.6.3. Growth of SBEs**

The respondents were asked to rate the Growth of their SBEs Table 4.17 gives the summary of the responses to the question.

**Table 4.17. Growth of SBEs**

| How do you rate your business | Frequencies | Percentage |
|-------------------------------|-------------|------------|
| Very successful               | 240         | 98         |
| Unsuccessful                  | 5           | 2          |
| TOTAL                         | 245         | 100        |

98 % of the entrepreneurs indicated their business has grown after the loans, training and opening of a savings account with the MFIs compared with 2% who indicated otherwise.

#### **4.7 Government regulatory framework**

The respondents were asked to comment on the following statements with regards to the terms of payment and regulatory framework of the Microfinance institutions (MFIs) Table 4.18 gives a summary of the responses.

**Table 4.18; Regulatory framework**

|  | Strongly<br>Agree | Agree | Disagree | Strongly<br>disagree |
|--|-------------------|-------|----------|----------------------|
| A grace period is provided for                                 | 11.7              | 40.8  | 25.7     | 21.8                 |
| Repayment amounts are flexible                                 | 23.9              | 26.4  | 31.4     | 18.3                 |
| Extensive paperwork and processes<br>before fund disbursement. | 33.4              | 19.6  | 20.7     | 26.3                 |
| Regular updates on the performance of<br>the enterprises.      | 19.7              | 22.5  | 26.5     | 31.3                 |
| Defaulting results confiscation of<br>property.                | 27.8              | 35.7  | 23.3     | 13.2                 |
| Regular supervision is done by the<br>officials of the MFI.    | 19.7              | 31    | 32.9     | 16.4                 |

Table 4.18 shows that 11.7%, strongly agree, 40.8% agree, 25.7% disagree, and 21.8% strongly disagree that a grace period is provided for. Similarly 23.9%, strongly agree, 26.4% agree, 31.4% disagree, and 18.3% strongly disagree that Repayment amounts are flexible. Again, 33.4% strongly agree, 19.6% agree, 20.7% disagree, and 26.3% strongly disagree that extensive paperwork and processes before fund disbursement was experienced.

Also 19.7% strongly agree, 22.5% agree, 26.5% disagree, and 31.3% strongly disagree that there was Regular updates on the performance of the enterprises. And 27.8% strongly agree, 35.7% agree, 23.3% disagree, and 13.2% strongly disagree that defaulting results into confiscation of property. Finally 19.7% strongly agree, 31% agree, 32.9% disagree, and 16.4% strongly disagree that Regular supervision is done by the officials of the MFI. The findings shows that a grace period is provided for, repayment amounts were flexible, there was extensive paperwork and processes before fund disbursement, regular updates on the performance of the enterprises, defaulting results into confiscation of property and regular supervision done by the officials but not in all MFIs.

Governments have key roles in giving priority to building a sound and responsive

microfinance sector. They have major roles to play in building solid, responsive policies, regulations and legal structure that work for microfinance. They need to stay out of retail microfinance and encourage private institutions to build sustainable services. New and modified legal structures are often needed to ensure that such dimensions as minimum capital and reporting requirements are tailored to the relatively small size of many MFIs ([www.swwb.org](http://www.swwb.org))

Government has important roles to play in building a pro-poor microfinance policy, regulatory framework, and set of legal structures. Recognition by finance ministries, central banks and bank supervisory tendencies of microfinance as an important legitimate loan class, with its own characteristics within the financial systems, is important.

It needs to help ensure that the mix of wholesale financing, performance monitoring, and capacity building mechanisms are in place to promote the sound growth of microfinance institutions with different legal structures, at different stages of development. (The Microfinance Revolution, 2001).

Interest rates ceilings need to be removed on micro loans. The single most efficient way for the government to promote financial services for the poor is the liberalization of interest rates. MFIs need to be able to cover the high transaction costs of making very small loans. Poor borrowers want sustained access to financial services, not subsidies. While some microfinance operations use high interest rates to cover inefficiencies, experience demonstrates that competition from a range of suppliers is the best way to introduce pressure to improve inefficiencies. Government policy makers, politicians have a key role to play in getting the general public to understand why interest rates for micro loans must be higher than for corporate finance (Circulars 272, 273,282 and Rural Banks Act 1992)

Financial systems in Africa are generally weak primarily because of two reasons. First is the presence of high interest rate spreads due to lack of competition and weak management in the banking sector. Second, credit allocation tends to be concentrated into short-term speculative activities, which may be explained by the lack of stable long-term finance and of high risk aversion exhibited by banks (Senbet and Otchere , 2008).

Africa's private sector consists of mostly informal micro-enterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. Between these large and small firms, SMEs are very scarce and constitute a "missing middle." Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP. SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

This chapter summarizes, discusses and makes conclusions on the findings of this study in relation to the objectives put forward in chapter one. It also discusses the recommendations for further research as well as recommendations for policy and practice.

#### 5.2 Summary of Findings

On access to credit for the small scale business enterprises, table 4.9 showed that 84.5% of respondents borrowed loan capital and 15.5% of the respondents did not borrow the loan capital. The findings showed that majority of the respondents had borrowed capital at some point to boost their SBEs. Table 4.10 showed that 8.6% of respondents borrowed less than 5000, 31% of the respondents borrowed 5000-9999, 38.4% of the respondents borrowed 10000-29999, 15.5% of the respondents borrowed 30000-49999, and 6.5% borrowed 50000 and above. The findings showed that majority of the loans borrowed by respondents were between Kshs. 5000-30,000.

On Entrepreneurial training and Small Scale Business Enterprises, Table 4.11 showed that 8.6% of respondents had no formal education, 40.4% of the respondents had primary education, 35.5% of the respondents had secondary education, 13.5% of the respondents had tertiary training, and 2.0% had university education. The findings showed that most of SBEs owners had only primary and secondary education. Table 4.12; showed that 74.3% of the respondents had undergone entrepreneurial training, and 25.7% had not done so. The findings showed that majority of the respondents had undergone some training courtesy of their respective MFIs. Table 4.13 showed that 68.2% of the respondents had attended such trainings and 31.8% had not done so. The findings showed that most of the trainings provided them with the necessary skills. Table 4.14 showed that out of the respondents, who participated, 62.4% had been trained on basic accounting, 69.8% had been trained on financial analysis skills which are key to the growth of SBEs and 70.2%

had received training on overall business management skills. These trainings were being facilitated by the respective MFIs who thought that by enhancing the growth of SBEs then their investment in the outstanding loans would be safeguarded.

On Business Savings and the Growth of Small Scale Business, Enterprises: from table 4.15, 30.6% of the respondents had no change in the profit margins before and after they opened a savings account with the MFIs. 69.4% of the respondents had increase in profit margins after saving their profits with the MFIs, from Table 4.16, Only 23.7% had not experienced the increase of the sales volume after the opening and operating a savings account with the MFIs while 76.3 % had an increase of sales volume after the savings with financial institutions, From table 4.17, 98 % of the entrepreneurs indicated their business had grown after the loans, training and opening of a savings account with the MFIs compared with 2% who indicated otherwise.

On Government regulatory framework, Table 4.18 showed that 11.7%, strongly agreed, 40.8% agreed, 25.7% disagreed, and 21.8% strongly disagreed that a grace period is provided for. Similarly 23.9%, strongly agreed, 26.4% agreed, 31.4% disagreed, and 18.3% strongly disagreed that Repayment amounts are flexible. Again, 33.4% strongly agreed, 19.6% agreed, 20.7% disagreed, and 26.3% strongly disagreed that extensive paperwork and processes before fund disbursement was experienced. Also 19.7% strongly agreed, 22.5% agreed, 26.5% disagreed, and 31.3% strongly disagreed that there was Regular updates on the performance of the enterprises. And 27.8% strongly agreed, 35.7% agreed, 23.3% disagreed, and 13.2% strongly disagreed that defaulting results into confiscation of property. Finally 19.7% strongly agreed, 31% agreed, 32.9% disagreed, and 16.4% strongly disagreed that Regular supervision is done by the officials of the MFI. The findings showed that a grace period is provided for, repayment amounts were flexible, there was extensive paperwork and processes before fund disbursement, regular updates on the performance of the enterprises, defaulting results into confiscation of property and regular supervision done by the officials but not in all MFIs.

### **5.3 Conclusions**

From the findings the following conclusions can be drawn:

On access to credit for the small scale business enterprises, the findings showed that majority of the respondents had borrowed capital at some point to boost their SBEs and majority of the loans borrowed by respondents were between Kshs. 5000-30,000.

On Entrepreneurial training and Small Scale Business Enterprises, the findings showed that most of SBEs owners had only primary and secondary education. Majority of the respondents had undergone some training courtesy of their respective MFIs. Most of the trainings provided them with the necessary skills. The trainings were facilitated by the respective MFIs who thought that by enhancing the growth of SBEs then their investment in the outstanding loans would be safeguarded.

On Business savings and Small Scale Business Enterprises, it was found that better availability of safe savings facilities increases self-financing capacity and thus reduces the need to borrow, with its inherent risks. When a poor household needs a relatively large amount of money for an investment purpose, saving is a less risky way to obtain it than taking on a debt with a fixed repayment obligation. Traditionally, micro-finance mobilization of savings has taken place in the form of compulsory savings under group or individual lending methodologies.

On Government regulatory framework, the findings showed that a grace period is provided for, repayment amounts were flexible, there was extensive paperwork and processes before fund disbursement, regular updates on the performance of the enterprises, defaulting results into confiscation of property and regular supervision done by the officials but not in all MFIs.

### **5.4 Recommendations**

In view of the findings of the current study, it is recommended that majority of the SBEs should borrow capital to boost their business.

Most of SBEs owners should be trained to provide them with the necessary skills and the trainings to be facilitated by the respective MFIs .

SBEs should be encouraged to save part of their earnings with MFIs to take care of emergencies and build their capital base in order to expand their businesses and acquire



more equipment and facilities for the same.

Financial services should be available to both men and women. In order to achieve gender equity in the delivery of services, it may be necessary to make special efforts to incorporate features that make the services accessible to all.

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

- Restructuring of commercial bank reforms in terms of collateral, in urban and rural SMEs.
- Strategies aimed at reducing bureaucratic barriers facing SBEs.
- What are the factors that influence the low uptake of opportunities to access credit facilities by a section of the society?

## REFERENCES

- Baas, S. (2007). S.D dimensions: Paper presented at the International Academic Exchange Conference. On Sustainable Agriculture and Sand Control. <http://www.sadl.uleth.ca/nz/collect/fi1998/import/faolc/www/waicent/faoinfo/sustdev/ppdirect/ppan0012.htm> (downloaded (2006-05-28) Baas).
- Bagachwa, M.S.D. (1994). Growth of small scale business enterprises Alleviation through MFIs in Kenya . Dar es Salaam, Dar es Salaam University Press.
- Bambang, I. (2006). Microfinance Growth of small scale business enterprises and Social Capital- A Case Study on the Impact of Economic Intervention. Paper No: 15, 2006-04-29.
- Bendera, O.M.S. (1997). Micro and Small Enterprise Potentials for Development: General Considerations” A paper presented to the workshop on Micro and Small Enterprise Research, November, Dar es Salaam.
- Bennett, L. (2008). Combining Social and Financial Intermediation to Reach the Growth of small business enterprises: the Necessity and Dangers. In Strategic Issues in Microfinance, ed. by M. Kimenyi, R. Wieland, and J.D. von Pischke (Ashgate Publishing).
- Berger, A.N. and Udell, G.F. (2002). Small business credit availability and relationship lending: The importance of bank organizational structure. *The Economic Journal*. 112: 32–53.
- Blavy, R. (2003). The Microfinance Sector in Guinea, in Guinea—Selected Issues and Statistical Appendix 2003 (Washington: International Monetary Fund).
- Brett, E.A. (1993). Providing for the Rural Growth of small business enterprises, Fountain Publishers Ltd Kampala-Uganda.
- Brix, L. and McKee, K. (2010). Consumer Protection Regulation in Low-access Environments: Opportunities to Promote Responsible Finance. CGAP Focus Note 60. Washington, DC: CGAP.
- Buckley, G. (1997). Microfinance in Africa: Is it either the problem or solution. *World Development*. **25**: 1081-1093.
- Carr, J.H. and Tong, Z.Y. (eds.) (2002). Replicating microfinance in the United States. Baltimore, MD: The Johns Hopkins University Press.

- Carter, D.A., McNulty, J.E. and Verbrugge, J.A. (2004). Do Small Banks Have an Advantage in Lending? An Examination of Risk-Adjusted Yields on Business Loans at Large and Small Banks. *Journal of Financial Services Research*. **25**: 233–252.
- Centre for the Study of Financial Innovation, CSFI. (2009). Microfinance Banana Skins 2009: Confronting crisis and change. <http://www.cgap.org/gm/document-1.9.35203/Microfinance%20Banana%20Skins%202009.pdf>., 2009
- CGAP. (2000). The Rush to Regulate: Legal Frameworks for Microfinance,” CGAP Occasional Papers, No. 4 (Washington: Consultative Group to Assist the Growth of small business enterprises).
- Chambers R. (1983). *Rural Development, Putting the Last First*: Longman Group (FE) Ltd, Printed in Hongkong.
- Chao-Béroff, R. (2003). Rural Savings Mobilization in West Africa: Guard Against Shocks or Build an Asset Base. *The Micro banking Bulletin*. 9: 16–18. (Washington: Microfinance Information Exchange).
- Chemin, M. (2008). The benefits and costs of microfinance: evidence from Bangladesh. *Journal of Development Studies*. 44: 463-484.
- Chijoriga, M.M. (1997). Potentials of Micro and Small Enterprises Financing Options in Kenya. A paper presented at the Faculty of Commerce Conference Makerere Uganda.
- Chopra, K. (2001). Social capital and Sustainable Development: The role of formal & informal institutions in a developing country ([www.iisd.org/pdf/pe\\_social\\_capital\\_sd.pdf](http://www.iisd.org/pdf/pe_social_capital_sd.pdf)). Downloaded: 2006-05-28.
- Cull, R., Demircuc-Kunt, A. and Morduch, J. (2009). Microfinance Meets the Market. *Journal of Economic Perspectives*. **23**: 167-192.
- Daniels, L. and Mead, D.C. (2010). The Contribution of Small Enterprises to Household and National Income in Kenya. *Economic Development and Cultural Change* 47: 45-71.
- De Aghion, A. and Morduch, J. (2003). Microfinance: Where Do We Stand? In *Financial Development and Economic Growth: Explaining the Links*, ed. by C. Goodhart (Basingstoke: Macmillan/Palgrave).

- Doyle, K. and Black, J. (2008). Performance Measures for Microenterprise in the United States, *Journal of Microfinance* 3: 12-17.
- Dunford, C. (2011) Building better lives. Sustainable integration of microfinance and education in child survival, reproductive health, and HIV/AIDS prevention for the growth of small business entrepreneurs. *Journal of Microfinance*. 3: 1-25.
- Elahi, K.Q. and Danopoulos, C.P. (2004). Microfinance and third world development: a critical analysis. *Journal of Political & Military Sociology*. 32: 61-77.
- Ellsrott, J. Jr. (1997). Procedure for Improving the Evaluation of SBDC Consulting Activities. *Journal of Small Business Management*. 23: 66-71.
- Engler, M. (2009). From microcredit to a world without profit? *Dissent*. 56: 81-87.
- Ferrand, D., Gibson, A. and Scott, H. (2004). Making markets work for the growth of small business enterprises: An Objective and an Approach for Governments and development Agencies: Published by the ComMark Trust, Maple Place South 145 Western service road Woodmead South Africa.
- Frazis, H., Gittleman, M. and Joyce, M. (2007). Determinants of Training: An Analysis Using GoKh Employer and Employee Characteristics”, Bureau of Labor Statistics, Washington, DC.
- Gardner, T., Moynihan, L. and Wright, P. (2003). The Impact of HR Practices on the Performance of Business Units. *Human Resource Management Journal*. 13: 21-36.
- GOK. (2000). National Micro Finance Policy. Dar-es Salaam.
- GOK. (2002). Household Budget Survey 2000/01, Key Findings, Dar es Salaam [http://www.Kenya .go.tz/hbs/Key\\_Findings\\_HBS\\_Eng.pdf](http://www.Kenya.go.tz/hbs/Key_Findings_HBS_Eng.pdf).
- GOK. (2003). Small and Medium Enterprise Development Policy”, Dar es Salaam,.
- GOK. (2004). National Strategy for Growth and Alleviation of Growth of small scale business enterprises (MKUKUTA)”, Dar es Salaam, October.
- Gonzalez, A. (2010). Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008. MIX Data Brief no. 7.
- Goodwin-Groen, R. (2008). The Role of Commercial Banks in Microfinance: Asia Pacific Region. Brisbane, Australia: Foundation for Development Cooperation.

- Hartarska, V. (2005). Governance and performance of microfinance institutions in Central and Eastern Europe and the Newly Independent States. *World Development* 33: 1627-1643.
- Hashemi, S., Schuler, S.R. and Riley, A.P. (1996). Rural Credit Programs and Women Empowerment in Bangladesh. *World Development*. 24: 635-653.
- Hirschland, M. (2003). Serving Small Depositors: Overcoming the Obstacles, Recognizing the Tradeoffs. *The Micro Banking Bulletin*, No. 9, pp. 3-8 (Washington: Microfinance Information Exchange).
- Hossain, F. and Knight, T. (2008). Can micro credit improve the livelihoods of the growth of small business enterprises and disadvantaged? *International Development Planning Review*. 30: 155-175.
- Hulme, D. and Mosley, P. (1996). Finance against growth of small business enterprises. Vol. 1. London and New York: Rutledge.
- Huselid, M. (1995). The Impact of Human Resources Practices on Turnover, Productivity, and Corporate Financial Performance. *Academy of Management Journal*. 38: 635-872.
- Imboden, K. (2005). Building inclusive financial sectors: the road to growth and growth of small scale business enterprises alleviation. *Journal of International Affairs*. 58: 65-86.
- Institute of Economic Affairs & Society for Economic Development [IEA/SED] (2001). Kenya at Cross Roads Scenarios for our Future. Nairobi.
- Kessey, S.S.A and Urio, F.M. (2012). The distribution of microfinance institutions in Kenya . Report presented to the 6<sup>th</sup> International Conference on Growth of small scale business enterprises alleviation in Africa. Nairobi, Kenya.
- Khandker, S. and Haughton, J. (2009). Handbook on growth of small scale business enterprises and inequality. Washington, DC: The World Bank. Retrieved from [http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Growth\\_of\\_small\\_business\\_enterprises\\_Inequality\\_Handbook\\_Ch01.pdf](http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Growth_of_small_business_enterprises_Inequality_Handbook_Ch01.pdf).
- Kiiru, W.K. (2011). A review of the institutional lending to the jua kali and small enterprise sector in Kenya. Geneva: International Labour Organisation.

- Kirkpatrick, C. and Maimbo, S. (2002). The implications of the evolving microfinance agenda for regulatory and supervisory policy. *Developing Policy and Review*. 20: 293-304.
- Kothari, C.R. (2005). *Research methodology: Methods and techniques*. Daryaganj, New Delhi: New Age International (P) Ltd.
- Koul, L. (1993). *Methodology of Educational Research*. New Delhi: Vikas Publishing VT. Ltd.
- Kuzilwa, J.A. *The Role of Credit for Small Business Success: A Study of the National Entrepreneurship Development Fund in Kenya*. A Paper Presented at the 8<sup>th</sup> Annual International Conference on Entrepreneurship and Small Business Development (ICAESB), White Sand Hotel, Dar es Salaam, 2012.
- Ledgerwood, J. *Microfinance Handbook: An Institutional and Financial Perspective* (Washington: The World Bank), 2009.
- Lee, N. *Developing and applying regulatory impact assessment methodologies in low and middle income countries: Center on Regulation and Competition*. IDPM, Working Paper No. 30. University of Manchester, 2002.
- Longenecker, J.G., Petty, C.W., Moore, J.W. and Palich, L.E. (2006). *Small Business Management, An entrepreneurial emphasis*. London: Thomson South Western.
- Mersland, R. and Strøm, R.Ø. (2009). Performance and governance in microfinance institutions. *Journal of Banking and Finance*. 33: 662-669.
- Microbanking Bulletin. (2005). *Performance and Transparency. A survey of Microfinance in Kenya*. The MIX Market, [www.mixmarket.org](http://www.mixmarket.org) (accessed in Jun 2006).
- Midgley, J. (2008). Microenterprise, global growth of small scale business enterprises and social development. *International Social Work*. 51: 467-479.
- Mosley P. (ed) (2003). *Growth of small scale business enterprises and Social Exclusion in North and South*, Routledge, Taylors & Francis Group, 2003.
- Mosley, P. (2009). *Microfinance and Growth of small scale business enterprises in Bolivia*. *Journal of Development Studies*. 37: 101-132.
- Mugenda, O.M. and Mugenda, A.G. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Act Press.
- National Bureau of Statistics, Kenya: <http://www.nbs.go.tz/Census2002/Kenya/Kenya>

- .htm (Accessed on August 7, 2004).
- Oketch, H.O. (2008). Gender Equity. In A. Mullei and A. Bokea (eds). Micro and small Enterprises in Kenya: Agenda for improving the Policy Environment. Nairobi: ICEG.
- Ondeng, P. (2010). Handout for: International Workshop ‘expanding the Frontier of Rural Finance. International Agricultural Centre.
- Oso, W.Y. and Onen, D.A (2005). General guide to writing research proposal and report: A Handbook for beginning researchers. Kisumu: Option Press.
- Ouattara, K. (2003). Microfinance Regulation in Benin: Implications of the PARMEC Law for Development and Performance of the Industry,” Africa Region Working Paper, No. 50 (June) (Washington: World Bank), 2003.
- Oyeyomi, O.E. (2003). An Assessment of Growth of small scale business enterprises Reduction Strategies in Nigeria (1983-2002). A dissertation submitted in partial fulfillment of the requirement for the award of the doctor of philosophy of the St Clement University.
- Peralta O.B. (2003). The Role of Financial Sector in Growth of small scale business enterprises Alleviation . UNEP F1 Global Roundtable, Tokyo.
- Pilipinas, B.S. (2002). Notes on Microfinance.  
[http://www.bsp.gov.ph/archive/Regulations\\_2002/Circulars/notes.htm](http://www.bsp.gov.ph/archive/Regulations_2002/Circulars/notes.htm).
- Randhawa, B. and Gallardo, J. (2003). Microfinance Regulation in Kenya: Implications for Development and Performance of the Industry.  
<http://www.worldbank.org/afr/wps/wp51.pdf>.
- Roth, J. (2004). The Limits of Micro Credit as a Rural Development Intervention: Prepared for the Institute for Development Policy and Management- Manchester University.
- Rutherford, S. (1999). The Growth of small business enterprises and Their Money, Finance and Development Research Program Working Paper, No. 3, Institute for Development Policy and Management, University of Manchester.
- Senbet, L., & Otchere, I. (2008). Beyond Banking: Developing Markets; African Stock Market. African Finance for the 21st Century High-Level Seminar Organized by the IMF Institute in Collaboration with the Joint Africa Institute. Tunisia,

- Stiglitz, J.E. (2001). Principles of Financial Regulation: A Dynamic Approach,” The World Bank Observer 16, Spring: pp. 1–18.
- Storey, D.J. (2009). Six Steps to Heaven: Evaluating the Impact of Public Policies to Support Small Businesses in Developed Economies”, in D. Sexton and H. Landström (eds.), Handbook of Entrepreneurship, Oxford, Blackwell, 2009.
- The World Bank Group. (2010). PovcalNet. Retrieved January 15, from <http://iresearch.worldbank.org/PovcalNet/povDuplic.html>.
- Tomecko, J. and Dondo, A. (2002). Improving the potential of small scale and informal sector. Nairobi: K-REP and GTZ.
- United Nations Capital Development Fund, UNCDF. (2010). Microfinance and the millennium development goals: a reader’s guide to the millennium project reports and other UN documents. Retrieved January 17, 2010, from [http://www.yearofmicrocredit.org/docs/mdgdoc\\_MN.pdf](http://www.yearofmicrocredit.org/docs/mdgdoc_MN.pdf).
- United Nations. (2009). The millennium development goals report 2009. New York, NY: United Nations. Retrieved January 15, 2010, from [http://www.un.org/millenniumgoals/pdf/MDG\\_Report\\_2009\\_ENG.pdf](http://www.un.org/millenniumgoals/pdf/MDG_Report_2009_ENG.pdf), 2009.
- Von Pischke, J.D., Adams, D.W. and Donald, D. (1983). Rural Financial Markets in Developing Countries: Their Use and Abuse. John Hopkins University: Baltimore, 1983.
- Wangwe, S. and Semboja, H. (1997). Establishing Micro and Small Enterprise (MSEs) Research Programme. A paper presented to the workshop on Micro and Small Enterprise Research, November, Dar es Salaam.
- Woller, G., Dunford, C. and Woodworth, W. (2011). Where to microfinance. International Journal of Economic Development. **1**: 29-64.
- World Bank. (1997). Voices of the Growth of small business enterprises: Growth of small scale business enterprises and Social Capital in Kenya,” Environmentally and Socially Sustainable Development Studies and Monograph Series, No. 20 (Washington: World Bank).
- Yamane, T. (1967). Statistics, introductory Analysis of problems. Happer Collins Publisher Inc. U.S.A.
- Yunus, M. (2007). Credit for the growth of small business enterprises: growth of small



scale business enterprises as a distant history. *Harvard International Review*.  
**29**: 20-24.

## APPENDICES

### **Appendix I: Introduction letter**

GLADYS NANYAMA

University of Nairobi

Department of Extra-mural studies

Dear Respondent,

I am a Masters student in Department of Project Planning and Management, University of Nairobi undertaking a research on **“Influence of Micro-financing on Growth of Small Business Enterprises (SBCs) in Kenya: A Case of Small Business Enterprises in Webuye Division, Bungoma County.”**

I am requesting for your assistance by filling in the questionnaires that will enable me accomplish my research objectives. All responses will be treated with total confidentiality. Do not therefore write your name anywhere on the questionnaire. Please kindly respond to all items (questions).

Thank you

Yours sincerely,

Gladys Nanyama

L50/75605/2012

## Appendix II: Questionnaires for the SBEs

### Part I: Personal and business back ground

1. Age of respondent:

- Less than 25 years
- 26-35 years
- 36-50 years
- More than 50 years

2. What is your highest level of education?

- None
- Primary
- Secondary
- Tertiary
- University

3. Occupation before you started the business?

- Unemployed
- Employed
- Operating another type of business
- Farmer
- Others (Specify)\_\_\_\_\_

4. Please indicate the name of the financial institution?

.....

5. What is the nature of your business?

- Trade and Commerce
- Manufacturing
- Service

5. Who manages the business on a day today basis?

- Self
- Wife
- Husband

- Employees
- Son
- Relative

6. For how long has the current business been in existence?

- Less than 1 year
- 1-3 years
- 3-5 years
- Over years

**Part II: Access to credit for the small scale business enterprises**

1. Did you borrow the money you invested in the business from a financial institution?

Yes  No

2. How much money did you borrow for the business?

Kshs . .....

3. If yes in (2) above, indicate in the table below how the business has been performing before and after the loan?

| Item         | Before The Loan (Kshs ) | After the loan |                |                |                |                |                |
|--------------|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|              |                         | Year 1<br>Kshs | Year 2<br>Kshs | Year 3<br>Kshs | Year 4<br>Kshs | Year 5<br>Kshs | Year 6<br>Kshs |
| Sales        |                         |                |                |                |                |                |                |
| Income       |                         |                |                |                |                |                |                |
| Profits      |                         |                |                |                |                |                |                |
| Employees    |                         |                |                |                |                |                |                |
| Size(branch) |                         |                |                |                |                |                |                |

---

**Part III: Entrepreneurial training/capacity building to the small scale business enterprises**

1. What is the minimum level of education of the manager(s) of your SBE(s) ?

- None
- Primary
- Secondary
- Tertiary
- University

2. Does entrepreneurial training add value to the growth of your business?

Yes  No

3. Does the training provide you with the business management skills?

Yes  No

4. Does the training cover the following areas?

- |                             |                              |                             |
|-----------------------------|------------------------------|-----------------------------|
| Basic accounting,           | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Financial analysis          | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Overall business management | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

---

**Part IV: Savings**

**1. What is the Contribution of savings Account to your profit margins?**

No increase of profit margins

An increase in profit margin

2. What is your comment about Changes in sales volume after saving in Banks

No increase in sales

Increase in sales

3. How do you rate your business?

Very successful

Unsuccessful

**Part V: Terms of repayment and regulatory framework**

What is your comment on the following statements with regards to the terms of payment and regulatory framework of the Microfinance institutions (MFIs)

| Responses  | Strongly agree           | Agree                    | Disagree                 | Strongly disagree        | Don't you know           |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) A grace period is provided for                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Repayment amounts are flexible.                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Extensive paperwork and processes before fund disbursement. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d) Regular updates on the performance of the enterprises.      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e) Defaulting results confiscation of property.                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f) Regular supervision is done by the officials of the MFI.    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Appendix III: Determining sample size for research activities

| N   | S   | N    | S   | N       | S   |
|-----|-----|------|-----|---------|-----|
| 10  | 10  | 220  | 140 | 1200    | 291 |
| 15  | 14  | 230  | 140 | 1300    | 297 |
| 20  | 19  | 240  | 148 | 1400    | 302 |
| 25  | 24  | 250  | 152 | 1500    | 306 |
| 30  | 28  | 260  | 155 | 1600    | 310 |
| 35  | 32  | 270  | 159 | 1700    | 313 |
| 40  | 36  | 280  | 162 | 1800    | 317 |
| 45  | 40  | 290  | 165 | 1900    | 320 |
| 50  | 44  | 300  | 169 | 2000    | 322 |
| 55  | 48  | 320  | 175 | 2200    | 327 |
| 60  | 52  | 340  | 181 | 2400    | 331 |
| 65  | 56  | 360  | 186 | 2600    | 335 |
| 70  | 59  | 380  | 191 | 2800    | 338 |
| 75  | 63  | 400  | 196 | 3000    | 341 |
| 80  | 66  | 420  | 201 | 3500    | 346 |
| 85  | 70  | 440  | 205 | 4000    | 351 |
| 90  | 73  | 460  | 210 | 4500    | 354 |
| 95  | 76  | 480  | 214 | 5000    | 357 |
| 100 | 80  | 500  | 217 | 6000    | 361 |
| 110 | 86  | 550  | 226 | 7000    | 364 |
| 120 | 92  | 600  | 234 | 8000    | 367 |
| 130 | 97  | 650  | 242 | 9000    | 368 |
| 140 | 103 | 700  | 248 | 10000   | 370 |
| 150 | 108 | 750  | 254 | 15000   | 375 |
| 160 | 113 | 800  | 260 | 20000   | 377 |
| 170 | 118 | 850  | 265 | 30000   | 379 |
| 180 | 123 | 900  | 269 | 40000   | 380 |
| 190 | 127 | 950  | 274 | 50000   | 381 |
| 200 | 132 | 1000 | 278 | 75000   | 382 |
| 210 | 136 | 1100 | 285 | 1000000 | 384 |

From R. V. Krejcie and D.W. Morgan (1970). Determining sample size for research activities, Educational and Psychological measurement, 30, 608. Sage publication.