DEVELOPMENT FINANCE AND ITS EFFECTS ON INVESTMENT AND EMPLOYMENT IN MSES IN NAIROBI COUNTY

BY

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DEDICATION

*To my dearest mother-**Jessie.***

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ABREVIATIONS

AFC	Agricultural Financing Corporation
CBK	Central Bank of Kenya
DFI	Development Finance Institution
FSD-K	Financial Sector Deepening Kenya
GoK	Government of Kenya
ICDC	Industrial and Commercial Development Corporation
IDB	Industrial Development Bank
KIE	Kenya Industrial Estates
KNBS	Kenya National Bureau of Statistics
MSEs	Micro and Small Enterprises
MSMI	Micro, Small and Medium Industries
RAC	Risk and Assessment Committee
SMMEs	Small, Micro and Medium Enterprises
SME	Small and Medium Enterprises
TFC	Tourism Finance Corporation

ABSTRACT

One essential component of promoting development is access to finance. This is because finance is capable of opening opportunities to all people and it enables them to be competitive, innovative and skillful in generating employment opportunities and income for their society. These processes are further enhanced when the institutions providing finance are well established and can respond to state of development of a country. In Kenya for instance, the financial system is said to be fairly developed yet there still lingers the question of how small and micro businesses are going to expand and grow. Furthermore, the most accessible financial institutions have failed to respond to the needs of small and micro businesses. Their borrowing policies especially in regard to the interest rate, collateral requirement, and repayment period often locks out potential business owners. Given these circumstances, this paper sort to look into the effects of receiving financial support at a concessionary rate by looking into development finance. The main research objective was to explore the effects of utilizing loans from development finance institution on employment and investment. This was done by looking into the financial product offered by KIE and its effect on micro and small businesses. The choice of studying investment and employment was prompted by the assumption that business owners could gain easier access to finance and invest in businesses without creating employment opportunities hence creating a state of jobless growth. This study was grounded under the theory of development finance and supported by the theory of financial capability. This is because the study acknowledged that the nexus between access to finance and the desired outcome is not always linear. This study employed a mixed methods design. The qualitative technique was used through administering an interview guide to the key informant. The quantitative technique was used through administering a structured questionnaire to 51 micro and small businesses. This study found out that the business commonly funded were cyber cafés. More men than women used development finance for their businesses and the most common age of people who used this type of funding were person above the age of 40 years. A Cramer's V test was used to determine the strength the relationship of variables under-study. The survey data that was used found out there was no relation to using development finance and increasing investment nor employment in most cases.

CHAPTER 1 : INTRODUCTION

Finance is an essential part of the development process (World Bank , 2008). Financial systems tend to facilitate key functions of finance such as: producing information beforehand about possible investments prospects and consequently allocating capital to them. They also monitor investments and exert corporate governance after providing finance. Additionally, financial systems facilitate, diversification, and management of risk, mobilization of savings so as to ease the exchange of goods and services (Levine, 2005). Thus, in cases where financial systems perform these functions well, they tend to reduce information and transaction costs, as they direct funds to the most productive uses and allocate risks to those who can best bear them, thus boosting economic growth, improving opportunities and income distribution, and reducing poverty (Levine, 1997; World Bank , 2008).

One of the countries in the African continent that is said to be having a fairly well-developed financial system is Kenya. This is based on the grounds that it has a banking system, insurance and capital markets, pension funds, quasi-banking crafted by Savings and Credit Cooperative Societies, Microfinance institutions, building societies, Development Finance Institutions (DFIs) and informal financial services such as Rotating Savings and Credit Associations (Popiel, 1994; Uddin, Sjö and Shahbaz, 2013) in (Bakang, 2015). These institutions are mandated to help firms and households grow, trade and raise savings by mobilizing reserves, ensure that these finances are apportioned to the most constructive use, and providing liquidity so that businesses can function proficiently (Bakang, 2015). In Kenya, one key financial institution expected to fulfill this mandate are DFIs. They are recognized as important catalyst to growth and economic development (GoK , 2013). Therefore, in this section this study expounds on the concept of DFIs. It also looked into their evolution, changing mandate, specifically discusses their evolution in Kenya and discusses their relation to investment and employment.

In general, Development Finance Institutions give precedence to financing of projects that yield substantial, social, environmental and economic advantages through issuing long-term finance (Bruck, 1998). They gained prominence in the early 1950's as a result of the contributions of development economists who believed that the delivery of long-term financing would accelerate economic growth (Bruck, 1998). During that time, long-term financing was deemed necessary as it was used to facilitate post-war reconstruction efforts and development (Bruck, 1998; Romero, 2017). However, this has not been their universal experience (Romero, 2017) as the nature of these institutions, in different countries, has been determined by the nature of the society, the development context and economic environment (Bruck, 1998). Moreover, the scope of development financial institutions now range from National, Regional to Global institutions[1] (Romero, 2017).

Currently, DFIs have been considered as specialized institutions designed to mobilize resources for medium and long-term financing, primarily towards fostering development in the private sector so as to promote growth, employment and they are usually controlled by the government, although the degree of control and independence varies (Grosh, 1987; Ongeri, 1991; Lemma, 2015). In their evolution, their intent has been to attend to the disadvantaged sectors of the populace and segments that have an unfulfilled need for finances, thus functioning under the basis that ameliorating entry to financial institutions is crucial for efficient economic progress (Francisco et al., 2005). This has consequently seen the role of DFIs ranging from: equity participation in firms, offering loans and guarantees to investors and entrepreneurs, investment financing for shared infrastructure projects, and they also finance SMEs by offering micro loans as these enterprises regularly seen as being too perilous by conventional sources of financing (Dickinson, 2008; Mbogo & Nzulwa, 2018).

Kenya had seven DFIs formed between 1954 and 1973. Upon independence, the Government of Kenya took deliberate efforts to set up various DFIs and tasked them with the obligation of providing firms and ventures with equity and long-term loans which commercial banks were unable or unwilling to supply (Njenga, Ngugi, & Mwaura, 2006). However, a strong push for the privatisation and commercialisation of these institutions between 1980s to the 1990s, by the Bretton Woods Institutions, saw a global decrease of national DFIs and a significant decrease in the size of several of those that were not shut (Romero, 2017). In Kenya, additional financial reforms were conducted including the adoption of the basel core principles and the Government of Kenya adopted a number of strategies including: instituting a proper legal and institutional

[1] National DFIs are institutions set up at national level; Regional DFIs support continent-wide and sub-region initiatives and include the African Development Bank, Asian Development Bank and European Development Bank; Global DFIs support global initiatives and includes the International Bank for Reconstruction and Development (Romero, 2017).

framework, reforming the banking sector to have few strong banks and deepened financial markets, in an attempt to increase savings and investment opportunities (Mwangi, 2017). Thus, with these reforms, this saw a reduction to five DFIs which are currently considered viable in Kenya (GoK , 2013). However, despite these reforms the Instutions remained unsubjected to prudential guidelines by government departments but they are registered to provide formal financial services (Mwangi, 2017).

The five existing DFIs in Kenya encompass: Industrial & Commercial Development Corporation formulated under Corporation Act Cap 445 in1954. The key mandate of the institution was to promote industrialization and financial growth of Kenya. Sixty-three years down the line, it still continues to endorse projects in areas that have the prospects for occupation and prosperity generation therefore solidifying the country's competitiveness and aiding in hastening economic growth[2]. Industrial Development Bank and Kenya Industrial Estates (KIE) were formulated under Companies Act. Cap 486 in 1973 and 1967, respectively (GoK , 2013). KIE was mandated to transform local small scale entreprises to be industrial in nature. It was also mandated to facilitate impartial dispersal of provincial natural resources, and efficiently use indigenous reserves and offer manufacturing shacks, cheaper loans and programs that enhance the development of skills of locally owned MSMI (GoK , 2013). On the other hand Industrial Development Bank assists the large, small and even medium businesses in any sector of the economy. The corporation helps new as well as prevailing businesses, those seeking extension and an upgrade (Mbogo & Nzulwa, 2018). Additionally, Agricultural Finance Corporation was formulated under Act. Cap. 323 in 1969 and tasked in assisting in the effective and peaceful transfer of land to local farmers, as well as introduce new capital programs to farm owners to spur development. Upon completing this implementation successfully, Agricultural Financiang Corporation was reconstituted to focus on the expansion of agronomy and agro-industries by providing credit to cultivators, groupings plus also people participating in farming or are in the agro-industry sector. Finally, the Tourism Finance Corporation, the formerly Kenya Tourist Finance Corporation formed in 1965[3], was enacted under

[2] This information was obtained from the Organization's website: http://www.icdc.co.ke/index.php/about-us/who-we-are/rich-history

[3] Formerly KTFC was mandated to investigate and formulate projects for the elevation or development of original or current tourism firms.

The Tourism Act, 2011 to facilitate growth, organization, promotion and control of ecological tourism-related activities and tourism and services (GoK, 2011).

In accordance to Kenya's national development blueprint, Vision 2030, these DFIs, which provide development finance, are expected to contribute towards greater financial access and investment and to also create long-term finance especially towards targeted sectors or groups like SMEs, youth, women (Mwega, 2014). Therefore, given that these Institutions are obligated to fulfil these provisions, this study intended to find out what has been the effect of the financial product offered by one of Kenya's national DFI's on investment and employment in MSEs. It explored this effect by looking into KIE and various MSEs in Nairobi county. KIE was the institution under study because its main aim has been promoting indigenization of MSMIs. A recent publication by the KIE (2015) indicates that the institution offers: inexpensive medium to long-term finance to MSMIs, either for the expansion, modernization/rehabilitation orpromotion of start-ups, by focusing on priority sectors identified in Vision 2030. It also offers special credit for relegated areas and group loans[4]. This therefore, motivates to build on empirical evidence of the activities and loan-product KIE has offered on over time.

In this study MSEs were a priority sector to look into because, in Kenya, the MSME unit has been prioritized as a central growth-driver for the fulfilment of the national development blue print, Vision 2030. This sector has been acknowledged for its role in the supply of merchandise, promotion of innovation, creation of employment and mitigation of insufficiency (KNBS, 2016). Given that MSEs have these competencies, it was important for this study to establish what could be their potential in fostering investment and employment by using development finance. Additionally, in this study, the motivation to studying investment and employment growth was driven by the fact that firms may grow by increasing their productivity, without ever increasing labor (Ayyagari, Juarros, Peria, & Singh, 2016). Therefore, this study aimed to look into whether investment by various firms lead to greater employment opportunities.

[4] This information is also available on the Institution webpage: http://www.kie.co.ke/index.php/products-and-services/financial-support-services

1.1 Background of the research

This section gives an account of the financial developments gains that have happened in Kenya and introduces the problem statement. To begin with, it is worth noting that over the last ten years, Kenya has experienced a tremendous revolution in its financial sector which has been motivated by the need to enhance stability in the financial markets and efficiency in the supply of financial services at the least cost and to the majority (Mwangi, 2017). In particular Kenya's formal financial platforms usage has increased from 15% in 2006 to 42.3% 2016 and financial exclusion has shrank from 41.3% in 2006 to 17.4% in 2016 (CBK, KNBS, & FSDK, 2016). Furthermore, Mwangi, (2017) indicates that as at 31st December 2015 Kenya's finacial sector consisted of 42 licensed commercial banks out of which, 26 were native-owned, fourteen were offshore-owned private commercial banks and three government-owned (CBK, 2015). These developments are in accordance to the country's national blueprint, Vision, 2030, which necessitates the importance of widespread access in order to promote savings. Consequently, this would increase the supply of funds that would encourage investments as the cost of capital would be low hence promoting economic growth (GoK, 2007).

Despite these financial developments gains that are meant to foster development and growth, Kenya's economic performance still remains low and this pace of financial inclusion does not match the speed of poverty reduction nor growth (Mwangi, 2017). More specifically, these financial developments gains were seen to be of importance as they were to increase financial access to MSE since they are considered engines for creating industrial development, job creation and poverty decrease in Kenya (GoK, 2007; Atieno, 2009).

Evidence indicates that MSMEs still face financial contraints and over time conventional sources of financing have rotated around private savings, loans from networks and households, and informal sources (KNBS, 2016). This is because the financial section is dominanted by 4 to 5 sizable banks which account for the bulk of deposits and whose borrowing policies are unfit for traders while the remaining reliable banks are small and have limited outreach (GoK, 2007). More recently, in 2012, there were 12 banks regulating 32.8 per-cent of the off-shore-owned Banks market share with the four key banks: CFC, Citibank, Standard Chartered Bank, Barclays Bank, and Stanbic, controlling 25 per-cent of the total market (Upadhyaya & Johnson, 2015). This has resulted to a less competitive financial market and brought about high-priced loan prices which has consequently lowered demand for credit due high collateral requirements especially for MSMEs (GoK, 2007; KNBS, 2016).

Globally, lack of finance has been limiting opportunities for micro-and-small enterprises causing insistent disparities and sluggish development (World Bank , 2008). This opinion of financial market failure has validated the allotment of scarce government resources through DFIs. DFIs act as means of government's conduits to enhance its social intents, serve those sectors that are normally not financially alluring to banks because of their locale, risky nature, lowly and unstable revenue, all of which relates transaction costs and information asymmetry problems (Yaron, 1992; Francisco et al,. 2005).

Currently, DFIs in Kenya are not substantive players' in Kenya's robust financial-markets space. They are of a small scope as they account for less than one-percent of banking sector assets and they also suffer from ineffective administration (GoK , 2013). This is because the DFIs were incapable of transitioning effectively through the policies of denationalization in the early 1980s and 1990s. DFIs found it challenging to accustom to the transformed market and gradually degenerated (GoK , 2013). However, because commercial banks depend on short term credit for their funding, there have been calls to consolidate the five DFIs and formulate a Kenya Development Bank so as to address the crucial gap in the marketplace for long term financing for key segments such as agriculture and agro-industry, infrastructure (GoK , 2013).

1.2 Problem Statement

Access to development finance is important for the development of small-and-micro entreprises and the private sector (Francisco et al., 2005; Njenga, Ngugi, & Mwaura, 2006; Romero, 2017). In economies with significant capital limitations, these banks serve to relieve finance shortage and promote entrepreneurial activities by boosting new or existing firms. However, there's little empirical evidence to support this (Musacchio, Lazzarini, Makhoul, & Simmons, 2017). Studies indicate that one major constraint entrepreneurs in Kenya and also Africa face, is the lack of access to credit (KNBS, 2016; Atieno, 2009) to facilitate their entrepreneurial activities. This raises concern to look into the existing financing options and to find out why they are unable to meet entrepreneurial demands.

The operations of commercial organizations in Kenya, in terms of lessening monetary restraints, especially towards those small-scale businesses, has been the subject of much discussion. Studies indicate that the financial policies in place, in terms of criteria to determine creditworthiness and loan processing and disbursement procedures, have limited the amount of credit available to MSEs (Atieno, Barako, & Bokea, 2010). Despite making efforts to improve wide-spread financial access in the country, evidence still indicates that small-holder entities are still experiencing financial constraints which is a key aspect to facilitating their entrepreneurial activities. Insofar as, there is still a glaring financing gap in Kenya, raising concern as to how the private sector and MSEs are going to expand and grow without appropriate finance to ensure long-term investment (Njenga, Ngugi, & Mwaura, 2006).

In Kenya, the most preferred financial instrument to access credit are the mobile financial services and informal providers. Informal and mobile loans largely cater for emergencies and day-to-day needs, inspite of the efforts done by the Central Bank of Kenya to escalate numerous official lending plans to MSMEs so as to enhance entrepreneurial activities (CBK, KNBS, & FSDK, 2016; KNBS, 2016). Other formal conventional institutions such as commercial banks are less preferred by MSMEs as they charge high interest rates on their loans (KNBS, 2016). Studies indicate that the performance of the majority of micro-finance institutions, institutions that were formed to serve the poor, have been recording negative growth since 2009 (Ali, 2015; Otieno, Nyagol, & Onditi, 2016 in David & Muendo, 2018). This has been due to the costly and stringent regulations enacted in 2006, which has consequently discouraged investors from venturing into this sector (David & Muendo, 2018). Noteworthy is the fact that despite high repayment rates to these MFIs, it has not translated into profits and programs continue to be subsidised and some of the best programs have not benefitted the poorest (Atieno, Barako, & Bokea, 2010).

Kenya's DFIs can provide possible solutions to ensuring that entrepreneurial development is strengthened given that they can provide adequate and appropriate financing (Njenga, Ngugi, & Mwaura, 2006). National DFIs were key actors' in the financial segments of many countries as they advanced, and they continue to play an crucial part today predominantly in emerging nations (Romero, 2017). Therefore, it is important to look into DFIs because they offer loans at a concessionary rate and they can make an essential contribution to broadening maturities in the financial sector and they assemble resources for under-served segments of the economy. They also play a helpful balancing function to the existing financial institutions (Calice, 2013). Moreover, access to finance is important as enables to firms to accumulate portfolios and avoid running out during crunches. Thus accessibility of credit rises the possible growth of the existing businessed during times of macroeconomic volatility (Nkurunziza 2005 in Atieno, 2009).

Whereas finance is deemed necessary for the growth of MSMEs, research into the features of these firms shows that many of these enterprises are small, disorganized and managed by inadequately educated entrepreneurs who are highly unproductive (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2017). In order to access external financing, firm entrepreneurs require extensive financial capabilities competencies that are diverse from those required by normal individuals in order to manage their enterprise finances and develop their enterprises sustainably (Zottel, Khoury, & Varghese, 2018). While theoretical evidence demostrate this as being imperative, there is little empirical evidence especially in regard to the usage development finance to support this.

DFIs have been acknowledged to be important financial players in developing and developed countries alike. However, there exists scant experimental investigation in regard to development finance. What we are familiar with when it comes these banks is centered on theoretical or descriptive research, rather than empirical analysis of the tools they use and also the effects of their activities (Amsden 1989; Bruck 1998; Armendáriz de Aghion 1999; Aronovich and Fernandes 2006, in Musacchio, Lazzarini, Makhoul, & Simmons, 2017).

This study therefore, endeavours to explore what has been the effect of accessing development finance especially in generating investment and employment opportunities in MSEs as opposed to previous studies that have focused on the functioning of these DFIs. This was done by looking into the financial package offered by KIE and various MSEs which have previously benefitted. It is important to note that KIE has been focused on giving cheap loans and improving business talents of indigenous-owned MSMIs (GoK , 2013). In regards to the study's variables investment and employment, the study adopts the definition employment as per the KNBS, (2016) report of people at work: those who through a referenced time completed some employment for a pay and individuals with a job but not at work to signify official attachment. Investments on the the hand will be used to refer to expenditures made now to make gains in future which could take the form of growth of human and physical capital, as well as technological progress (Macharia, 2012) (Virlics, 2013).

1.3 Research Questions

The overall research question of the study was: What are the effects of utilizing development finance on investment and employment by MSEs? To answer this question, the following questions were proposed:

1. What is the nature of loans offered by the DFIs?
2. What are the characteristics of MSEs accessing loans from this DFI?
3. What is the relationship between loans accessed and investment by MSEs?
4. What is the relationship between loans accessed and employment by MSEs?

1.4 Research Objectives

The overall objective of this research was to explore the effects of utilizing loans from development finance institution on investment and employment. The precise objectives of the study were:

1. To find out the characteristics of the loans offered by the DFIs
2. To identify the characteristics of the MSEs that access loans from DFIs
3. To establish the effect between loans accessed from this DFIs and investment
4. To determine the effect between loans accessed from this DFIs and employment

1.5 Justification for the study

Access to development finance is particularly important for the development of MSEs, however, there is little empirical evidence to indicate this. Development finance extends long-term credit and contributes to economic development by removing credit shortage especially towards these micro-and-small enterprises given that they, MSMEs, have been recognized and spotlighted as significant growth drivers for the accomplishment of Kenya's national blueprint (Njenga, Ngugi, & Mwaura, 2006; KNBS, 2016). Most studies, as aforementioned, seek to show the theoretical importance of development finance (Musacchio, Lazzarini, Makhoul, & Simmons, 2017) while other studies are skewed towards improving existing conventional methods which have not been received well by the MSEs. In this study, the link between access to finance, investment and employment has been looked into as an empirical question (Ayyagari, Juarros, Peria, & Singh, 2016). This study contributes to policy by demonstrating the importance of using alternative financial service providers, such as DFIs, which can support high investment rates as envisioned in Kenya's Vision 2030 (GoK, 2007). This study was therefore important as it sought to build on the little empirical evidence of the importance of development finance to MSMEs, familiarize with the population who access and utilize it and further propose policy options to address the financing gap that impede the growth and development of Kenya's MSMEs.

1.6 Limitation of the study

This study limited itself to being conducted in Nairobi County. It used the study area as per the classification by KIE to include Nairobi and Kiambu. To that extent, it limits the applicability of the findings to the other geographical locations which also receive funding from KIE. It should therefore be noted that conclusions made in this study have been restricted the to the sample and study sites used in this study. Thus, any further conclusions and application to areas outside the study area should be made with caution. The study also limited itself to exploring access of loans from DFIs and specifically focused on KIE. Given that there is an array of various financial products and options in the country, including other development finance institutions, the findings of this study were only limited to the usage of development finance from KIE. Thus, generalizations about access to finance on business-growth should therefore be made with a lot of caution. This study also focused on enterprise owners who had taken up loans from KIE. Business owners who had not taken up loans from this Institution were left out of the study. Therefore, the findings of this study are only applicable to business owners who had taken up a loan from KIE and not all business owners in general.

CHAPTER 2 : LITERATURE REVIEW

This section is divided into four sections. The first section pertains to the theoretical literature review which discusses a relevant theory to conceptualizing development finance and its contributing aspects towards economic development, in this section, the theory is further supported by the financial capability approach, as the study acknowledges that the connection between access to finance, employment and investment is not linear. In the second section, empirical literature review, the study looks into relevant previous studies that have focused on: development finance, MSMEs that have accessed development finance, and the relationship between development finance, employment and investment. The third section proposes a theoretical framework under which this study is based on. Finally, the fourth section endeavors to diagrammatically show the relationship between the studies variables that are: development finance, employment and investment.

2.1 Theoretical literature Review

2.2 Theory of Development Finance

Improved access to finance is likely to reduce inequality as well as promote growth and lead to a reduction in poverty (World Bank , 2008). Theoretical perspectives about this relationship has often two surrounded arguments. The first perspective is based on the argument that well-performing financial establishments spur technological innovation by distinguishing and funding those persons with the greatest probabilities of effectively implementing innovative products and production processes. The second perception is based on whether economic development generates demands for specific kinds of financial arrangements, and the financial system responds involuntarily to these demands (Levine, 1997). Increasingly, modern development theory studies the progress of growth, relative income dissimilarities, and their tenacity in combined models. In many of these models, financial market imperfections play a vital function in prompting key choices made regarding physical and human capital build-up and occupational choices (World Bank , 2008).

Financial market imperfections, such as information asymmetries and transactions costs, are particularly a predicament that limit the gifted deprived micro- and small enterprise owners who lack securities, credit histories, and any genuine associations, thus reducing their prospects. This state leads to constant disparities and sluggish growth (World Bank , 2008). These imperfections are as a result of two flaws. First on the supply side there's adverse selection where lenders are unable to distinguish between high- and low-risk borrowers and as a result lenders are likely to use the interest rates that an individual is willing to pay as a screening device. Secondly on the demand side there's moral hazard, where borrower behavior changes with changes in the terms of the contract such changes in the interest rate, the amount of the loan and the amount of collateral (Atieno, 2001; World Bank, 2008). Since the financial institution is not able to regulate all the intents of debtors due to flawed and pricey data costs, it will devise the terms of the loan contract[5] to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers (Atieno, 2001). This makes finance available to MSMEs be financially constrained restricting their chances to invest and leading to insistent inequality and sluggish growth (World Bank , 2008). This has pushed for the need to establish specialized financial institutions to redress this state such creating development financial institutions.

In development banking, the concept of "development" is combined with the concept of "banking[6]", to achieve the construction of a mechanism for the financing and implementation of development projects through development finance institutions. This mechanism has the double objective of lending to projects at a reduced rate so they that make a contribution to the development of a country and that earn a return sufficient to preserve or increase the country's scarce financial resources (Bruck, 2001). More specifically in developing countries, it is meant to supply the "missing ingredients" needed to sustain the current level of economic development and to bring the country into a higher level of development. These missing ingredients include capital, technology, foreign exchange, and entrepreneurship (Pena, 2001).

Development finance is expected to bring about economic and social benefits such as creation of employment, saving or earning foreign exchange, increasing savings rate, increasing investment rate, modernization of the agricultural sector, linking industry to agriculture, and more equitable distribution of income (Pena, 2001). Through its institutions, it deals with the "business of development" and does not accrue development benefits to the institution but rather it focuses on

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[5] See section 2.4 for detailed discussion on *Terms of Contract*

[6] The author uses "banking" in place of "finance" and acknowledges that the term "development bank" is a "close synonym to development finance institution" and represents simpler language that is more easily understood, [he] uses it to stand in general for "development finance institution."

contributing to the national development and priorities of a country (Bruck, 2001; Pena, 2001). Therefore, these institutions specialize in raising long-term finances and consequently extend long-term loans to segments that are underserved by the financial system such as development projects, and to sectors or sections of the population who lack adequate collateral (Bruck, 2001; Thorne & Toit, 2009).

In order for DFIs to facilitate their crucial role especially in generating employment and investment opportunities, Thorne & Toit (2009) propose six interdependent fundamental principles. They encompass: The institution having a clear mandate so as to enable it pursue its intended activities. The second and third principle are tailored to the institution addressing the countries specific needs and they take into account the fact that the institution needs to be locally relevant and possess an appropriate institutional fit. Fourthly, national DFI needs to offer complimentary funding and restrict itself to funding those activities in which it has comparative advantage. The fifth principle relates to the aspect of flexibility, where national DFIs need to review their mandate regularly and take account to the changing circumstances. Finally, the sixth principle is concerned with the scope the DFI is mandated to operate be it narrow, wide, or multi-sectoral so as to fulfill its intended outcomes (Thorne & Toit, 2009).

Although adhering to these principles could contribute significantly to the success of accessing development finance, some caution is required. Other key factors such as the economic environment, government policy, management among other factors are crucial to ensuring 'success' over a very long period (Thorne & Toit, 2009). It is in the interest of these institutions to assist borrowers until they are financially strong to obtain private funding to build a country's financial system (Thorne & Toit, 2009). Thus DFIs supplement, complement and work parallel with the other financial services (Bruck, 2001). However, this is also dependent on the fact that MSMEs owners need to possess the necessary knowledge and skills to manage these finances (Suryani, Iramani, & Awati, 2016). To that extent the theory of development finance becomes insufficient to explaining how its access can lead to greater investment and employment and can be supported by the theory of financial capability.

2.2.1 Financial capability approach

Financial capability is a broad concept and thus has no unanimous definition. Sherraden, (2010) indicates that it encompasses people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. This concept assumes that financially capable people plan ahead, find and use information, know when to seek advice and can understand and act on this advice. The aspect of financial capability also requires financial literacy and it requires access to appropriate financial products. In the SME's context financial capability presumes the ability of the business owners' in managing business finances (Suryani, Iramani, & Awati, 2016). Thus, it is assumed that a financially capable business owner will make the most appropriate financing and financial management choices for their firms at the various growth phases of their firms. They know where to get the most appropriate products and services. The business owners are also conversant with the legal and regulatory structure. (Pandey & Gupta, 2018). This is because they possess the necessary attitudes, skills, knowledge (literacy), and behaviors with regard to handling their resources, and selecting financial services that fit their needs at a particular time in their business (Zottel, Perotti, & Bolaji-Adio, 2013).

SMEs owners require a breadth of financial capabilities to operate their business finances and develop their firms sustainably. Moreover, when SMEs became financially capable they are able to play their necessary function in employment creation and innovation especially in low-and-middle income countries (Zottel, Khoury, & Varghese, 2018). Therefore, despite providing development finance to segments whose social benefits exceed credit provided by commercial institutions, MSEs owners need to possess composite knowledge, skills, attitudes, and behaviors in regard to the financial administration of their firms (Thorne & Toit, 2009; Zottel, Khoury, & Varghese, 2018).

Financial capability cannot be evaluated simply by looking at one indicator. It is multi-dimensional concept that requires looking at an individual's behavior from various angles and therefore there is no accepted tool that can be used to measure financial capability (Zakaria & Sabri, 2013; Kempson, 2013). This study adopted a model founded by Zottel, Khoury, & Varghese, (2018) which focuses on financial capability at a firm level. The authors indicate that the key SME elements of financial capability can be measured by two underlying domains. This includes as to whether the entrepreneur: analyzes and develops business opportunities, controls the firms finances, sets detailed financial goals and reviews financial strategies learns from previous financial mistakes.The other domain pertains as to whether the entrepreneur seeks information and financial advice, attracts investors, and keep firm expenditures distinct from private or household expenditure. Therefore, using this two frames, this study investigated whether access to development finance by specific MSMEs in Kenya leads to employment and investment. The study adopted the definition of MSMEs as per the KNBS (2016) report.

2.3 Empirical Literature Review

2.3.1 Characteristics of Loans offered by Development Finance Institutions

In Africa, DFIs provide a strong rationale for an active developmental role, where pervasive market failures in the provision of infrastructure finance, agriculture finance, housing finance and small and medium enterprise (SME) finance exist. However, very little is known about them (Calice, 2013). On the other hand, these institutions have been instrumental to the development of many developed countries and they continue to play an important role in the emerging markets (Romero, 2017). This section reviews studies that pertain to development finance.

In Nigeria[7], DFIs have provided medium and long term loans and equity participation to various projects and enterprises, many of which are in operation today (Adesoye & Akinwande, 2014). In South Africa specific DFIs have also been a conduit to providing long term loans, wholesale and bridging finance, and venture capital (Khadiagala, 2015). As for Ghana, most DFIs that have been established cater to MSMEs development and agricultural improvement initiatives. More specifically the Government of Ghana established *Outgrower and Value Chain Fund (OVCF)* in 2011 to redress absence of medium- and long-term funding (three years or more) accessible to smallholder farmer groups in particular agricultural value chains (World Bank, 2016). In Malaysia, DFIs provide a range of financial products and services to suit the specific needs of the targeted strategic sectors. Particularly they (DFIs) extend medium-term and long-term financing to support the growth of the identified strategic sectors (Islam, 2015). Bhandari, Dasgupta, & Gangopadhyay, (2003) observed that in India, DFIs played a much more important role than commercial banks in providing long-term finance for the industry sector when long-term bank lending virtually

[7] one of the countries in Sub-Saharan Africa's with the largest and diversified financial system (Adesoye & Akinwande, 2014)

stagnated and also DFIs played an important in the industrialization of various Asian countries such as Japan, Korea and Singapore.

According to Njenga, Ngugi, & Mwaura (2006) Development Finance Institutions (DFIs) in Kenya provided long-term loans in the range of between 8 to 10 years with a grace period of up to three (3) years which was way beyond what other capital markets would have provided. Studies by Gitau & Wanyoike (2014) and Thuranira (2015) on the influence of KIE to MSE growth and influence of KIE on the growth of the *Jua Kali* sector, respectively, highlight the services provided by KIE as: financial, incubation and business development services. However, these studies fail to clearly distinguish the what are the type of businesses that are financed by KIE. While this information happens to be important was also imperative to understand and clarify the tenure of this long-term loans, size and activities commonly financed, the interest rate, collateral requirements, the repayment period for specific projects and the grace period to repay loans, consequences of defaulting a loan payment, and the gender that commonly uses development finance[8].

2.3.2 Characteristics of MSMEs that use Development Finance

It is important to understand the characteristics of these MSMEs because Akoten et al (2006) states that the characteristics of enterprise owner such as sex, marital status, and ethnicity, the number of relatives in the same business, age, education, occupation, and participation in formal training are important factors determining credit access. Besides these characteristics being essential for determining credit access, an entrepreneur's financial capability is also significant as it determines whether firms can grow their business sustainbly given that a key challenge that MSMEs encounter is the inability of the owners to effectively manage the business because some of these establishments are unorganized and lack appropriate financial managerial skills (Abor, 2017).

South Africa has a specialized DFI called *Khula Enterprise Finance Limited* which was designed to meet the growing need for financing of emerging entrepreneurs and SMMEs. The institution has been instrumental in providing funds to persons in the rural areas, women-owned and women-managed firms, and small business. It has also established joint venture funds with private enterprises that invest in start-up businesses (Khadiagala, 2015). In Nigeria, the Nigerian Bank for

[8] These characteristics have been adapted from Alam's (2015) on: *characteristics and analysis of informal loans*

Commerce and Industry and the Nigerian Agricultural and Cooperative Bank have been used to cater to the needs of micro, small and medium enterprises with the latter providing funds to promote the agricultural development (Adesoye & Akinwande, 2014) . The authors however fail to clearly indicate the composition of the SMMEs that receive funding from these institutions.

DFIs have been instrumental in financing the corporate sector in India and research by Bhandari, Dasgupta, & Gangopadhyay (2003) indicates that find DFI generally financed constrained firms and have had positive impact the investment levels of these firms. The authors continue to state that the firms were characterized in group companies and exhibit significant cross-shareholding, often having members in the board of directors and, importantly, most common the ownership is concentrated in the hands of members of particular a family. In Malaysia, DFIs have been influential in funding the country's key sectors which agriculture, small and medium enterprises (SMEs), infrastructure, maritime, export-oriented sector as well as capital-intensive and high-technology industries for the purposes of promoting long-term economic development (Islam, 2015). However, the author fails to clearly describe the kind of characteristics of these MSMEs that obtained financial support from these DFIs as well as their financial capabilities.

In Kenya, the clientele of DFIs includes micro and small enterprises that are just starting their business, the high-risk group that are involved in agricultural are prone to vagaries of weather (Njenga, Ngugi, & Mwaura, 2006). Evidence indicates that both formal and informal[9] MSEs have used development finance for their business pursuits. Thuranira (2015) indicates that KIE has been involved in financing the informal *Jua Kali* sector. Her study reavealed that most enterprises had 6-10 employees and were largely male-owned enterprises who engage in this sector due to lack of job opportunities in the formal sector. Correspondily, previous case studies by Namusonge (2004), revealed that the formal SMEs had between 1-4 employees before accessing loans. Despite the fact that these studies focused on the implication of MSEs accessing development finance the authors did not look into the financial capabilities of these firms.

[9] The key distinction between Formal and Informal enterprises is that the former denotes to firms which are listed at the Registrar of Companies as provided in Business Names Act, Partnerships Act and Company's Act of Kenya (KNBS, 2016).

When it came to financial capability, a summary of 26 international studies by Pandey & Gupta (2018), that were orgainzed in the following catergories: studies measuring the level of financial literacy of business-persons, studies on evaluating the level of financial literacy of firm-owners and examining its influence on business, studies evaluating the effect of educating business-owners about financial literacy in regards to their business operation and studies measuring the level of financial literacy of firm owners and its effect on enterprise performance: happened to focus on giving a connotation to term financial capability and defining the causal link between financial capability and enterprise performance however the type of finance that enabled these processes was imprecise.

2.3.3 Relationship between access to development finance and investment

Access to finance is widely perceived to be an essential factor for firms, and especially to SMEs who need to maintain their daily business operations as well as to achieve long-term investment opportunities and development targets (Onyiego, Namusonge, & Waiganjo, 2017). When it comes to investments Virlics (2013) argues that a company is able to be develop and stay in the competitive market when it invests. These investment expenditures are made to gain profits and they can be done in various ways. Investments can be fixed investments like phyical investments which includes buildings, machinery or plants or human capital which pertains to processes that relate to training, educating and other professional initiatives in order to increase the levels of skills, knowledge, values, abilities, and social assets of an employee which will lead to the employee's work fulfillment and execution (Alika & Stan, 2014). There's monetary investments which includes stocks, bonds. Finally, investments can be done in technology which is concerned with more and better technology to enhance technological progress. Technological progress in this case refers to the invention of technologies and their commercialization via research and development, the continual improvement of technologies, and the diffusion of technologies throughout industry or society (Muchdie, 2016). This study focused on investment made by MSEs-owners to enhace technological progess, pyhsical and human capital.

Macharia's (2012) study on the effect access to finance on MSE investment growth revealed that there's a significant relationship between access to finance and MSE investment growth as firms were able to increase there value of assets and their number of employees. However this study failed to clearly indicate what type finance was used, to facilitate this investment change. On the other hand studies by Namusonge (2004) and Thuranira (2015) that focused on access of development finance, showed that the enterprises were able to expand and modernize their businesses upon receiving developmrent. However this studies failed to clearly indicate how these expansion and modernization led to different forms of firm investment such as physical and human capital investment.

2.3.4 Relationship between access to development finance and employment

Evidence indicates that there is a casual relationship between access to finance and employment which enables especially the poor to benefit from having jobs and higher wages while ensuring overall growth and employment opportunities (World Bank , 2008). With specific reference to the Industrial Development Corporation of South Africa, a study by Abrahams (2015) indicated that there was a significant achievement in lending to small and medium entreprises as 20,388 jobs were created in 2015.

In Kenya, a study on credit and employment development among SMEs in Kenya, by Moyi (2013) alleged that policy makers in Kenya expect Micro and Small Enterprises to provide the bulk of new jobs created in the economy yet these enterprises face significant credit constraints, (in Gitau & Wanyoike, 2014). The authors continue to state that the key factors which have led to limited finances for MSEs include poor management and accounting practices.

Over the years in a bid to facilitate the development of MSEs the Kenyan government has designed and introduced measures such as the use of development finance. Dated evidence indicates that indeed DFIs have facilitated employment generation opportunities through various blue chip companies and informal set-ups (Namusonge, 2004; Kariuki, 2014; Thuranira, 2015). However, there is need to expand this data set in a manner that indicates if MSMEs owners indeed possess the necessary composite knowledge, skills, attitudes, and behaviors when it comes to handling development finance which would consequently help them expand their employment base.

In countries such as Germany and Canada evidence indicates that development financing institutions have evolved and expanded their role since their inception after World War II. Whereas these institutions were constructed in these countries to rehabilitated the effects of the war, in Canada for instance the national development finance institution has expanded its mandate to funding and creating employment opportunities in larger enterprises such as commercial airlines and since 1995. The Business Development Bank of Canada has provided financing to more than 60,000 Canadian businesses (Musacchio, Lazzarini, Makhoul, & Simmons, 2017). Similarly, in Germany, evidence indicates that one key component of its national development bank is to provide finances to generate employment. The national development bank in Germany has ascended to level of providing finance to focus on promoting a strong export industry and expanding local businesses (Musacchio, Lazzarini, Makhoul, & Simmons, 2017).

2.3.5 Summary of Literature Review

This section has reviewed theories and previous studies that relate to development finance, investment and employment. To begin with, in the theoretical literature review, the study discusses the theory of finance which states that access to finance is likely to foster growth. The study notes that despite the fact that this theory focuses on access to finance as being important, financial market imperfections lock out promising borrowers. Thus, the type of finance not only access is also important. Thus, the theory of finance is advanced by the theory of development finance which states that access to finance at a reduced rate is likely to bring about socio-economic benefits on a larger scale. Besides looking at access at access of finance at a reduced rate this study also focused on the importance of proper utilization of this finances. This was supported by the theory of financial capability which states that enterprise owners are required to possess a set of attributes, knowledge, behaviors and skills so they could operate their enterprises efficiently. Given these circumstances the study attempted to come up with a theoretical framework (see section 2.4) under which this study is based on and consequently developed a conceptual framework (see section 2.5) to show the relationship of the variables under-study.

In the empirical literature review, this study reviewed studies that relate to development finance, investment and employment. Primarily, the study looked into the terms of contract set out by different development finance institutions. While many institutions state that they give out long-term loans, the period under what is categorized as long-term is unclear. More-over, given that these institutions give loans at a concessionary rate, it was also not clear as to what this reduced rate is set at. Thirdly, this study also noted that whereas there exist claims that state that the use of development finance brings about greater social benefits, there exist limited studies that to show their relations with investment and employment. In cases where some authors have discussed the use of development finance to advance investments, the type and level of investment was unclear in these studies. Similarly studies that review the effect of development finance on employment fail to clearly indicate the basis of employment commonly generated in various enterprises. Therefore, in line with the existing literature this study hopes to not only build on the importance of accessing development finance but to also address the gaps about the terms of contract offered under development finance institutions, and also show the strength of the relationship between development finance, investment and employment. This helps to know whether then this type of financing is appropriate to helping MSMEs grow and expand in their businesses.

2.4 Theoretical Framework

This study presupposes the theoretical assumption as implied by the modern development studies theorists who recognize that financial market imperfections play a central responsibility in prompting crucial choices regarding to human and physical capital build-up and job-related decisions due to high transactions which are incurred. Moreover, it is important to note that the kind of commercial organization and its policy-guidelines often control the access obstacles. Where the interest rate, the terms of the contract, terms of payment, credit repayment duration, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access (Atieno, 2001) limiting opportunities to invest and create employment. Given this case, this study relies on the theory of development finance which acknowledges that finance offered at a reduced rate by specialized institutions can lead to greater economic benefits (Francisco, Mascaró, Mendoza, & Yaron, 2005). These institutions extend concessionary terms to the loan contract because theoretically they have less client-server difficulties as they can access client data easily and face lesser operations fees because they are capable of capitalizing on economies of scale, in contrast to reserved financial institutions, (Stiglitz 1994) in (Francisco, Mascaró, Mendoza, & Yaron, 2005).

This enables them to contribute to development whose quantitative measurements are considered to be an increase in the level of income and employment while qualitative measures look into the factors that contribute to the efficiency of these enterprises thus facilitating investment opportunities (Bruck, 2001).

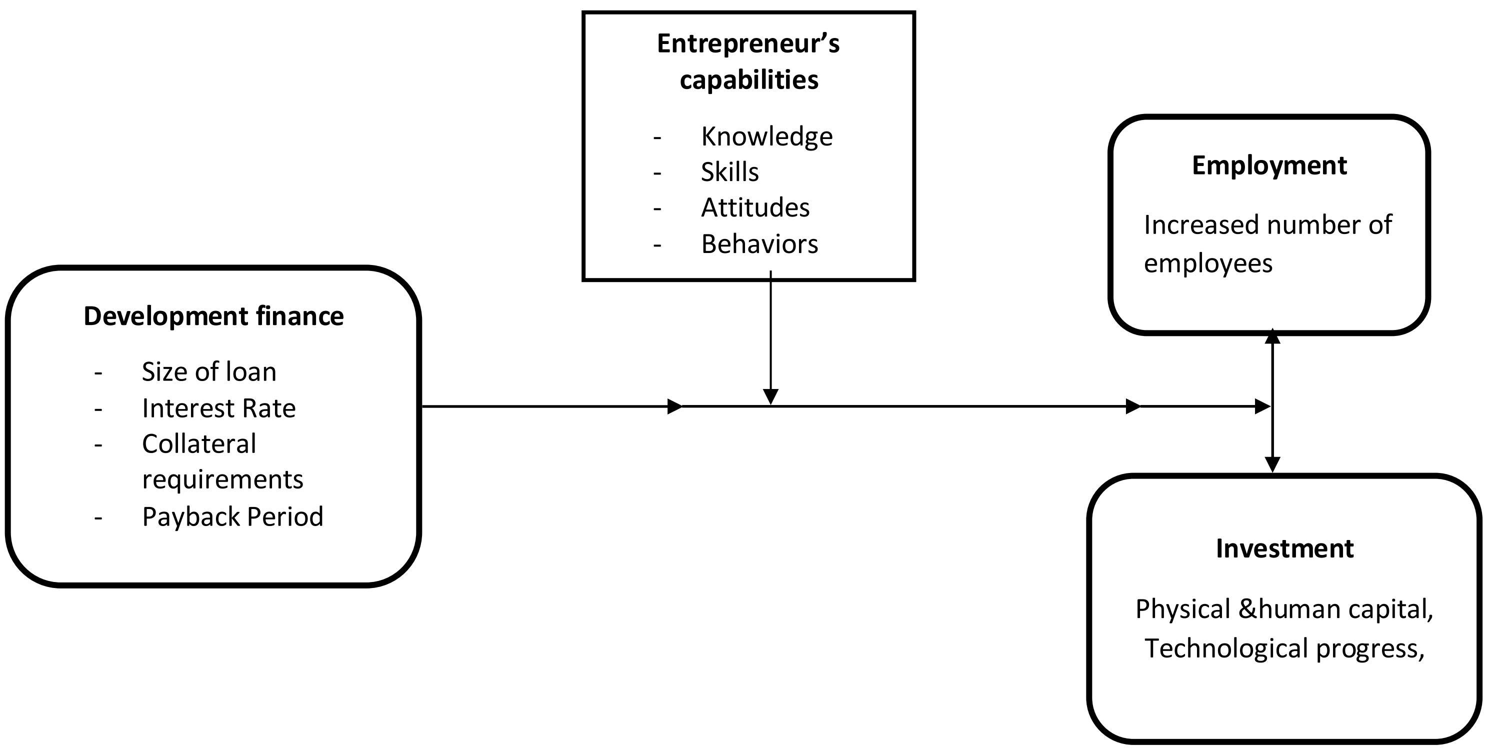
Gaining access to finance alone doesn't guarantee desired outcomes. For this reason, this study relied on a second theory, the theory of financial capability which assumes that upon acquiring finances people are capable of understanding their own financial circumstances and can take appropriate actions in regard to their businesses (Sherraden, 2010; Suryani, Iramani, & Awati, 2016). Entrepreneurs' financial capabilities are imperative to the creation of employment and investment opportunities as the knowledge, skills, attitudes and behaviors of the firm owner can help grow the business sustainably (Suryani, Iramani, & Awati, 2016; Zottel, Khoury, & Varghese, 2018). These financial capability measurements have been illustrated by Zottel, Khoury, & Varghese (2018) and are indicated in section 2.

Finally, it is important to note that the causative result of access to finance on investment and consequently employment growth is unclear. Ayyagari, Juarros, Peria, & Singh (2016) state that boosting admission of finance does not readily lead to the hiring of more workers. Firms may expand by intensifying their investment, and thus productivity from greater access to finance without ever increasing labor, a case of "jobless growth." The authors continue to indicate that whereas arguments have been made to suggest that financial restrictions should not affect employment, theoretical literature on finance and employment suggests that labor has a fixed cost component that requires financing to cover costs associated with training and hiring and so this can affect firm employment decisions. Eventually, the question of access to finance on employment growth (and in this case investment growth) is an empirical question (Ayyagari, Juarros, Peria, & Singh, 2016). This study intends to therefore investigate the effect of access of development finance on these variables employment and investment, independently given that the direction of the causality is also imprecise.

2.5 Conceptual Framework

The diagram below represents the relationship between the study's viariables. It suggests that there is an inter-relationship between the independent variable, development finance and the dependent variables investment and employment. The mediating variable in this study is the entrepreneur's financial capabilities.

Figure 2.1 The relationship between development finance, employment and investment



Source: Author's Conceptualization

Hypothetically, the diagram above suggests that access to development finance by MSMEs leads to increased employment and investment opportunities. The financial development theoretist suggest the provision of long-term financing would accelerate economic growth and facilitate the enhancement of technology, foreign exchange, and entrepreneurship (Bruck, 2001), (Pena, 2001). This relationship however is facilitated by the diagram's mediating variables, the entrepreneurs capabilities knowledge, skills, attitudes and behaviours, as it reflects and affects the business owners' behavior in managing business finances (Suryani, Iramani, & Awati, 2016) which is crucial to tapping into investment opportunities or generate employment opportunities.

CHAPTER 3 : RESEARCH DESIGN AND METHODOLOGY

This section presents the research design of the study and it contains: the study site, data sources and collection methods and finally the data analysis techniques used for this study.

3.1 Research Design

This study employed a mixed methods research design by integrating both quantitative and qualitative techniques. The purpose of employing this research design was to achieve more complete answers to a set of research questions, improve the usefulness of findings and to also uncover the relationships between variables through quantitative research while also revealing meanings among research participants through qualitative research (Bryman, 2012). The qualitative technique was used by issuing an interview guide to the key informant. On the other hand, the quantitative technique was used by issuing a structured questionnaire to the identified MSE-owners. The quantitative data collected was analyzed through descriptive statistics and complimented with data from the key informants' interviews.

3.2 Study site

Walford (2001) states that when selecting sites, researchers have to consider the time, financial and personal costs involved in conducting fieldwork in what might be distant and inconvenient locations. KIE is a national institution, head-quartered in Nairobi and has 30 branches spread across the country. The Institution focuses on financing MSMEs throughout the country with specific focus on rural industrialization, clustering of industries, and value addition on locally available raw materials. This mandate has not completely changed from what it was envisioned to execute in 1967. Grosh (1987) documents that the Instution operated industrial estates throughout country. It loaned to small industrial projects and provided business extension services to small projects. A majority of its beneficiaries have also been located in Nairobi,[10] which contributed to influencing the choice of the study site for this study. The institution categorizes the regional office in Nairobi to include Thika and Kiambu. To this regard this study was conducted in Nairobi and used the classification by KIE to include Kiambu. Given that KIE is a national institution, for this study, Nairobi and Kiambu, served as an appropriate study site as it lessened financial and distant

[10] See partial list from the organization website: http://www.kie.co.ke/index.php/achievements/kie-clients?id=105:other-clients

costs moreover it provided convenience in locating the MSMEs. Thika was not included in this study as the researcher was unable to obtain a list of participants.

3.3 Unit of analysis Population, and sampling techniques

The major entity that was being investigated were the MSMEs- owners who were also part of the respondents to this study as the study intended to find out the changes in their firms in terms of investment and employment after obtaining development finance. The main population understudy was the micro-small-medium enterprises whose descriptions was adopted from the KNBS (2016) report. They constituted more than 30,000 MSMEs across within the country. The sampling technique employed in this study was purposive sampling. This is because the participants that were being sampled were relevant to the research questions that are being posed. Furthermore, the study relied on this technique because the study did not intend to generate a theory but because this method permitted the researcher to establish a criteria concerning the kinds of cases needed to address the research questions (Bryman, 2012). The key criteria of selecting respondents was based on: an MSE that had less 10 employees or one that has 10-49 employee, MSEs that had at least used development finance twice within the last five years, an MSE that was informal or formal establishment; and an MSE that had been in operation for at least five years. The researcher was unable to obtain the necessary documents that contained all possible list of participants that would be sampled from Nairobi and Kiambu. However, after providing a school cover letter detailing the provisions, purpose and level of research to KIE, a list containing 67 MSEs-owners who did fit the criteria that was set in this study was provided upon request. Given that the number was small in size to create an appropriate population size which the researcher could draw a sample size to the research, the list of participants that was provided instead formed sample size to this study.

3.4 Data sources and collection methods

The main data collection methods used in this study included the use of structured questionnaires and key informant interview guide. A structured questionnaire was used because it facilitated aggregation of replies and also minimize the differences between interviews (Bryman, 2012). A survey was conducted by the administering the structured questionnaire to the MSMEs-owners. However, because this disallowed for ample opportunities to prompt or probe for further information, an interview guide was issued to a key informant; who was under the Business

Development Unit at KIE. This facilitated rich detailed answers and helped give insights into what the interviewee sees as relevant and important (Bryman, 2012); when it comes to the relationship between development finance, employment and investment. In detail these methods were used in the following manner. In the first research question, the nature of loans offered by DFIs, was posed to the key informant of the study who was the KIE official under the Business Development Unit. Through the interview guide the official gave an account of the financial product offered at KIE. The second research question, which pertained to characteristics of MSE that used development finance, was mainly asked to MSE-owners, through the structured questionnaire. The owners gave an account the distinctive features that describe their businesses. The last two research questions, the effect of loan received by MSE-owners on employment and investment was also enquired from MSE-owner as the study sought to find out if their establishments had expanded or grown as a result of using development finance.

3.5 Data analysis methods

Data that was collected was analyzed by using both qualitative and quantitative methods. Quantitative data was analyzed using computer applications; specifically, SPSS. A univariate analysis was conducted by analyzing one variable at a time in order to generate descriptive statistics results. In an attempt to establish the strength of the relationship between the loan received and investment/employment a bivariate analysis was conducted using Cramer's V test. The qualitative data that was generated from the key informant interviews which were conducted helped compliment the quantitative data that was generated.

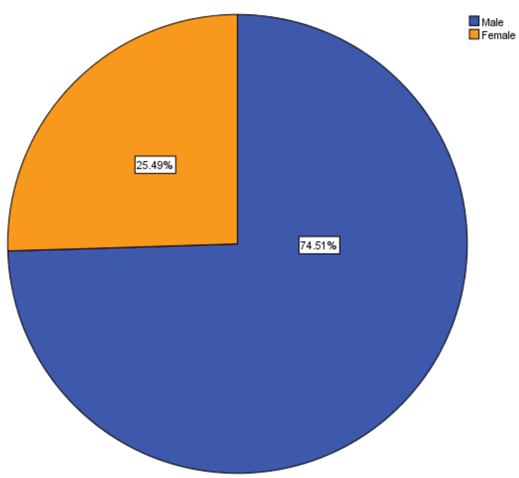
3.6 Data Needs Table

Research Question	Data Needs	Type of Data	Sources of Data	Instrument
1.What is the nature of loans offered by the DFIs?	Size of loans offered	Quantitative	KIE Records MSME records	-Interview notes -Questionnaire
	Different interest rate charged for the different MSMEs (informal and formal)			
	Loan Duration			
	Collateral requirements	Qualitative/quantitative		
2.What are the characteristics of MSMEs-owners accessing loans from this DFI?	Sex	Qualitative	MSMEs-Owners KIE records	Questionnaires Interview notes
	Age	Quantitative		
	Education level			
	Marital status	Qualitative		
	Previous occupation	Qualitative		
	number of relatives in the same business	Quantitative		
	participation in formal training -Number of times s/he participated	Qualitative and Quantitative		
	Entrepreneurs'capability in Frame A - Sets and reviews business financial goals - Controls business finance - Learn from previous financial mistakes - separates household and business finances	Qualitative		
	Entrepreneurs'capability in Frame B -Analyzes business opportunity -Seeks financial support from external investors -Seeks business information			
3.What is the relationship between loans accessed and employment by MSMEs?	Number of employees before access to funds	Quantitative	MSMEs Records	Questionnaires
	Number of employees after access to finance			
	Changes in income			
4.What is the relationship between loans accessed and investment by MSMEs?	Pysical capital	Quantitative	MSMEs-Owners	Questionnaires
	Human capital number of employees attended training and advancement programs	Quantitative		
	Technological progress	Quantitative/qualitative		

3.7 Challenges faced during data collection

One main challenge that was faced in this study was the ability to get all the targeted respondents This study targeted a sample of 67 MSEs-owners out of which 51 respondents; which represents 77.3% of the total sample used, filled and completed the study's structured questionnaire. More men than women participated in this study. The number of men who participated in this study were 38 which represented 74.51% of the sample while the number of women who participated in this study were 13 which represented 25.49%. From the list provided by KIE of the 67 respondents, one contact happened to be repeated reducing the sample size to 66; 6 respondents which represents 9.1% of the sample did not complete the study's tool; 5 respondents representing 7.6% of the sample declined to participate in the study's survey while 4 MSMEs owners which represents 6.0% were unreachable.

Figure 3.1 Percentage number of sampled MSE-owners who participated in the study



Source: Field Survey,2019

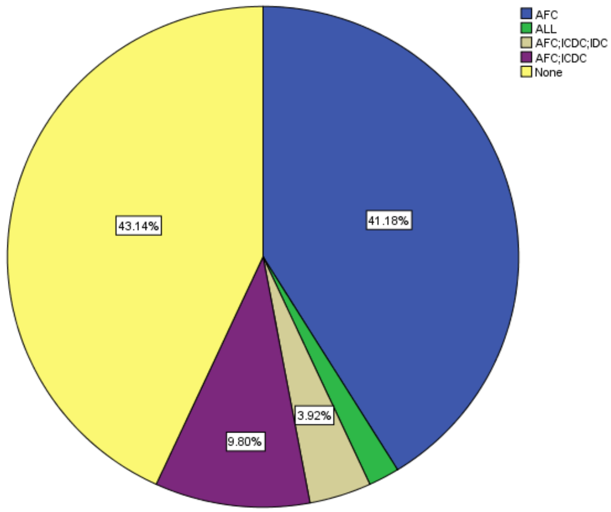
CHAPTER 4 : RESEARCH FINDINGS AND DISCUSSIONS

This section presents the study's findings and gives an account for the study's research questions. This study employed a generic purposive sampling technique as the questions posed sought to investigate the effect of development finance on investment and employment by MSMEs-owners who had previously used benefited from this type of funding. Thus, the section is organized in the following manner: section 4.1 knowledge of existing DFIs and why MSE-owners chose KIE, section 4.2 describes the nature of loans offered by KIE, section 4.3 discusses the characteristics of MSMEs that access loans from KIE, section 4.4 discusses the challenges MSE-owners faced while applying for loan at KIE and 4.5 and 4.6 aims to establish the strength of the relationship between loans accessed and investment by MSMEs and employment by MSEs and loans accessed, respectively.

4.1 Knowledge of existing DFIs and Reasons why sampled MSE-owners chose KIE

The choice of institution that provides development finance used for this study was KIE., given its history and vision of elevating MSMEs within the country. However, besides KIE., some respondents to this study reported to have knowledge of the other DFIs in Kenya. The most recognized DFI happened to be A.F.C known by 41.18% of the total sample used for this study. A total of 13.72% of the sample used were conversant with more than one DFI, while only one respondent knew all the existing DFIs in Kenya. Majority of the respondents, which represents 43.14% of the total sample used, were not well acquainted with the existing DFIs in Kenya. This has been summarized in the figure 4-1 below. Despite some respondents having knowledge of the other existing DFIs, none of the respondents reported to have previously acquired a loan of the other existing institutions.

Figure 4.1 Knowledge of existing DFIs in Kenya by sampled MSE-owners



Source: Field Survey, 2019.

Given that the findings of these study found out that majority of the respondents to this study were not familiarized with the existing DFIs in the country, the study then investigated how they came to know of KIE and why they decided to acquire funds from this Institution. The results revealed that 66.7% of the participants got to hear about the institution through a friend while only 17.6% of these participants had heard about the institution through a government outreach program. Other means through which MSE-owners came to know about KIE have summarized in table 4.1

Table 4.1 How sampled MSE-owners became acquainted with KIE

Description	**Percent**
Referral by Family/Friend	66.70
Through own research	13.70
Government Outreach Program	17.60
Other	2.00
Total	**100**

Source: Field Survey, 2019.

On deciding upon getting a loan from KIE, majority of the respondents, representing 45.1% of the total participants, decided on the institution due to the fair interest rate they charge on loans relative to that of the financial market. 17.6% of the respondents reported that they not only looked at the interest rate but also the time it would take to repay the loan and the collateral requirements required to obtain the loan. A Full summary of why MSE-owners chose to obtain a loan from KIE has been summarized in table 4-2

Table 4.2 Reasons why sampled MSE-owners' Chose to obtain a loan from KIE

Reason	Percent
Fair interest rate	45.10
Approach was accommodative	11.80
I had no choice; I needed money for business	11.80
They did fit my need as at the time	13.70
Terms of the contract were fair	17.60
Total	**100**

Source: Field Survey, 2019.

4.2 Nature of loans offered by KIE

4.2.1 Size of the loans offered and activities commonly financed

From interviews conducted with institution's officials, the study found out that KIE prioritizes disbursement of affordable loans to MSMEs with an aim of promoting micro-industrialization and value addition. Financial assistance is easily granted to individuals or groups whose focus or business orientation revolves around these two aspects. The key informant explained that:

"*if one comes to the institute for a loan with aim of promoting their, for example, tomato business we would reconsider giving them some financial assistance. However, if this person were to inform us that he or she has a tomato farm and is looking forward to invest in making tomato paste or tomato sauce then we make adequate financial efforts to help this individual to steer his business to achieve this goal"* (R1).

In regards to the activities financed by KIE, the study found out that the organization strives to disburse loans to MSEs which focus on; leather and agricultural processing, renewable energy, metal work, wielding and fabrication, construction and production construction materials, ICT in the software development and biometrics sectors.

This study also found out that the Institution provides loans from the range of KES. 100,000-20,000,000. An exception is however made to various groups and group members who may have challenges in fulfilling the collateral requirements set-out by the institute and thus permitting group members to obtain a loan for as low as KES. 20,000-50,000. From the institution records, it reveals that close to 70% of their clientele borrow below KES. 2 million (KIE Official). This was also established from the sample that was used for this study (see table 4-3) as it revealed that only 5.9 % of the respondents acquired a loan that was more than KES. 1,000,000. Majority of the respondents, who constitutes 72.55% of the total respondents, reported to have received a loan worth between KES. 100,001-500,000.

Table 4.3 Amount of loan received by sampled MSE-owners from KIE

Amount (in KES)	Percent
100,001-500,000	72.5
500,001-1,000,000	21.6
Over 1,000,000	5.9
Total	100

Source: Field Survey, 2019

4.2.2 Collateral Requirements

From the interviews conducted with key informant of this study found out that before the 21st century, KIE offered loans to its clientele with limited to no collateral requirements. However, infiltration by various political leaders led to disbursement of huge loans which resulted to high loan defaultment rates consequently leading to high non-performing loans in the institution's portfolio. Towards the end of 1999, a ministerial directive was issued which introduced mandatory collateral requirements for any individual who would wish to obtain a loan from KIE. Over time these requirements have been reviewed and currently collateral requirements at KIE include: **Possession of a title deed**; individuals who would wish to acquire loans from KIE are required to possess a title deed regardless as the whether it is theirs or they are using another person's upon their consent. Additionally, the institution is flexible enough to grant an individual a loan even though of the location of land and business could be in different locales. However, even though the institution agrees to this terms, the K.I.E official explained that:

> *"if the land is ancestral and there are no clear land transfer rights, and if the land in question possess a graveyard, some reservations are made; because upon loan defaultment it becomes very difficult to dispose land that has such sentimental value to not only one individual but his extended family as a whole" (R1)*

The other form of collateral accepted at KIE pertains to the ***Possession of a log-book*** whether it belongs to an individual or from an individual who has obtained another person's log-book upon consent. The institution puts to consideration the fact that a car's value depreciates rapidly and thus has placed stringent measures to individuals who wish to use this form of collateral. This key informant explained that:

> "*using a car as form of collateral is a bit limiting and this is in accordance to our policy. We expect an individual who has borrowed money using this form collateral to repay back his loan plus interest in less than 2 years. We also do not accept certain type of cars such as Prados or Mercedes; because in past we have had difficulties in disposing off these type of cars." (R1)*

From the sample used in the study, the dominant and common form of collateral that was used to acquire a loan was the use of ones' title deed or a title that was obtained upon consent. When gender was cross-tabulated against the form of collateral used to obtained a loan, it indicated that all men reported to have used to form of collateral that was theirs' while the in the case of females, 11.7% of the sample used reported to have used a title deed that was obtained upon consent, while 13.7% reported to have used a title deed that belonged to them.

Table 4.4 Form of collateral used by sampled MSE-owner to obtain a loan from KIE

Sex of business owner	Title deed – by self	Title deed – by other
Male	38	0
Female	7	6

Source: Field Survey, 2019.

Collateral requirements seemed to highly influence the loan repayment period allocated the beneficiaries as highlighted above. As for the respondents to this study, given that none of them reported to have used a log-book as a form of security to acquire their loans, they all reported to have been given a period of between 1-3 years to clear their loans through the monthly installments set-up by the Institute. In regard to the repayment periods offered by the Institute, this study learnt that loan repayment policy is set for between 3-8 years; where upto 3 years is allocated to micro-business and 3-8 years is granted to small and medium enterprises. A grace period of one year is also offered by the institute especially for small scale enterprises and loan defaulters are directly listed at the CRB.

4.2.3 Interest Rate

This study learnt that the interest rate charged on the loans that are issued by the five recognized DFIs in Kenya, i.e. KIE, IDC, ICDC, TFC, and AFC comes directly from the Ministry of Treasury. As of mid of 2017, KIE was delegated to charge 10% on loans that it issues to individuals and 8% to those that acquire loans through groups. This rate is lower compared to the market rate which is capped at 14%. Given that this study considered to investigate the utilization of development finance by various MSEs in the last five years, the study's findings noted slight differences in the interest charged to these firms. This is because prior to mid of 2017, KIE charged an interest of between 11-15%. Moreover, these inconsistences, after further investigation were largely attributed to by the long periods these individuals had to wait to get their loans processed (further discussed in section 4.4), and also internal affairs at the institute. Over the last four years the average interest rate charged on loans was 11.2%. A breakdown of the average of the interest rate charged to individuals between the last six months and five years ago indicates that: respondents who received a loan in the last 6 months were charged an average of 9.75% while the respondents who received a loan in loan in the last 3 years were likely to be charged a rate of 12% which was the highest in the last 4 years.

Table 4.5 Mean of the Interest rate charged by KIE in the last 4 years

Timeline	Interest Rate (%)
6 months	9.75
1 year	10.57
2 years	10.71
3 years	12.08
4 years	11

Source: Field Survey, 2019.

4.3 Characteristics of sampled MSE-owners that access loans from KIE

4.3.1 Age of sampled MSEs-owners

Majority of the respondents, representing 58.8% of the sample used, were above 40 years old. One key finding to this study was the under-representation of the youth who use development finance to finance their business. Only 4 participants aged between 30-34 participated in this study which is a partial representation of what is considered the youth bracket in Kenya. The constitution of

Kenya recognizes the youth as those who are eighteen years; but are not yet thirty-five years old (GoK, 2010.). Upon further inquiring the key informant explained that:

> *"As an institution we do realize that we are not doing enough to support the youth and their initiatives. This has largely been contributed to by the policy rigidity of the institution. These people have great ideas, life changing and various technological ideas but our funding is limited to them especially due to the collateral requirements. Once you explain to a young man they can get some money after they come back with a title deed; and they think of involving their father, they give up and you never see them again." (R1)*

The institution however, is taking steps to close this gap by encouraging the youth to form, participate, and borrow loans through this groups

Table 4.6 Age of sampled MSE-owners

Age bracket	Percent
30-34	7.8
35-39	33.3
Above 40	58.8
Total	**100**

Source: Field survey, 2019.

This study found out that no MSE-owner had obtained a loan and made investment to enhance any technological advances for the benefit of their businesses nor the society. Majority of the respondents who represented 27 participants, made investment in their businesses by purchasing an equipment which was in relation to their businesses. The findings showed that many of those who were purchasing equipment for their business were those above the age of 40 years. The study also noted that it was individuals within this age bracket who also had obtained a loan in order to invest in physical asset and train their employees (see table 4-7)

Table 4.7 Investment made by sampled MSE-Owners aligned with their age-bracket

Age Bracket	Purchased a machine	Put up a physical structure	Invested in training employees
30-34	1	0	0
35-39	9	0	0
Above 40	17	2	2
Total	**27**	**2**	**2**

Source: Field Survey, 2019

Majority of the respondents that were above the age of 40, reported that upon receiving a loan from KIE, they were able to increase their number employees so that they can be able run their businesses efficiently. The least number of added employees was employed by those between the age 30-34 who accounted also for the least number of participants to this study.

Table 4.8 Number of sampled MSE-owners who increased their employees by Age bracket

Age Bracket	No. MSE-owners who increased employees
30-34	2
35-39	9
Above 40	16
Total	**27**

Source: Field Survey, 2019.

4.3.2 Marital Status of the sampled MSE-owners

Majority of the respondents to this study reported that they were married. All men, i.e. 74.51% of the total sample used indicated that they were married. Even though majority of the women to this study reported that they married, 3.92% of the women who participated stated that they were widowed and 1 of the remaining 2 female participants reported that they had been divorced while the other female participant was single.

Table 4.9 Marital Status of sampled MSE-owners by Gender

Marital Status	Male	Female
Single	0	1
Married	38	9
Divorced/Separated	0	1
Widowed	0	2
Total	38	13

Source: Field Survey, 2019

From the loan that was accessed by the participants to this study, the findings indicated majority of those respondents who reported to be married, a sum total of 26 participants were the ones who used their loans to facilitate investment in businesses and purchased a machinery in relation to their business. It was also married MSE-owners, who also invested in putting up a physical structure and training of their employees. See table 4-10 for a full summary of the cross-tabulation between marital status and investment made upon receiving a loan by the various MSE-owners.

Table 4.10 Number of sampled MSE-owners who made Investments by gender

Marital Status	Purchased a Machine	Put up a physical structure	Invested in Training employees
Single	0	0	0
Married	26	2	2
Divorced/Separated	1	0	0
Widowed	0	0	0
Total	**27**	**2**	**2**

Source: Field Survey, 2019

The study also revealed that majority of the respondents who were married, 26 in number reported to have increased their number of employees upon receiving a loan from KIE. This category was distantly followed by one participant who divorced that reported to having increased their number of employees upon receiving a loan from KIE. See table 4.3.6. Respondents who were married were more likely invest and employ more employees as they had the ability to more resources with their partners.

Table 4.11 Number of sampled MSE-owners who increased their number of employees

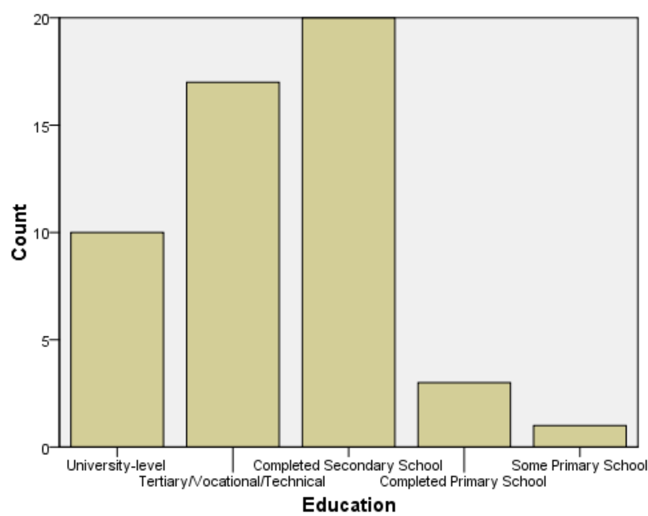
Marital status	No. of MSE-Owners who increased their number of employees
Single	0
Married	26
Divorced/Separated	1
Widowed	0
Total	**27**

Source: Field Survey, 2019

4.3.3 Level of Education of sampled MSE-owners

All respondents who participated in this survey reported to have attained some level of education. Majority of the respondents, representing 39.2% of the total sample used, reported to have completed secondary school education while the lowest was non-completion of primary education

Figure 4.2 Level of education attained by sampled MSE-Owners



Source: Field Survey, 2019

Further investigation revealed that the highest education level attained by many male participants was vocational training while the lowest in male participants was completion of secondary school. For the female participants the highest level of education that was registered was completion of secondary school while the lowest was non-completion of primary school education.

Table 4.12 Highest level of education attained of sampled MSE-owners by Gender

Level	Male	Female
University-level	9	1
Tertiary/Vocational/Technical	15	2
Completed Secondary School	12	8
Some Secondary School	0	0
Completed Primary School	2	1
Some Primary School	0	1

Source: Field Survey, 2019.

This study found out that majority of the respondents who invested in their businesses by purchasing an equipment, after receiving a loan from KIE were those who had either attended tertiary, vocational or technical training and those who had completed secondary as they accounted for a total of 18 participants. Additionally, in relation to the level of education attained by MSE-owners this study also found out that only two respondents who had completed their secondary school education used the loan they had received from KIE to put up a structure. Lastly, when it came to the level of education attained by MSE-owners, the study's findings indicated that MSE-owners who used the loan they received from KIE to pay for external training for their employees were only two. Between those two respondents, one MSE-owner had attended a vocational school while the other one had completed their university education. See table 4-13below.

Table 4.13 Number of sampled MSE-owners who made investment as par their education level

Level of education	Purchased Machinery	Put up a structure	Invested in Training employees
University-level	6	0	1
Tertiary/Vocational/Technical	9	0	1
Completed Secondary School	9	2	0
Completed Primary School	3	0	0
Total	**27**	**2**	**2**

Source: Field Survey, 2019.

Upon receiving a loan from KIE, MSE-owners who had gone to a vocational, tertiary or technical institution recorded the highest increase in employee appointment status as they accounted for a total 10 participants while only one participant who had completed primary school reported to have increased their number of employees. See table 4-14.

Table 4.14 Number of samples MSE-owners who increased their number of employees aligned with their education level

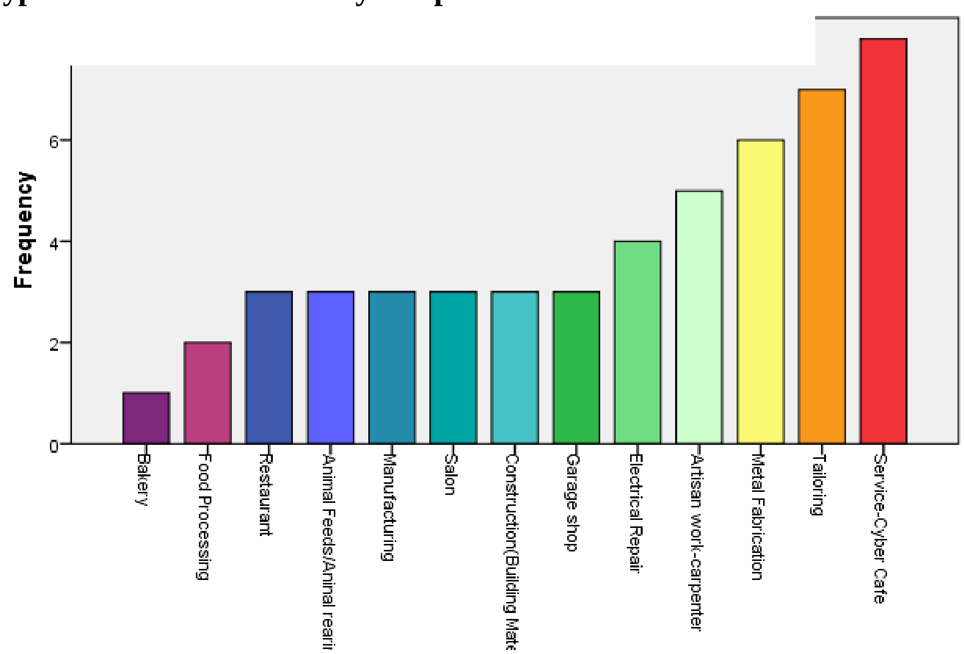
Level of Education	No. Of MSE-owners who increased their number of employees
University-level	8
Tertiary/Vocational/Technical	10
Completed Secondary School	8
Completed Primary School	1
Total	**27**

Source: Field Survey, 2019.

4.3.4 Type of Businesses owned by sampled MSEs-owners

From the survey, a key finding indicated that institutional efforts towards providing funding to businesses within their scope was minimal as it registered an aggregate of 27.5% businesses. From this apt aggregate, metal fabrication enterprises representing a total 11.7% of the sample used, registered the highest entry. Only 2 respondents worked in the food processing industry and were mainly engaged in the production of peanut butter among other things. Additionally, only 3 respondents, representing, 5.9% of the total sample used were engaged in the manufacturing sector out of which 2 respondents were engaged in the production of shoes using locally available leather while the other respondent was engaged in the manufacturing of specialized towels. Lastly, the other 5.9% of the aggregate reported to engaged in the building and construction sector. However, in general, the study found out that majority of the respondents to this study representing 15.7% of the total sample used reported to be operating a cyber café injunction with providing subsidiary services such printing. One of the 8 respondents in the cyber café sector however reported to additionally be operating a movie shop in the cyber café. A summary of the various businesses which have received financial support within the last five years is provided in the figure below.

Figure 4.3 Type of businesses owned by sampled MSE-owners



Source Field Survey, 2019

4.3.5 Firm Set-up

This section presents the business registration of the enterprises interviewed, span of business operation, reasons why they began their business their number of employees, and the financial capability of the enterprises that participated in the survey.

Majority of the business that participated in this survey, representing 42% of the total enterprises surveyed reported that they had a business license. The most common business that operated without a business licenses were those in the: tailoring, carpentry and animal rearing sectors.

This study found out that many of the enterprises that had received funding from the institute had been in operation for more than 8 years as they represented a total of 58.8% of all the enterprises that were sampled. Enterprises that were in their initial stages of set-up, i.e. between 2-5 years, happened to benefit the least as they only represented 9.8% of the total sample that was that participated in this survey.

Table 4.15 Number of years' businesses owned by sampled MSE-owners have been in Operation

number of years	Percent
2-5 years	9.8
5-8 years	31.4
More than 8 years	58.8
Total	**100**

Source: Field Survey, 2019.

This study sought to also find out the reasons as to why MSME-owners had started their businesses. The results revealed that 49% of the total participants has begun their businesses because they were unemployed and needed to be busy and also money. A minority of the respondents, respondents representing 7.8% of the participants, chose to pursue a career in what they had for in school and interestingly 27.5% of the participants chose to start their businesses as they had a passion of the kind of work they were currently pursuing.

Table 4.16 Reasons why sampled MSE-owners started their Businesses

Reasons	Percent
I was unemployed; I needed to be busy/money	49
It is my passion	27.5
I studied for it in school thus chose to pursue it	7.8
Retrenchment	15.7
Total	**100**

Source: Field Survey, 2019.

From the survey, 78.4% of the MSE-owners interviewed reported to have had employees when the survey was conducted. Majority of these firms had employed individuals on a part-time basis. The total number of employees who were employed on a part-time basis were 102 while the maximum number an MSE-owner had employed on a part time basis was 15. The least number of employees that were employed and getting paid were those employed under family-member basis as they accounted for only 2 employees. See table 4-17 for a full summary.

Table 4.17 Number of employees

Employment Basis	Maximum	Sum
Full Time Basis	8.00	86.00
Part Time Basis	15.00	102.00
Family Members	2.00	2.00

Source: Field Survey, 2019.

When it came employment, this study further revealed that there was more variability in the numbers employees owned by the MME-owners given that during the survey, 21.6% of the total participants reported that they had no employees as at the time making the minimum number of employees owned by business as 0. The range was 15, and higher for those who reported to have part-time employees and lowest, at 2, for those that worked with their family members. However, the deviation around the average number of full-time employees and part-time employees was lesser as compared to deviation around number of employees who employed on a family member capacity. See table 4-18

Table 4.18 Measures of dispersion of employment Basis

	Range	Minimum	Maximum	Mean	Std. Deviation
Full-Time Basis	8	0	8	1.6863	2.30209
Part-Time Basis	15	0	15	2	2.90517
Family Members	2	0	2	0.0392	0.28006

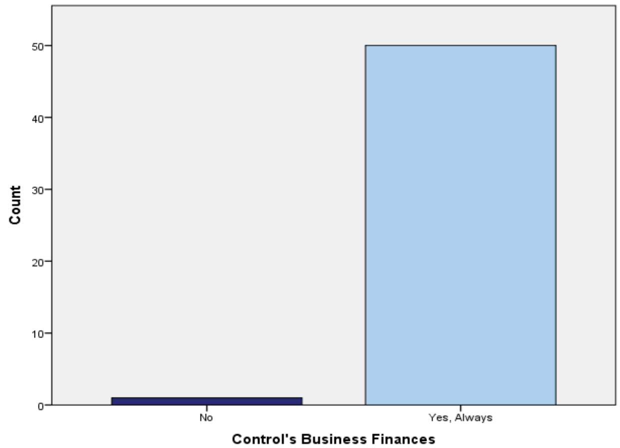
Source: Field Survey, 2019.

4.3.6 Financial capability of MSME-owner's

One key component that this study acknowledged was the fact that the provision of finance alone does not lead to employment nor investment. This process is supported by other factors such as an entrepreneur's financial capability. Therefore, as part of the survey, this study assessed the financial capability of the various MSME-owners. The assessment was carried out in a two-part process in an attempt to establish the financial capability of the MSME-owners. The first framework focused on the internal attributes and knowledge of the firm-owner's ability to manage business finance while second framework focused on the external behavior and skills of a firm's owner ability in growing their business sustainably.

In respect to the first financial capability framework, the participants were asked four questions. To begin with, when it came to their operating the day-to-day business finances of their firms, this study revealed that 98.0% of the business owners interviewed controlled all their business finances. This is because this enabled them to feel more secure in respect to directing what needs more attention in regards to their businesses and minimized cases of theft/ mismanagement of their funds.

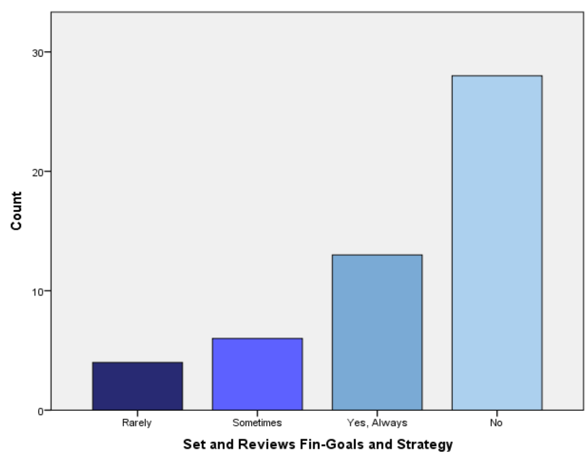
Figure 4.4 Sampled MSE-Owners who control their business finances



Source: Field Survey, 2019

Secondly, when it came to aspect of setting and reviewing their business financial plans; in terms of creating a budget, sticking to it and assessing its risk, more than half of the respondents to this study representing 54.9% indicated that they hardly made any financial plans nor reviewed them. Most of these respondents indicated that they did not see a need for doing this as the plans were mostly in their "heads" and that by writing them it would restrict them from taking risks or actions in the event a threat or opportunity arose.

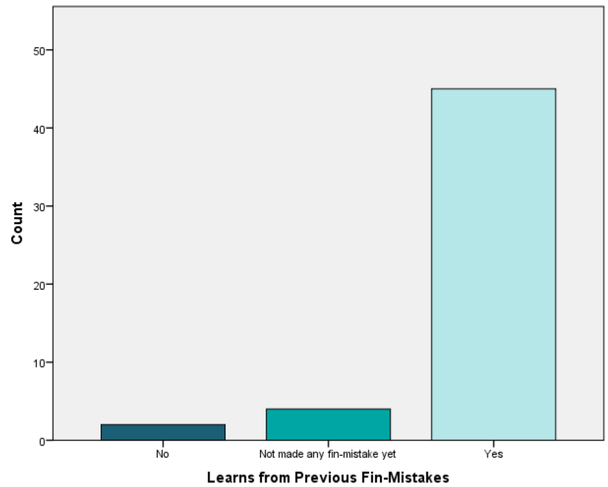
Figure 4.5 Sampled MSE-Owners who set and review their fin-goals and strategy



Source: Field Survey, 2019

Thirdly, when the respondents were asked if they have learned from a grievous previous financial mistake, majority of the MSE-owners representing 45.7% reported that they had. When asked what actions they had taken to avert from this state, 21. 5% of the respondents stated that they sought a different supplier to purchase their goods from and another 21.5% stated that they stopped selling their goods and services on credit.

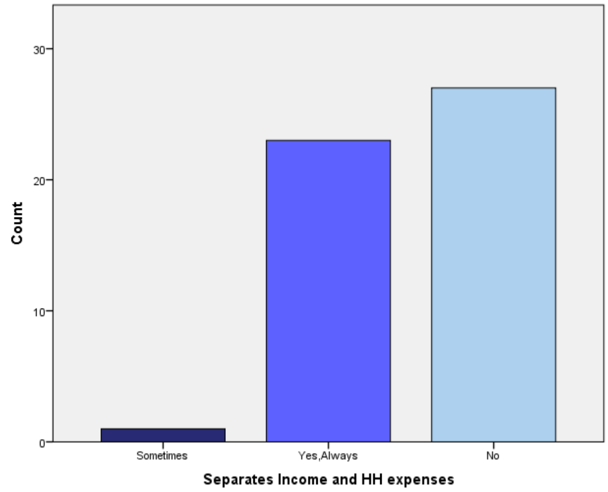
Figure 4.6 Sampled MSE-Owners who learn from previous Financial Mistake



Source: Field Survey, 2019

Lastly, when MSME-owners were asked if they separate business expenses from household expenses, 45.1% of the respondents stated they indeed have separate accounts that cater for their businesses and personnel household affairs and this was because they feared that combining accounts could lead to wastage and poor investment choices.

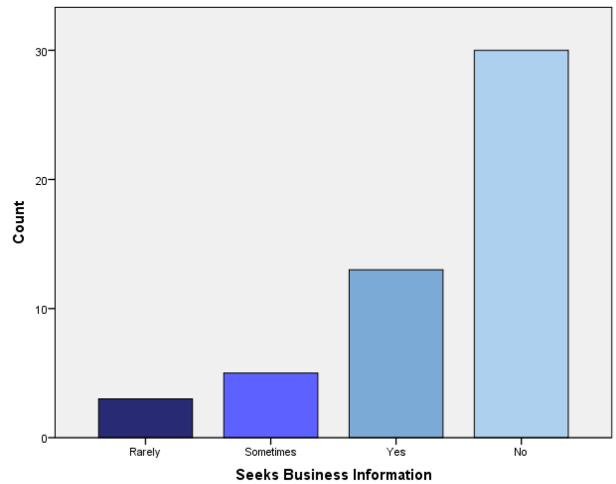
Figure 4.7 sampled MSE-Owners who separate Household expenses from their business expenses



Source: Field Survey, 2019

In regards to the second framework, the firm owners were asked three questions. First, the business owners were asked if sought for any business information to aide their business operations. Only 25.5% of the participants interviewed stated that they indeed consulted for further information to boost their business. Majority of these respondents, representing 17.6% of the sample, sought further business assistance at least once every three months and the most sought advisors were persons in their peers and local community groups because MSE-owners felt that they were more relatable.

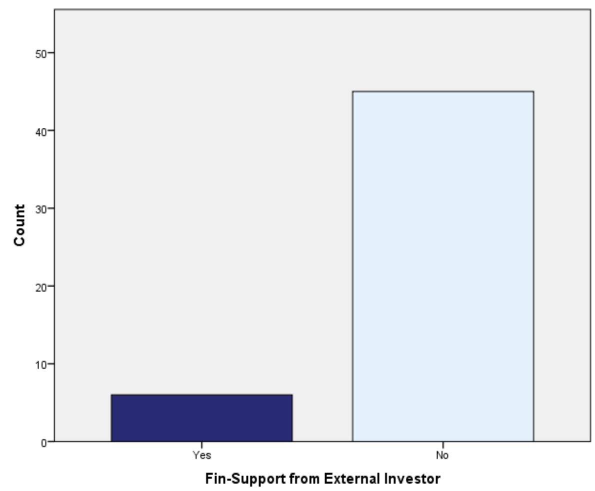
Figure 4.8 sampled MSE-Owners who seek business for information



Source: Field Survey, 2019

Secondly, when the respondents were asked if they had previously received any financial assistance from an external investor, 88.2% of the sample used indicated that they had not previously received any financial from an external investor. Out of the 6 participants who had benefitted from these type of assistance, 3 stated that it was their book-keeping that gave them an upper edge to receiving this financial assistance, while the other 3 indicated they pitched their ideas to potential investors who later on supported them. It is important to note that none of these investors were family members.

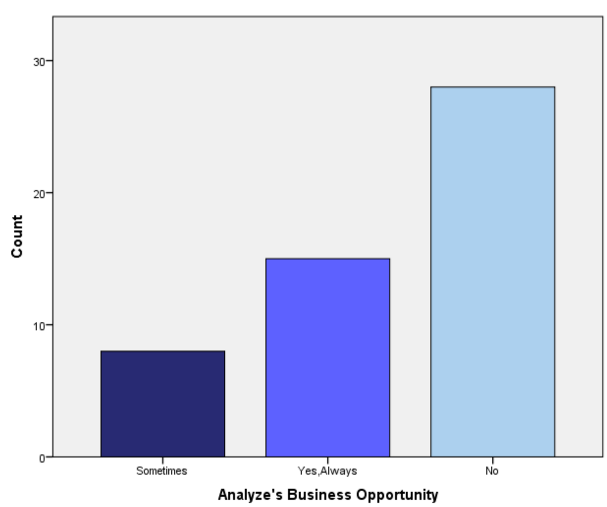
Figure 4.9 Sampled MSE-Owners who have received financial support from an external investor



Source: Field Survey, 2019

Lastly, when it came to the business environment the firm owners operated in, the respondents were if they analyze for better business opportunities to keep up with competitors and majority of the respondents reported that they hardly ever analyzed their business environment. Most respondents who did analyze for better business opportunities representing 29.4% of the total sample indicated they looked into ways they could expand the scope of marketing their goods and services.

Figure 4.10 sampled MSE-Owners who analyze for various business opportunities



Source: Field Survey, 2019

This financial capability framework was an important aspect to this study because, as from the reviewed literature, it indicates that financial capability reflects and affects the business owners' attitudes, skills, knowledge and behavior in managing business finances and making decisions that fit their needs at a particular time in their business, to help them grow sustainably (Suryani, Iramani, & Awati, 2016), (Zottel, Perotti, & Bolaji-Adio, 2013). This study therefore investigated if these decisions, by MSE-Owners who had received development finance, had an effect on employment and investment. This is discussed in subsequent sections.

4.4 Challenges faced by MSME-owners while acquiring loans from K.I.E

Majority of the respondents to this study reported that they faced several challenges while applying for a loan at K.I.E. Notably, majority of the respondents representing 70.6% of the respondents complained that they had to pay an unexpected "service charge" was deducted from the amount they had applied to cater for a lawyer charges. Similarly, 39.2% of the total respondents also complained that a fee was deducted from their loan application to carter for land evaluation charges done by the institution. This study also noted that more than of the respondents complained about the procedures before obtaining a loan to be too long. See table 4.41.

Table 4.19 Percentage number of sampled MSE-Owners who faced a challenge while applying for a loan in the given categories

Category	Percent
Procedures were too long	58.8
Land evaluation charges	39.2
Lawyer charges	70.6
process was too long but I understood its purpose	7.8
No challenges	21.6

Source: Field Survey, 2019.

Upon further investigation, this study noted that indeed the process of acquiring a loan was longer than usual. The average time it could take a business owner to get loan from the Institution would be approximately 4 months. From the results of this study only one respondent reported to have received a loan in under 1-month while 15.7% of the respondents reported they had to wait for more than six months to get their loan. Majority of the respondents to this study had received their loan after 4 months. When this issue was raised in the interviews with Official at K.I.E., this study found two key revelations. First, the interviews revealed that loans procedures and loan approvals are done at the head-quarters in Nairobi, despite the presence of regional offices in country. Secondly, these two processes are conducted by a technical team of officials known as the Risk Assessment and Credit Committee (R.A.C). The R.A.C. is composed of three officials; a risk assessment officer, a credit officer and a business development officer, whose key mandate is to review all loan applications made to the organization. This committee deals with application of less than 1 million and convenes once a week; when one member misses a meeting no loan application are examined in that which then pushes the time a beneficiary can get his/her loan.

Table 4.20 Time it took sampled MSE-owners to get their loan processed from KIE

Period	**Percent**
less than 1 month	2
2 months	7.8
3 months	21.6
4 months	25.5
5 months	19.6
6 months	7.8
more than 6 months	15.7
Total	**100**

Source: Field Survey, 2019.

4.5 Relationship between the loans accessed and investment

From the sample that was used in this study, the findings of this study revealed 37.3% of the respondents to this survey had invested their business in terms of purchasing an asset which was in relation to their businesses. However, the loan received by the MSE-owners did not enhance their investment tendencies as envisioned as the mandate of the Institution as discussed in section 4.2.1. This is because majority of the respondents to this study representing 52.9% of the sample interviewed reported that they had obtained a loan from with the aim of increasing their working capital and thus were only sustaining their businesses.

Table 4.21 Main reason why sampled MSE-owners obtained a loan from KIE

Purpose of the loan	Percentage
Start a Business	2.0
Increase my working capital	52.9
Investment Purposes	37.3
Other	7.8
Total	100.0

Source; Field Survey, 2019.

This study found out none of the participants had invented nor invested in any technological products for the benefit of the society. Although majority of the respondents to this study; 15.7% respondents, had technological inclined businesses they did not engage themselves in any software development activities nor bio-metrics - one of the key features funded by the institute a measurement to this study. Given this state, the study could not further investigate the correlation between this factor and the outcome nor its association with the financial capability of the firm owners.

Some MSE-owners did however use the loan they received from KIE to invest in their businesses by: putting up a permanent structure, training their employees and purchasing a machinery for their businesses. This study therefore sought to test the strength of the relationship between the terms of the contract as offered by KIE and their investment choices. This was done using a Cramer’s V test by observing a level of significance of 5 % and considering the proposition of a strong of relationship between the variables when their values are close to 1. From the survey data, the size of the loan, interest rate and collateral requirements had a weak association with investing in a physical asset. The relationship was particularly weakest between collateral requirement and physical asset as it had a value of .074. See table 4.5.2. Similarly, the terms of the contract as set by KIE had a poor relationship with investing in training ones' employees. This relationship was particularly weakest between collateral requirement and training whose value stood at .074. Lastly, the relationship between terms of the contract and the probability an MSE-owners purchased machinery was equally weak and weakest in collateral requirement. See table 4.5.2 for full summary statistics. It is important note that, from the data that was collected in this study, the loan contract did not have a statistical relationship with investment, moreover, the term set under collateral requirement had the weakest relationship with the investment.

Table 4.22 Effect of loan product offered by KIE on investment

Variable	*1*	*p-values of 1*	*2*	*p-values of 2*	*3*	*p-values of 3*
Size of the loan	.143	.592	.424	.010	.140	.605
Interest rate	.162	.987	. 234	.885	.347	.523
Collateral requirements	.074	.598	.074	.598	.265	.058

1= physical asset, 2=paid for training, 3=purchased a machinery; level of significance p=0.05; N=51.

This study also investigated the degree of strength between the financial capability of the MSE-owners and investment by still using the Cramer's V test. This is because as noted in section 2, access to finance alone cannot lead to desired results. Distinctively, in the first framework of financial capability used in this study, the survey data indicated that there was a relationship between MSE-owners controlling their finances and investing in employee training as the Cramer's V value stood at .700 with p=.000. However, not all features of the first framework recorded an association with investment. Attributes such as separating household-business expenses and learning from previous with investment had the weakest relationship. See table 4.5.3 for full summary statistics. In the second framework, the survey data indicated that there was in fact a relationship between accessing external financial support and investment in a physical structure as the Cramer's V value was .553 with p=.000. Not all attributes equally registered a strong relationship in the second framework. The relationship between seeking business opportunities and investment was lowest.

Table 4.23 relationship between financial capability of MSE-owners and Investment

variable	***1***	***p-value of 1***	***2***	***p-value of 2***	***3***	***p-value=3***
Controls business	*.029*	*.838*	*.700*	*.000****	*.133*	*.343*
Sets-reviews plans	*.345*	*.108*	*.133*	*.824*	*.292*	*.227*
Learns from mistakes	*.074*	*.870*	*.074*	*.870*	*.311*	*.085*
Separates expenses	*.033*	*.973*	*.223*	*.282*	*.157*	*.534*
Seeks Bsn information	*.416*	*.032*	*.129*	*.839*	*.234*	*.425*
Fin-support	*.553*	*.000****	*.074*	*.598*	*.222*	*.112*
Seeks Bsn-opportunities	*.112*	*.728*	*.112*	*.728*	*.102*	*.765*

1= physical asset, 2=paid for training, 3=purchased a machinery; level of significance p=0.05; N=51.

4.6 Relationship between the loans accessed and employment by MSME-Owners

This study found out that more than half of the MSME-owners who were interviewed, representing 52.9% of the study's participants, had increased their number of employees upon receiving a loan from K.I.E despite not making significant investment choices to expand and grow their businesses. Majority of the respondents had increased only one more employee while only one business owner had increased 5 more employees.

Table 4.24 Number of increased employees by sampled MSE-owners

Number of employees	No. of firms	Percent
Zero	24	47.1
One	12	23.5
Two	8	15.7
Three	4	7.8
Four	2	3.9
Five	1	2
Total	**51**	**100**

Source: Field Survey, 2019

In an effort to uncover the strength of the relationship between the loan received; in terms of the amount received, interest rate charged, and collateral requirements and increased employment, a Cramer's' V test was performed. This was also done in consideration of the level of significance being at 5 % and also bearing in mind that a strong of relationship between the variables is represented by the values being close to 1. The study revealed that the size of the loan, interest rate, and collateral requirements to be having a weak relationship with the increase in employment. The relationship was especially weakest between collateral requirements and increased employments as the value stood at .143 with a p=.306. See table 4.6-2 for full summary statistics.

Table 4.25 Effect of the loan employment

Variable	*1*	*p-values of 1*
Size of the loan	.309	.088
Interest rate	.319	.637
Collateral requirements	.143	.306

1=increased number employment; level of significance p=0.05; N=51

The section also investigated the relationship between the financial capability of the MSE-owners and employment. In relation to the first financial capability framework, the survey's data revealed that there is a weak relationship between it and employment. The relationship was especially weakest between MSE-owners' controlling their businesses and employment as the Cramer's V value was .152 with p=.284. In regard to the second framework the results indicated that generally there was a poor association between the attributes of the second framework and employment. The relationship was particularly weakest between obtaining external financial support and employment as the Cramer's V value was .022 with p=878. See full summary statistics in table 4.6-3.

Table 4.26 Relationship between financial capability of MSE-owners and employment

Variable	***1***	***p-value of 1***
Controls business	*.152*	*.284*
Sets-reviews plans	*.385*	*.056*
Learns from mistakes	*.311*	*.085*
Separates expenses	*.322*	*.071*
Seeks business information	*.466*	*.011*
Fin-support	*.022*	*.878*
Seeks business opportunities	*.268*	*.159*

1=increased number employment; level of significance p=0.05; N=51

CHAPTER 5 : SUMMARY, CONCLUSIONS AND RECOMMENDATION

This chapter is divided into three sections. The first section, 5.1 gives a summary of the study and highlights key findings; sections 5.2 concludes the study; sections 5.3 makes recommendations and proposes key areas for future research.

5.1 Summary

This research project emanated from the fundamentals of the theory of finance which supposes that at the firm level, access to finance supports new-firm entry, and enables current enterprises to reach a larger size by enabling them to venture into their growth and investment prospects (World Bank , 2008). However, empirical evidence to demonstrate this relationship indicates otherwise. More specifically, Kenya has been considered to possess a well-developed financial system yet there is still exists a glaring financing gap raising concern as to how the private sector and MSMEs are going to expand and grow (Njenga, Ngugi, & Mwaura, 2006; Bakang, 2015). This led this study to further investigate the key finacial services offered within the country. Evidence indicated that the dominant financial services offered in the country i.e. mobile services mostly respond to emergencies/ daily needs; while the dominant existing financial institutions charged high inerest rates on loans; and costly and stringent regulations under MFIs have discouraged potential investors.

Upon further research this study found out that the kind of commercial organization and its policy-guidelines will often control the access question. Moreover, the financial market has been characterized as imperfect and modern development studies theorists suggest that these imperfections affect both the human and physical accumulation. This prompted this study to investigate access to finance under concessionary terms by focusing on the theory development finance. This is because development finance seeks to assist disadvantaged sections of the populace that have unfulfilled need for loans and its institutions' are capable of handling client-server problems. In addition, literature indicates that the usage of development finance brings about social and economic benefits on larger scale. Besides paying attention to this nexus, this research also looked into the financial skills, knowledge, attitudes and behaviours of MSME-owners. This is because accessing finance alone does not always equal to the intended results. Research indicates that an entrepreneur needs understand their financial status and be equipped with a set of skills so to know when to make and take appropriate business actions.

This study focused on one development finance institution-KIE and employed a mixed method research technique; in sampling and reporting the findings . The study was conducted in Nairobi and the main respondents were the MSE-owners who also the unit of analyis. The study found out that KIE indeed charges a lower interest rate compared to the market rate by 4-6%. The institution offers loan sizes of up to the value of KES 20,000,000 and exceptions made to clients to acquire a loan worth between 20,000-50,000. The pay-back period for the loans offered ranges between 3-8 years and a grace period of one year is given in the event a client is unable to keep up with the loan repayment arrangements. Failure to comply with the payment regulations of the institution attracts a penalty of being enlisted at the CRB. This study found out majority of the users of development finance were men. All respondents had received some form of schooling but male participants recorded higher levels of education than female. Most business owners were married and were above the age 40. A key finding to this study was the under-representation of youth who use development findings and another key findings was the limited number of business that engage in value-addition and micro-industrialization as envisioned by the Institution. Majority of the business that received funding operated computer shops.

The financial capability of business-owners registered desirably in some the of the measurement examined such as learning from previous financial mistake and controlling ones' business finances; while some of the measures of that registered poorly included: analyzing for business opportunities, separating household and business expenses, and acquiring financial support from an external supervisor. Distinctively, this study noted that the measures of financial capability of these business owners did not affect their employment nor investment accumulation choices.

In this study, the statistical test that was conducted indicated that there was no relationship between variables under-study. The terms of the contract, i.e., interest rate, size of the loan received; collateral requirements did not influence the business owners' decisions to employ more employees nor invest in their business. However, despite these statistical inferences, this study found out that due the funds accessed from DFI, 52.9% of the study's participants, had increased their number of employees and while 37.3% had made investments in relations to their businesses. This neccesitates the need for more research to align this statistical and empirical inferences

5.2 Conclusion

In conclusion, this study supports the suggestions made by modern development theorists who point out that the financial market imperfections affect both physical and human accumulation. It is important to note that, despite advancing the need for providing finance to help businesses innovate, grow and expand, unfavorable contract conditions oftens locks them out which makes both finance and entrepreneurs not play their intended roles. Therefore, available financial products need to only respond to the economic status of a country but also the status of entrepreneurs especially at the grassroots level. To this regard this study reinforces the theory of development finance which proposes the need to provide finance at a reduced rate to the disadvantaged sections of the populace and areas that have an unfulfilled need for money. Unlike the conventional methods and other options of business financing, the transcations costs incurred through using development finance are expected to be lower and the terms of contract more favorable. Moreover the benefits of using development finance such as: creation of employment, increasing investment rate and linking industry to agriculture, can be realized at a larger.

To conclude, usage of finance is equally as important as to accessing it. Entrepreneurs' financial capability skills, attitudes and behaviours equally contribute to the outcome and results of unlocking previously inaccessible financial services. When the entrepreneur is able to understand his/her Financial capability enables the business owner to forecast, take appropriate risks, consult and grow their business sustainbly.

5.3 Recommendations

This research project makes the following recommendations. To begin with, in order to increase uptake of loans among the youth, the Institution needs embrace the presence of the youth in their committees and more so in their planning processes. Additionally, a committee which encompasses those between the age of 18-34 should be formed to assess the feasible and contemporary projects which could receive financial support from the institution.

Secondly given that majority of the respondents to this study were not pleased with the amount of time they had to wait in order for the them to get their loan, this project proposes that the Institution delegate more responsibility when it comes to disbursement of loans. At least 8 R.A.C boards could be formulated to attend clients in the country's previous provinces.

Finally, more efforts need to be out to promote businesses that engage in micro-industrialization and value addition. This could be through giving incentives; for example, better loan packages, to clients who engage in these type of businesses. The Institutions needs to encourage second term clients whose businesses are not aligned to such modes by providing value-addition and micro industrialization training and/or linking them to business whose orientation revolves around value addition or micro-industrialization.

For further research this study recommends that future studies look into the place and state of the youth financing in the other existing development financing institution in Kenya. This is because KIE has not fully incorporated financing options for the youth. Secondly, more research on the state of value addition and micro-industrialization in other parts of the country that receive financial assistance from KIE needs to be under-taken. This inquiry could apply as well to the contribution existing DFIs have made towards value addition and micro-industrialization as the level of micro-industrialization from finance from KIE is limited.

Research into other ways of firm financing that have a large scale effect employment and investment. More attention is needed to look long-term financing options and also financial products which are suitable to the needs of micro and small business. Finally, different approaches or models that measure the importance of financial capability of entrepreneurs also needs extensive research. Understanding the appropriate financial capability models that can be used to assess the level of firms' financial capability will enhance growth of these enterprises sustainably.

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APPENDICES

Appendix one: STUDY'S QUESTIONNAIRE

ACADEMIC RESEARCH QUESTIONNAIRE ON: ACCESS TO DEVELOPMENT FINANCE AND ITS EFFECT ON EMPLOYMENT AND INVESTMENT IN MSMEs IN NAIROBI COUNTY.

Basic Information

Name:	
Business Name:	
Sex:	1. Male
	2. Female
Marital Status:	1. Single
	2. Married
	3. Divorced
Age	1. 18-23
	2. 24-29
	3. 30-34
	4. 35-39
	5. Above 40
Highest level of education	
Contact:	

a. **NATURE OF LOANS RECEIVED FROM KIE**

1. How did you come to know of KIE?

a. Referral by friend/family
b. Through own research
c. Internet
d. Government outreach program
e. Other: (please specify)

2. Do you know of any other development finance institution in Kenya?

Yes: ☐ No: ☐ *(If no skip to question g)*

1. Which one(s)?

……………………………

3. Have you borrowed money before from any of the institution named above mentioned?

Yes: ☐ No: ☐

4. How much money did you borrow?

…………………………………

5. What was the main purposes for obtaining that loan?...

6. Have you repaid that loan?

Yes: ☐ No: ☐ In the process: ☐

7. Have you obtained a loan from KIE in the last…

1. 6 months
2. 12 months
3. 24 months
4. Other:

8. How much finance did you apply for?

1. 20,000-50,000
2. 100,000-500,000
3. 500,001-1,000,000
4. Over 1,000,000

9. How long did it take for your loan to get processed?

1. Under one week
2. One week
3. 10 days
4. 14 days
5. More than 14 days

10. What interest rate were you charged?

………………………………………………………………..

11. What was the ***main*** purpose for obtaining the loan?

1. Start a business
2. Increase my working capital
3. Investment (e.g. buy equipment, space or building for my business; Technological advancement)
4. Train new/old employees
5. Other:

12. What were the collateral requirement(s) (a form of security) required of you to obtain this loan?

1. Title deed (mine)

2. A family/friend's Title deed (on consent)
3. Logbook
4. A family/friend logbook
5. No security required
6. Other: (please specify)…………………………

13. After how long were you expected to repay your loan?

1. Under 12 months
2. 1-3 years
3. 3-5 years
4. 5-8years
5. Beyond 8 years

14. Did you experience any challenges while applying for the loan Yes: ☐ No: ☐
If yes what were they:

1. ……………………………………..
2. ……………………………………....
3. ……………………………………

b. CHARACTERISTICS OF THE MSME

i. What type of business do you own?

a. Manufacturing

(to specify the firm)………………………………………….

b. Service: (ICT/Software development)

c. Artisan Work

d. Other: (Please Specify)

ii. What is your main occupation?

……………………………………………………………….

iii. For how long has your business been in operation?

1. 1 year
2. 2-5 years
3. 5-8 years
4. More than 8 years

iv. Do you currently have a business license?

Yes: ☐ No: ☐

v. Do you have other business branches? ☐: ☐

2. If yes how many more…………….

vi. How many employees do you have?

vii. What proportion of those employees are:

1. Employeed on a full-time basis:…………
2. Employeed on a part-time basis:………..
3. On training/formal attachment with pay………
4. On training/formal attachment without pay………

viii. Of those that you have employeed how many are family members?............

c. ENTREPRENEUR'S FINANCIAL CAPABILITY

Financial Capability Frame A		
1.Do you control your firms budget?	1. Yes, Always 2. Sometimes 3. Rarely 4. No 5. Prefer not to answer	
2.Do you analyze and develop business opportunities?	1. Yes, Always 2. Sometimes 3. Rarely 4. No 5. Prefer not to answer	How? *If Respondent answers 1 or 2* 1. I research on new technology 2. Expand the scope of marketing my business 3. Other
3.Do you set and review your financial goals and strategies	1. Yes, Always 2. Sometimes 3. Rarely 4. No 5. Prefer not to answer **if NO go to 3b*	How often do you review your financial goals and stategies? 1. Daily 2. Weekly 3. Monthly 4. Every 3 months 5. Every six months 6. Every year

3b. Why don't you set and review financial goals and strategies	1. I have no time 2. I don't know 3. It is time consuming 4. Other reason	
4.Do learn from previous financial mistakes?	1. Yes 2. No 3. I have not yet made any financial mistake	What action(s) did you take?
5.Has your business previously received financial support from an external investor other than KIE?	1. Yes 2. No	If *Yes* how did you attract this investment?
Financial Capability Frame B		
1.Do you seek for business information and financial advice?	1. Yes, Always 2. Sometimes 3. Rarely 4. No 5. Prefer not to answer **if NO skip to 1e*	From whom do you mostly get this information from? 1. Peer, local business community group 2. Financial advisor / professional accountant 3. Family and friends 4. Government's or non-profit organisation's training program 5. Print media (e.g. newspaper, magazines etc.) 6. The internet 7. Other (specify)
1b. How often do you seek for business and financial advice?	1. Daily 2. Weekly 3. At least once a month	

	4. At least once every three months 5. At least once every six months
1c. In regards to your business how helpful is the advice you usually receive?	1. Exetremely helpful 2. Very helpful 3. Helpful 4. Slightly helpful 5. Not helpful
1d. What advice do you mostly consult on?	1. How to manage my business finances 2. How to invest furher in my business 3. How to attract investors 4. Other reason……
1e. Why don't you seek for any financial and business information	1. I don't see any need 2. I don't know who to ask 3. It's time consuming 4. It's expensive 5. Other reason…………………
2.D o you keep business expenses separate from personal or household expenses	1. Yes, Always 2. Sometimes 3. Rarely 4. No 5. Prefer not to answer

d. EFFECT OF DEVELOPMENT FINANCE ON EMPLOYMENT

i. As a result of accessing finance from KIE have you

- Increased your number of employees? Yes: ☐ No: ☐
- If yes by how many?
- On what basis have you employed them on: full-time: ☐ part-time: ☐
- If no, why?

…………………………………………………

…………………………………………………

…………………………………………….......

- Has the proportion of incomes of you and employees increased as result of receiving finance from KIE?

1. Yes 2. No

ii. As a result of accessing funds from KIE have you experienced any:

Technological progress	1. Yes 2. No	Describe
Purchased any Machinery	1. Yes 2. No	What have you purchased?
		How much did it cost you to purchase that item(s)
Purchased any building	1. Yes 2. No	How many?
		Where is/are they it located?
		How much did it cost you to purchase the building(s)?
Have you rented new space?	1. Yes 2. No	Where?
		How much do you pay for it per month?
Have your emloyees or you received any external training to increase the level of understanding of your business?	1. Yes 2. No	How many emloyees?
		How many programs have they attended?
		Were you required to pay for those training session(s)?

		How much did you pay for those session(s)

Appendix 2: KEY INFORMANT INTERVIEW GUIDE

My name is Sandra Masira. I am a graduate student at the Institute for Development Studies in University of Nairobi. I am conducting research on ***Access to Development Finance and its effects on employment and investment in MSMEs in Nairobi County*** and you have been identified as an ideal candidate to contribute to this research through in-depth interviews. This interview shall take approximately 20 minutes and I will highly appreciate your cooperation. The views and opinions that shall be shared with me, shall be kept confidential at all times and will only be used for academic research purposes.

KIE OFFICIAL

1. Please give a brief description of Kenya Industrial Estate
2. What financial products do you offer and whom is your clientele?
3. Is there a limit for the amount an individual can borrow from the institution?
4. What documents are required for one to receive financial assistance from KIE?
5. What are the collateral requirements for obtaining a loan at KIE?
6. Over the last 10 years what activities have you commonly financed?
7. Is there a gross period accorded to loan defaulters?
8. How regularly does KIE review its mandate and principles to fit the ever-changing business environment?