

**IMPACT OF MICROFINANCE INSTITUTIONS ON GROWTH AND DEVELOPMENT
OF SMALL AND MEDIUM ENTERPRISES; A SURVEY OF MACHAKOS TOWN**

BY

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DECLARATION

This research project is my original work and has not been presented for award of degree in any other University.

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PROF.G.P. POKHARIYAL

DEDICATION

This research project is dedicated to my mother Esther Koki Mbaluka for her moral support and encouragement during the time I was undertaking my studies.

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I thank the Almighty God for the strength, wisdom and providence both materially and emotionally so as to undertake this study. I am highly grateful to my supervisor Prof G.P Pokhariyal, who played a crucial role in the success of this research project report through his constructive criticism and guidance. The respondents who participated in this study by providing the necessary information required to accomplish the research objectives. Last and not least the University of Nairobi administration for provision of humble learning environment that facilitated accomplishments of my academic goals.

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ABBREVIATIONS AND ACRONYMS

CGAP	Consultative Group to assist the Poor
EU	European Union
GDP	Gross Domestic Product
IBP	Individual Banking programmes
ICT	Information Communication Technology
KIM	Kenya Institute of Management
KWFT	Kenya Women Finance Trust
MFI	Microfinance Institutions
NGO	Non Governmental Organization
SHG	Self Help Group
SME	Small and Medium Enterprises
SMEP	Small and Medium Enterprise Program
WEEC	Women Economic Empowerment Consort

ABSTRACT

Small and medium enterprises continue to fail from the problems that microfinance institutions claim to offer solutions to. A survey by Kenya National Bureau of statistics, (2007) indicate that three out of five SME businesses fail within the first few months of operation. A gap exists in finding out the effect of Microfinance institutions and growth and development SMEs. This study therefore sought to establish the effect of microfinance institutions of growth and development of small and medium enterprises. The study was guided by the objectives; to find out the role of MFIs in financing, provision of financial literacy, development of management skills and facilitating market networking among SMEs in Machakos town. The study was expected to establish the practical role of perceived solutions provided by microfinance institutions and how this affects growth of SMEs. A survey design was used to accomplish the study objectives. Data was gathered from managers of MFI institutions as well as SMEs within Machakos town. Stratified sampling was adopted to select 66 SMEs and five microfinance institutions to participate in the study. Data was collected via a questionnaire whose validity and reliability was established in the pilot test. Quantitative data analysis was undertaken to generate both descriptive and inferential statistics, this was done using statistical package for social sciences (SPSS). Presentation of data was done in tables and interpretation made based on research objectives. The study findings indicated that microfinance institutions provide a series of products and service that include small-scale business accounts, business management training, marketing services and financial literacy skills. Of all these, small-scale business loans are the major product offered by Microfinance institutions as indicated by 36.36% of the respondents. Small-scale business accounts, Business management training, and marketing services all rated 18.18% while financial literacy skills are the least offered represented by 9.1%. Among the financing facilities offered by the MFIs, provision of suitable loan products to SMEs, follow up programmes for the loans provided and favorable interest rate are the most benefiting facilities of financing. The study recommends MFIs to plan for seminars and workshops to train the SMEs on financial literacy, management skills and facilitation of ICT use. Further, MFIs should develop a regular needs assessment among SMEs so as to provide relevant products. A related study can be done to analyze the economic factors affecting microfinance institutions in financing SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Globally, small to medium size enterprises (SMEs) are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. In the United States of America (USA) and European Union (EU) countries SMEs are enterprises with employees under 500 while in developing countries any enterprise employing below 100 employees would constitute an SME. SMEs have become more important in the economic matrixes in recent years across the globe through increased deliberate government policies and legislation aimed at nurturing SMEs as engines of economic growth and employment creation. It is estimated that SMEs constitute over 90 percent of total enterprises in most economies with a high rate of employment growth. They are also a vehicle for increased industrial production and exports.

In the USA and EU countries it is estimated that SMEs contribute over 60 percent in employment, 40-60 percent to Gross Domestic Product (GDP) and 30-60 percent to exports. The Asian countries such as India, Indonesia, China, Malaysia, Japan, and South Korea also have thriving SMEs sectors contributing between 70-90 percent in employment and an estimated 40 percent contribution to their respective GDPs. In Africa, economic powerhouses such as South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70 percent in employment and 30-40 percent contribution to GDP, but contribute less than four percent to export earnings.

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Among the inexhaustible list of factors that could enhance development of SMEs is adequate finances and good financial management among the SMEs. Finance and financial related services are an important prerequisite in initiation, development and growth of business enterprises. Every business whether large, medium or small requires some level of financing in order to sustain its operations

and expand. Financial institutions provide finance solutions to facilitate the aforementioned business requirements. With large business enterprises, it is not a difficult task to obtain financing from financial institutions and hence can easily walk into banking facilities and get loans to finance their business operations, Ledgerwood (2007). A survey done by the World Bank (2005) confirms that generally, large firms have access to bank credit and other financial services both local and foreign than small firms. The situation is however, different for SMEs who heavily rely on internal funds and retained earnings.

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole.

The Grameen Bank concept in Bangladesh is among the best examples provision of micro credit among SMEs. The bank is in a leading position in trying to develop the poor and the vulnerable people by providing loans without requiring any collateral or mortgage. This concept have been replicated all over the world and dedicate to create a poverty free world. The essence of MFI development comes from empowering small business to thrive (Khaled Shukram, 2012).

Microfinance evolved as an economic development approach intended to benefit low income men and women (Ubom, 2003). The term refers to the provision of financial services to low income clients, including the self employed. Financial services generally include savings and credit; however, some microfinance institutions also provide insurance and payment services. In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development of self confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance also includes both financial intermediations and social intermediations. Microfinance clients are typically self employed, low income entrepreneurs in both urban and rural areas.

Clients are often traders, street vendors, small farmers, service providers and artisans and small producers such as blacksmiths. Usually, their activities provide a stable source of income (often from more than one activity). Although they are poor, they are generally not considered to be the poorest of the poor (Ledgerwood, 2007).

With Microfinance institutions offering the business solution for development and growth of SMEs, it is commonly expected that Small and medium enterprises are able to grow, from being small sized firms to large and easily sustainable business ventures, Nevertheless, this very critical objective seem far from reality as far as SMEs are concerned. According to the Kenya National Bureau of Statistics, (2007), three out of five businesses fail within the first few months of operation. Attempts to address the reason for ailing performance for SMEs has been centered around the challenges facing SMEs which in many studies have been negative perception on SMEs ability to provide quality services , lack of adequate finances and poor management skills (Amyx , 2005 ; Mcgrath 2002 ; Oketch 2000). The irony of it is that the same problems that lead to failure of SMEs are the solutions that many microfinance institutions seemingly provide. This therefore underlines the need for the present study which seeks to establish the impact of microfinance institutions in growth and development of SMEs with focus on SMEs in Machakos town.

1.2 Statement of the Problem

Small and Micro Enterprises (SMEs) play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50 percent of new jobs created in 2005 (Michael Bowen, 2009).Despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months. Challenges faced by SMEs seem to evolve from different macro and micro conditions. Among such challenges as revealed in many studies may emanate from financial challenges, management or marketing limits in which many SMEs find themselves in.

As a strategy towards assisting SMEs to thrive, microfinance institutions have come up with strategies aimed at proving solutions to the sustainability challenges affecting SMEs.

Small and medium enterprises continue to fail from the problems that microfinance institutions claim to offer solutions to. A survey by Kenya National Bureau of statistics, (2007) indicate that

three out of five SME businesses fail within the first few months of operation. On other hand Ubom,(2003) claims that Microfinance institutions offer business solutions to small and medium enterprises by providing savings and credit , insurance , payment services , social intermediation services such as group formation, development of self confidence, and training in financial literacy and management capabilities among members of a group. Studies by Amyx , 2005 ; Mcgrath 2002 ; Oketch 2000) indicate that SMEs fail as a result of challenges such as inability to provide quality services , lack of adequate finances and poor management skills. This would sound ironical owing to the view that it is the same problems that microfinance institutions are strategically focused on addressing. A gap in the reviewed literature exists as far as addressing the effect of microfinance institutions and growth and development of SMEs is concerned. The aim of this study was therefore to establish the effect of microfinance institutions on growth and development of SMEs with focus on Machakos town.

1.3 Purpose of the study

The purpose of the study was to examine the impact of microfinance institution on growth and development of small and medium enterprise.

1.4 Objectives

The objectives of the study were to;

- i. Determine the role of MFIs in financing SMEs in Machakos town,
- ii. Examine out the effect of MFIs in provision of financial literacy among SMEs in Machakos town,
- iii. Establish the role of MFIs in development of management skills among SMEs in Machakos town
- iv. Investigate the effect of MFIs in facilitating market networking among SMES in Machakos town

1.5 Research questions

The study sought to answer the following questions

- i. What is the effect of microfinance institutions in financing SMEs in Machakos town?

- ii. What is the effect of MFI in provision of financial literacy among SMEs in Machakos town?
- iii. What is the effect of MFIs in development of management skills among SMEs in Machakos town?
- iv. What is the effect of MFIs in facilitating market networking among SMEs in Machakos town?

1.6 Significance of the Study

The importance of SMEs in economic development and poverty reduction cannot be ignored. By undertaking the present study, the researcher established the practical role of perceived solutions provided by microfinance institutions and how this affects growth of SMEs. The study sought to recommend possible strategies that may help improvement of MFIs impact on SMEs. The information from the present study will act as feed back to microfinance institutions that provide financial solutions to SMEs. This would facilitate formulation of strategies based on SME needs but not out of general perception of what SMEs need. The study acted as an awareness programme among SMEs owners and managers who might not be aware of the services and products provided by microfinance institutions.

1.7 Delimitations of the study

The study was carried out in Machakos town with high concentration of SMEs and microfinance institutions. This means that the researcher had readily available respondents to provide information required by the study. Large proportion of the population where the study was carried out have the same cultural values, thus the researcher was able to get information from more or less homogenous group.

1.8 Limitation of the study

The study findings were limited to respondents level of literacy in provision of responses to the research questionnaire. The findings were further limited to extent of MFI practices offered by microfinance institutions to SMEs within Machakos.

1.9 Assumptions of the study

The study was based on the assumption that;

Respondents was willing to provide the information required for the study. All SMEs within Machakos town are faced by the same challenges, opportunities and threats. That SMEs, seek financial assistance and other related services from microfinance institutions. Microfinance institutions within Machakos town and have SMEs as one of their mainstream clients was considered.

1.10 Definition of significant terms

Small and Medium Enterprise Any enterprise employing below 100 employees

Enterprise

Financial Literacy Possessing the knowledge necessary to understand concepts related to finance among SMEs. These ideas may include balancing a checkbook, understanding interest rates, employee benefits, or how the stock market works.

Financing Providing the necessary capital required for SMEs

Marketing The process by which products and services are introduced to the marketplace

Microfinance institution An organization that provides financial services to low income clients, including the self employed.

Growth and development Expansion among SMEs in terms of number of employees , revenues per annum and number of outlets

1.11 Organization of study

This chapter has provided background on the study on the impact of microfinance institutions on growth of SMEs in Kenya. The chapter highlights the background of the study, problem statement, purpose of the study, objectives, research questions, delimitation and limitation of the study, assumptions of the study and definition of significant terms.

1.12 Summary

The study background provides the genesis of SMEs challenges that necessitated entry of microfinance institution, growth and development challenges facing SMEs. The purpose of the study as well as the significance describes the need and the expected benefits to be yielded out of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review provided a review of past studies on; the business model for microfinance institutions, the situation for SMEs in Kenya, and empirical review of the effect of various microfinance services i.e. financing, provisions of financial literacy, and developments of management skills among SMEs in facilitation of market network among SMEs. The chapter will also discuss the interrelationship between the study variables in the conceptual framework.

2.2 The concept and the scope of microfinance

According to Robinson (1998) Microfinance refers to the provision of a broad range of financial services such as ; deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. Anan (2002) further elaborates this by describing the core principles of microfinance to include; access to appropriate financial services among the poor. Micro financing is based on the premise that; the poor has the capability to repay loans, pay the real cost of loans, and generate savings, microfinance is an effective tool for poverty alleviation, microfinance institutions must aim to provide financial services to an increasing number of disadvantaged people, Microfinance can and should be undertaken on a sustainable basis and microfinance NGOs and programs must develop performance standards that will help define and govern the microfinance industry toward greater reach and sustainability

Gungen, (2002) described the features of microfinance based on the type of client, lending technology, loan portfolio, organizational ideology and institutional structure. On the client type for micro finance, Gungen noted that clients are characterized by low income, employment in the informal sector, low wage bracket, lack of physical collateral, closely interlinked household / business activities. The lending technology for microfinance is that of Prompt approval and

disbursement of micro loans, lack of extensive loan records ,Collateral substitutes; group-based guarantees, conditional access to further micro-credits, information-intensive character-based lending linked to cash flow analysis and group-based borrower selection. Loan portfolio is highly volatile and is heavily dependent on portfolio management skills. Organizational ideology is remote and non dependent on government with cost recovery objective and profit maximization. Institutional structure for microfinance is decentralized with insufficient external control and regulation. Capital base is quasi equity (mainly inform of soft loans and grants) (Anan, 2002).

According to Ledgewood, (1999) micro financing is based on the premise that traditional banking sector cannot reach millions of poor for whom small loans could make huge differences. This is because most of the poor are rural, and they are very dispersed. They have low education levels, if any. As a result, administrative cost of supplying loans to the poor population is extremely high. Another issue that makes it difficult to serve these customers through traditional banking is that the poor does not have any assets to use as collateral. As a result, the poor had access to loans only through local money-lenders at exorbitantly high interest rates.

Hew (2004) notes that Micro-credit financing starts with the assumption that the poor is willing to pay high interest rates to have access to finance. In general, the system uses the social trust as the collateral. Although there are different micro-credit financing models, the borrowers in the pioneering models are usually members of small groups. Loans are given to individuals, but an entire group is responsible for the repayment. Hence, the borrower who does not fulfil his commitment to repay back will lose his/her social capital. Micro-credit institutions report that their repayment rates are above the commercial repayment rates, sometimes as high as 97%. Today, there are millions of poor people around the world who turn to be entrepreneurs through the micro-credit sector.

Although micro-credit financing is considered as one of the most powerful tools for combating poverty, the sector still faces several serious problems (Anan, 2002). Despite high repayment rates, the cost of operating micro-credit financial institutions is much higher than their traditional commercial counterparts. These institutions usually charge excessively high interest rates to cover the high administrative costs of the micro-loans they offer to the poor people. This reality

creates a tension between sustainability of the micro-credit sector and the outreach. It also makes it a challenge to regulate micro-finance institutions.

2.3 Methods of delivering financial services by MFIs

MFIs around the world follow a variety of different methodologies for the provision of financial services to low-income clients (Robinson,1998).These methodologies are overwhelmingly based on the principle of financial services being related to the cash flows of the low-income client groups and thus aim to facilitate relatively frequent and very small or micro-loan and savings transactions (Ronge,2002).The following is a typology of major methodologies employed by MFIs for the delivery of financial services to low income clients

2.3.1 Self-help Group (SHG)

The SHG is the dominant microfinance methodology in Kenya and other parts of the world. . The operations of member SHGs are based on the principle of revolving the members' own savings (Robinson, 1998).External financial assistance by MFIs or banks augments the resources available to the group-operated revolving fund. Savings thus precede borrowing by the members. In many SHG programmes, the volume of individual borrowing is determined either by the volume of member savings or the savings of the group as a whole (Daniel, 1999). Some NGOs operate microfinance programmes by organizing federations of SHGs to act as the MFI which obtains external loan funds in bulk to be channeled to the members via the SHGs.

2.3.2 Individual Banking Programmes (IBPs)

IBPs entail the provision by MFIs of financial services to individual clients though they may sometimes be organized into joint liability groups, credit and savings cooperatives or even SHGs (Robinson,1998).The model is increasingly popular for microfinance particularly through cooperatives. In the case of cooperatives, all borrowers are members of the organization either directly or indirectly by being members of primary cooperatives or associations which are members of the apex society (Kiiru, 1991). Kiiru further adds that creditworthiness and loan security are a function of cooperative membership within which member savings and peer pressure are assumed to be a key factor. Though the magnitude and timing of savings and loans are largely unrelated, a special effort is made to mobilize savings from members.

2.3.3 Grameen Model

This model was initially promoted by the well known Grameen Bank of Bangladesh (Robinson, 1998). These undertake individual lending but all borrowers are members of 5-member joint liability groups which, in turn, get together with 7-10 other such groups from the same village or neighborhood to form a centre. Within each group and centre peer pressure is the key factor in ensuring repayment. Each borrower's creditworthiness is determined by the overall creditworthiness of the group. Savings are a compulsory component of the loan repayment schedule but do not determine the magnitude or timing of the loan. There are some two dozen MFIs in India known to use this model

2.3.4 Mixed models

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are an equal mix of SHG and Grameen model. Others have chosen to adapt either the Grameen or the SHG model to cater to their markets while some organizations use a number of delivery channels and methodologies (including lending to SHGs) to provide financial services. Such MFIs are still relatively few but with increasing innovation becoming the norm in world of microfinance, their numbers are growing 'savings', to a fund managed either by her group or by the MFI with direct access of the member limited or even barred.

2.3.5 Common characteristics of microfinance models

The common characteristics across the current approaches to the provision of microfinance services are summarized as by Ledgerwood (1999) include; In practice, the average microfinance client's relationship with an MFI can be defined by a fairly standard set of obligations. Attendance of regular weekly (fortnightly or monthly) meetings of her group Training in 'loan utilization' or participation in discussions of developmentally relevant issue such as social discrimination, gender awareness, health, sanitation and education, Contribution of fixed amounts.

2.3 Microfinance operation in Kenya

Two of the institutions transformed into a bank to collect deposit and offer other banking services to the population considered unbankable - K-rep and Equity. The rest operate as either a microfinance institutions, Trusts or NGO'S. Currently five institutions have scaled up their outreach and have country wide network (K-rep, Equity, KWFT, Faulu and SMEP.) The rest are limited in some areas in Districts and town centre main operations are loans and savings with those turned into banks having extra services like forex and remittances.

Kenya has a population of 30 million and per capita income of us \$260.Its the 20th poorest country in the world.49% of Rural population and 29% of the urban population live under conditions of absolute poverty. Unemployment rate is between 25-35%. It is estimated that 3.8 million Kenyans depend on informal associations and groups for services country wide. Micro enterprise is supposed to play a crucial role in the creation of jobs in Kenya. However we recognize that the sector's growth potential is inhibited by several constraints. These include poor access to markets, lack of credit and a poor policy environment.....” President Kibaki first address to parliament.

There are estimated 3460 legally constituted microfinance providers as of June 2003. 3897 savings and credit co-operatives, 56 microfinance Institutions. 4 commercial Banks (K-rep, Equity, post bank and co-op Bank, 2 building societies. Some microfinance Institutions are members of international forums like K-rep Bank, Equity Bank, SMEP, Faulu, .K-Rep Bank received the CGAP (Consultative Group to Assist the Poor) Award for the second time running. The government has created a rural finance Department at the central Bank of Kenya. A microfinance unit has been established at the Ministry of Finance. Microfinance are faced with myriad of challenges as indicated by Cooper (2013).Among this challenges include; unsupportive legal and regulatory environment, limited Donor funding, little support from the government, lack of right technical skills for the managers and staff of these institutions, poor infrastructure are hindering the operations of these institutions and lack of capital.

2.4 Effect of Microfinance institutions on growth and development of SMEs

2.4.1 Financing

Various attempts have been done to examine the effect of financing SMEs by microfinance institutions on growth and development of SMEs. Maina (2012) did a survey on microfinance services contribution to entrepreneurial development in Kenya. The study employed a case study design and focused on SMEs within Nairobi. In his study, Maina noted that the banking sector in Kenya is fairly vibrant by the standards of developing third world countries.

However the sector is 90% emphatically dominated by the formal commercial banks. Credit policy for banking institutions catered mainly for big businesses only, thus implying lack of access to credit facilities for small and medium enterprises. Maina study further observed that MFIs had come up to address the gap in finance requirements for small and medium enterprises (SME). The study finding indicated the MFI intervention to SMEs financing was faced by hurdle of Lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy to coupled with limited access to credit and financial services, there was no structural institutional mechanism to facilitate flow of financial resources from banks to MFI, and then to the SMEs hence increasing cost of credit.

2.4.2 Financial Literacy

Financial literacy among SMEs owners and managers is critical in ensuring that SMEs grow from small and medium to large enterprises. According to a report by Financial Sector Deepening 2009, SMEs finance capacity is a critical component in expanding SME finance. The report noted that some MFIs were involved in enhancing the capacity for SMEs through financial literacy training. It was however noted in FSD report that attempting to build this capacity at an institutional level was unlikely to be sustainable and certainly an expensive approach among MFIs. Thus as much as MFIs wish to provide SMEs capacity to handle finances, most of them are limited by the costs associated and the likelihood of passing this cost to the final consumer reduces original concept of providing affordable financing to SMEs.

2.4.3 Development of Management skills

Management of SMEs is a likely intervention that microfinance institutions are expected to offer in a bid to provide solution to many inadequacies that SMEs face. According to (Armyx, 2005) It is generally recognized that SMEs (Small and Medium Enterprises) face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Among such challenges as highlighted by Wanjohi (2007) is lack of managerial training and experience. Wanjohi noted that a typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made.

A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well equipped to carry out managerial routines for their enterprises (King and McGrath 2002). According to Mugure (2008) some educational institutions have made attempts to incorporate managerial training among SMEs. There is however little known about how MFIs are imparting business management skills among SMEs and how this has affected their growth and development.

2.4.4 Market facilitation

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (Mwangi, 2012) and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small

enterprises entrepreneurs need to be supported. Belonging to a professional body helps gain a competitive advantage in a business. Being a member of an industry association implies that one is serious about the business they do. This could also help in networking and obtaining of business information. In addition to offering financial products Mwangi (2013) suggest that microfinance institutions can provide a link to between client and SMEs through formation of business clubs, marketing associations and practicing development of well update data bases on SMEs information, their products and services. Little has been discussed on how enhanced SMEs network and accessibility of market information provided by MFIs have contributed towards growth and development of SMEs.

2.5 Conceptual framework

A conceptual framework is defined by Kothari (2004) a structure that presents relationship between the main constructs in a given study. Mugenda (2003) further adds that a conceptual framework gives an explanation of how the researcher perceives the relationship between variables deemed to be important in a study. Such relationship in the present study has been discussed in figure 1 below.

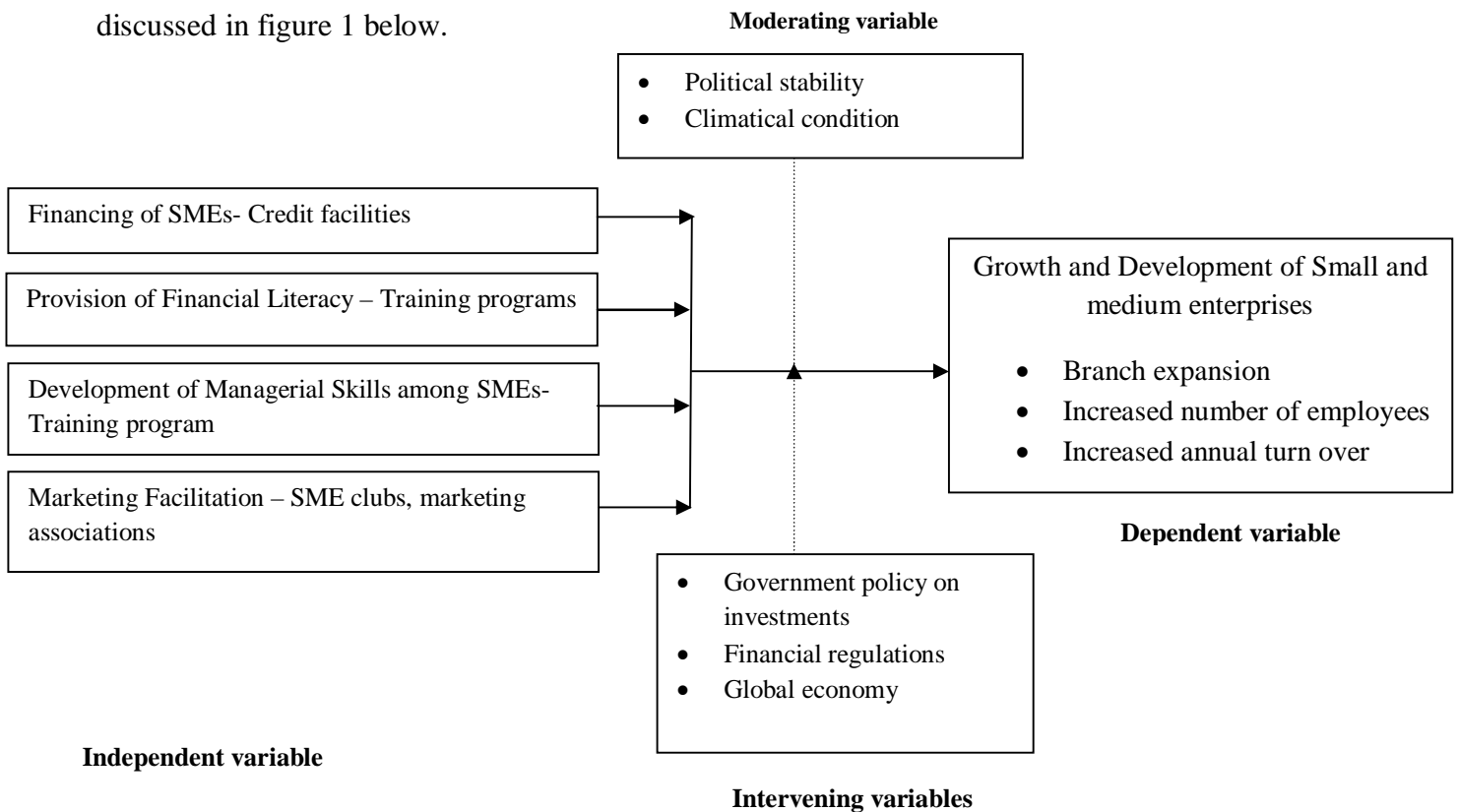


Figure 2.1: Conceptual framework

Figure 2.1 above represents the study's independent and dependent variables. Growth and development of SMEs is subject to various solutions provided by microfinance institutions. In the case of this study, microfinance institutions are assumed to offer favorable SME financing through credit and offer draft facilities, develop financial literacy skills among SMEs owners, develop management skills among SMEs, and facilitated marketing and marketing techniques among small and medium enterprises. This services provided by microfinance institutions and which forms the study independent variables are considered to be important determinant of the growth and development directions that SMEs take. This is a relationship that this study seeks to find out.

2.6 Summary

The reviewed literature provides a discussion of microfinance institutions and their models of product provision. In the perspective of author's reviewed and within the context of the present study, microfinance is viewed as provision of broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to poor and low income households. Microfinance are classified based on the type of client, lending technology, loan portfolio organizational ideology and instructional structure. Micro financing is based on the premise that mainstream traditional banking cannot reach millions of poor for whom small loans and other financial products would make a difference. This is further build on the assumption that the poor are willing to pay higher cost of financial services since they cannot enjoy large scale production discounts like large companies. Micro Finance Institutions provide solutions to SMEs through provision of financing, literacy skills, development of management skills and market facilitation.

2.7 Research Gap

The area of Microfinance Institutions in relation to their impact on SMEs has been significantly researched. Nevertheless, a gap still remains in establishing the impact of Micro Finance Institutions in relation to growth of SMEs growth. In the quest of establishing the impact of SMEs and how they related with Microfinance institutions, researchers have a wide evidence of

the challenges faced by SMEs, the working model for MFIs and range of services that provide solution to SME problems. There is however little evidence to establish the relationship between services provided by SMEs and growth of SMEs. This study therefore sought to fill in the gap by examining the impact of microfinance institutions on growth and development of small and medium enterprises.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a systematic discussion on research strategy to be adopted in establishing the effect of microfinance institutions on growth and development of SMEs. The chapter presents the research methodology under the following subsections; the research design, target population, sampling procedure and sample size, research instruments, validity and reliability, data analysis procedures and ethical considerations.

3.2 Research design

The study used a survey design to examine the effect of microfinance institutions on growth and development of SMEs in Machakos town. A descriptive survey was suitable in the study owing to the fact that several SMEs were sampled. A survey design describes people responses to questions about a phenomenon or situation with aim of understanding respondent's perceptions from which truism is constructed (KIM, 2009). This is based on the constructivist epistemology which holds that reality is what respondents generally perceive to be. A survey design was particularly useful as the study seeks to establish the perception of respondents in reference to effect of microfinance institutions on growth and development of SMEs.

3.3 Target population

The target population for this study was microfinance institutions and small and medium enterprises within Machakos town. Machakos is a town in Kenya, 64 kilometres southeast of Nairobi. It is the capital of the Machakos District in Eastern Province of Kenya. Machakos Town is a major rural centre, and also a satellite town due to its proximity to Nairobi. Its population is rapidly growing and is 192,117 (as of 2009). Owing to its rapid expansion and proximity to Nairobi, Machakos town present growth potential for SMEs. The growth and development of SMEs in the sector is likely to be influenced by the microfinance institutions in the area. According to a report on microfinance operations by Cooper, (2012), Kenya has a total of 19 microfinance institutions with some having branches all over the country. For the sake of this

study in Machakos, MFIs with nationwide presence and found in Machakos town was considered. These include; Equity bank, K-rep bank, Faulu Kenya, Small and Micro Enterprise program and Kenya women finance trust.

3.4 Sampling design and sample size

Sampling is defined by Chandran (2004), as a method used in drawing samples from a population usually in such a manner that the sample facilitated determination of some hypothesis concerning the population. This study sampled two categories of population required to provide information for the study. This include; microfinance and small and medium enterprises within Machakos town.

3.4.1 Sampling of microfinance institutions

Sampling of microfinance institutions was based on the their distribution within the country . Only MFIs with national wide presence and branches in machakos town was considered .Five microfinance institutions with branches in Machakos and elsewhere in the country were selected to participate in the study.Each microfinance institution provided three managers in top management , middle level management and lower level management to participate in the study. This provided a sample size of for MFI respondents of 15 .

3.4.3 Sampling of SMEs

The sampling frame for SMEs was drawn from the list of SME in Machakos Municipal Council. Stratified random sampling was used the select SMEs to participate in the study. According to Kothari (2004), stratified random sampling entails grouping the study samples into homogenous strata from which a sampling fraction is selected. SMEs within Machakos town was group into various categories based on the listing provided in table 3.2 below. From each strata a sampling fraction of 10% was selected. Selection of the sample size will be based Kothari (2004) recommendation for sample size which indicate that 10%-20% of the accessible population is adequate enough for a sample size. This gives sixty six (66) responded sampled from a population of two hundred and two (652) in the proposed study

Table 3. 1: Sampled population

Business category	Population	Sampled Size
Enterprises dealing with communication services	50	5
Enterprises dealing with manufactured products	150	15
Enterprises dealing with agricultural produces	250	25
Enterprises dealing with health services	20	2
Enterprises dealing with restaurant and entertainment	120	12
Medium workshops and repair contractors	15	2
ICT service providers	35	4
Small petrol filling stations	12	1
Total	652	66

3.5 Data collection instruments

The researcher used both secondary and primary data to accomplish the research objectives. Primary data was collected through questionnaires administered to managers in different companies. According to Chandran (2004), Questionnaires provide a high degree of data standardization and adoption of generalized information amongst any population. They are useful in a descriptive study where there is need to quickly and easily get information from people in a non-threatening way. They provide flexibility at the creation phase in deciding how questions were administered. Secondary data was gathered through analysis of literature on trends and implications of price controls.

3.5.1 Description of data collection procedure

Data collection process begun by the researcher seeking an introduction letter to carry out research from the University. He further sought consent from municipal council of Machakos With help of a research assistant; the researcher issued the questionnaire to the targeted respondents to fill. He closely monitored the process so as to clarify any issues that may arise during the answering of the questionnaire. For respondents who were unable to fill the questionnaire at the time the researcher was undertaking the exercise, more time was allocated for them so that the researcher picks the questionnaire after two days.

3.6 Reliability of Research Instrument

Reliability was undertaken through a pilot test. According to (Polit, 2001), pilot studies are small scale version[s], or trial run[s], done in preparation for the major study. He further adds that it can be used for pre- testing of a research instrument. Baker (1994) indicates that one advantage of conducting a pilot study is that it might give advance warning about where the main research project could fail, where research protocols may not be followed, or whether proposed methods or instruments are inappropriate or too complicated. The researchers issued questionnaire to one respondent in the microfinance's and each category of SMEs selected. The results of the pilot test and issues emanating from the questionnaire was then be used to correct the main questionnaire before actual data collection is undertaken.

3.7 Validity of the Research Instrument

Content validity was used to examine whether the questionnaire tests what its intents to test. Validity of the instrument was obtained through the opinion research panel experts in the department of extra – mural studies. The opinions of the expert was incorporated in the final questionnaire to be used to collect data in the field.

3.8 Ethical considerations

The researcher sought consent to carry out the study from municipal council of Machakos. Other ethical considerations that the researcher took included ensuring anonymity for the respondents and organizations participating in the study as well as the respondents. All sources of information that does not belong to the researcher will be acknowledged through citations.

3.9 Data Analysis techniques

Quantitative and qualitative techniques was used to undertake data analysis. Qualitative data analysis involved explanation of information obtained from the empirical literature open ended questions from the questionnaire. Quantitative analysis involved use of numeric measures in establishing the scores of responses provided. This entailed generation of descriptive statistics after data collection, estimation of population parameters from the statistics, and making of inferences based on the statistical findings, with help of Statistical Package for Social Sciences

(SPSS). A multiple regression was undertaken to establish the relationship between financing SMEs by MFIs, provision of financial literacy skills, development of management skills among SMEs and facilitation of marketing and growth and development of SMEs within Machakos town. This was performed using multiple regression model indicated below.

$$Y = \alpha + \beta_1(R.Avd) + \beta_2(R.Rdn) + \beta_3(R.Rtn) + \beta_4(R.Tsnf) + \varepsilon$$

Where Y = Dependent variable (growth and development of SMEs), α is to the constant, β is the coefficient of financing SMEs, β_2 is the coefficient of provision of financial literacy skills, β_3 is the coefficient development of management skills, β_4 is the coefficient of facilitation of marketing, ε is the error

Strength of the relationship was determined by the value of r^2 . The value of r^2 ranges from 0 to 1. Values of 0 show no relationship, while 0.5 show moderate relationship and values above 0.7 show strong relationship.

The statistical test of significance was performed at the 95% confidence level. The researcher computed an aggregate mean score of each variable using all the items in the questionnaire measuring that variable. The mean score was then be used to perform the regression analysis. The results of the numerical data was then interpreted based on the research objectives and thereafter conclusion and recommendations made and presented in tables.

3.10 Operationalization of variables

Table 3. 2 :Operationalization table

VARIABLE	TYPE OF VARIABLE	INDICATORS	MEASUREMENT	SCALE OF MEASUREMENT	TOOL OF ANALYSIS
Growth and development of small and medium enterprises	Dependent	<ul style="list-style-type: none"> • Sustainability • Level of expansion to other areas • Number of branches • Trend in revenue turnover 	Success	Ordinal	Descriptive
Provision of financial literacy skills	Independent	<ul style="list-style-type: none"> • Ability to do basic financial accounts • Record keeping • Mode of banking 	Number of SMEs managers with ledger book accounts	Ordinal	Descriptive
Development of management skills among SMEs	Independent	<ul style="list-style-type: none"> • Undergone management training • Has laid management strategies for the Enterprises • Employee motivation 	Number of managers / SME owners having attended management training workshops	Ordinal Ratio	Descriptive
Facilitation of marketing	Independent	<ul style="list-style-type: none"> • Registration in marketing business bodies • Use of information technology aiming SMEs • Availability of Data base about SMEs in the town • Availability of business clubs 	How many SMEs are registered What strategies do MFIs have to register	Nominal ordinal	Descriptive
Government policy on investment	Intervening	<ul style="list-style-type: none"> • Price controls 	Failure to grow as a results of government imposed regulations	Nominal ordinal	Descriptive
Financial regulations	Intervening	<ul style="list-style-type: none"> • Microfinance interest rates imposed by central bank 	High / low / favorable interest rates for MFIs	Nominal	Descriptive

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the findings of the study, impact of microfinance institutions on growth and development of small and medium enterprises. The chapter has been sectioned into; response rate, respondents' background, and the impact of microfinance institutions on growth and development of small and medium enterprises.

4.1 Response Rate

Table 4. 1 : Response rate

	Frequency	Percent
Responded	63	77.8
Did not respond	18	22.2
Total	81	100.0

Out of the 81 respondents comprising 15 from the MFIs and 66 from SMEs sampled to participate in the study, 77.8% responded to the research instrument against 22.2% who did not respond. This formed a response rate of 77.8%. The response rate was adequate to examine the impact of microfinance institutions on growth and development of small and medium enterprises since it is above 50% as recommended by Mugenda (2009).

4.2 Background of the Respondents

The background information provides findings on respondents gender, period of work in their respective organizations, and category of work as discussed in the following subsections.

4.2.1 Gender of the Respondents

Table 4. 2 : Gender of the Respondents

	Frequency	Percentage
MFIs		
Male	7	63.6
Female	4	36.4
Total	11	100
SMEs		
Male	33	53.8
Female	19	46.2
Total	52	100

The gender characteristic of the MFIs respondents shown that, majority of the respondents are males represented by 63.6% while females were 36.4%. On the other hand, SMEs are dominated by males as shown by 53.8 % against females 46.2%. The gender representation of the respondents indicate that, views concerning the impact of microfinance institutions the growth and development of Small and Medium Institutions were represented by all gender, and no single opinion can be attributed to a particular gender.

4.2.2 Period of working

Table 4. 3: period of Working

Category	Period of Working	Frequency	Percentage
Microfinance Institutions	1-5 Years	5	45.5
	6-10 Years	4	36.4
	Above 10 years	2	18.1
	Total	11	100
Small and Medium Enterprises	1-5 Years	24	46.2
	6-10 Years	19	36.5
	Above 10 years	9	17.3
	Total	52	100

Majority of the respondents from the Microfinance Institution have worked in the institutions for 1-5% as shown by 45.5%. A proportion of 36.4% have worked for a period of 6-10 years while those who have worked for above 10 years are represented by 18.2%. On the side of SMEs, most of them portray a similar trend to those from the MFIs. Majority are those who have worked for 1-5 years with 46.2%, 36.5% have worked for 6-10 years while 17.3% have worked in the enterprises for more than 10 years. Period of working for the respondents depict the experience both SMEs and MFI have as far as the operation of MFIs towards the SMEs, challenges faced and achievements gained since the start of the institutions and the enterprises.

4.2.3 Category of Work

Table 4. 4 : Category of Work

Level	Category of Work	Frequency	Percentage
MFIs	Top level management	2	18.2
	Middle level management	4	36.4
	Lower level management	3	27.3
	Marketing executive	2	18.1
	Support staff	0	0.0
	Total	11	100
SMEs	SME owner	18	34.6
	Employee	23	44.2
	Manager	11	21.2
	Total	52	100

Respondents working in the Microfinance Institutions shown that, 36.4% work in the institutions as Middle Level Manager, 27.3% are Lower Level Managers and 18.2% represent both top level managers and marketing executives. Most of the respondents in the SMEs enterprises are employees represented by 44.2%, followed by owners by 34.6%, then managers, equivalent to 21.2%. This therefore indicates that, all the categories in both MFIs and SMEs participated in the study, expressing their opinion based on their level of operation as far as impacts of microfinance institutions on Small and Medium Enterprises are concerned.

4.3 Impacts of Microfinance Institutions on Small and Medium Enterprises

4.3.1 Existence of challenges preventing enterprises from growth and expansion

Table 4. 5 : Existence of challenges preventing the respondent from growth and expansion

	Frequency	Percent
Yes	52	100.0

All the respondents agreed that they face challenges that prevent them from growth and development of their enterprises. These challenges present a varying degree as shown in table 4.6

4.3.2 Challenges Preventing Growth and Expansion of Enterprises

Table 4. 6 Challenges preventing growth and expansion of enterprises

Challenges	Frequency	Percentage
Lack of finances	16	30.77
Lack of financial Management skills	15	28.85
Poor financial literacy	12	21.15
Lack of market for products	10	19.23
Total	52	100.0

The challenges preventing SMEs from growth and development are lack of enough finances, still financial management skills, poor financial literacy and lack of market for products. Among these challenges, lack of finances is most common challenge with 30.77%. Lack of financial management skills is the second overwhelming challenge presented by 28.85%. 21.15% expressed their challenges as poor financial literacy while 19.23% held that lack of market for their products is a challenge preventing growth and development of their enterprises. These challenges show why some small and medium enterprises have remained constant while other retard.

As depicted that among the challenges facing SMEs include; unsupportive legal and regulatory environment, limited donor funding, little support from the government, lack of right technical

skills for the managers and staff of these institutions, poor infrastructure are hindering the operations of these institutions , lack of capital, poor access to markets, lack of credit and a poor policy environment. The way forward for these SMEs is to get help form financing institutions such as Microfinance institutions, that not only support them financially but also educate them on how to management the businesses and finances.

4.3.3 Products and Services Tailored To SMEs

Table 4. 7 : Products and service tailored to SMEs

Products and services tailored to SMEs	Frequency	Percentage
Small business loans	19	36.36
Small scale business accounts	9	18.18
Business Management trainings	9	18.18
Marketing services	9	18.18
Financial literacy	6	9.10
Total	52	100.0

Small scale Business loans are the major product offered by Microfinance institutions in Kenya as shown by 36.36%. Small scale business accounts, Business management training and marketing services are offered at the same rate of 18.18% while financial literacy skills are the least offered represented by 9.1%. The stream of products and services are offered by the micro-finance institutions but with varying emphasis. This might be based on the importance these products and services have to the SMEs and the rate of return to the MFIs.

4.3.4 Effect of Products and Services on Growth and Development of SMEs

Table 4. 8 : Whether MFI products and services have affected growth and development of SMEs

	Frequency	Percentage
No	9	18.18
Yes	43	81.82
Total	52	100

In a question seeking to find out whether the products and services have affected growth and development of SMEs, 81.82% said yes against 18.18% who said. No. The interpretation of the response is based on the experience meaning that, those with No opinion might have used the products and experienced constant level of expansion while the yes opinion represent the positive impacts the products and services that might have affected the SMEs in terms of growth and development.

4.3.5 Financing SMEs by MFIs and growth and Development of SMEs

Table 4. 9 ; Financing SMEs by MFIs and growth and Development of SMEs

Parameter	Level of Agreement	Frequency	Percentage
Providing SMEs suitable loan products had decreased financial challenges among SMEs	Strongly agree	1	9.1
	Agree	3	27.3
	Neutral	6	54.5
	Disagree	1	9.1
	Strongly Disagree	0	0.0
	Total	11	100
Most SMEs can sufficiently pay the loan facilities we provide them	Strongly agree	1	9.0
	Agree	5	45.5
	Neutral	5	45.5
	Disagree	0	0.0
	Strongly Disagree	0	0.0
Total	11	100	
Favorable interest rate among Many MFIs	Strongly agree	1	9.1

has facilitated easy loan repayment among SMEs	Agree	3	27.3
	Neutral	5	45.5
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100
Provision of unsecured loans has increased accessibility for finance among SMEs	Strongly agree	2	18.2
	Agree	3	27.3
	Neutral	4	36.4
	Disagree	2	18.1
	Strongly Disagree	0	0.0
Total	11	100	
Follow up programmes for the loans provided has ensured that SMEs use the loans for the provided service.	Strongly agree	1	9.1
	Agree	4	36.4
	Neutral	5	45.4
	Disagree	1	9.1
	Strongly Disagree	0	0.0
Total	11	100	

The impacts of MFIs financing to SMEs on the growth and development of the small and medium enterprises was measured through different assertions. Majority of the respondents equivalent to 54.5% expressed a neutral opinion that providing SMEs suitable loan products had decreased financial challenges among SMEs. 27.3% had an agreeing opinion, 9.1% strongly agreed with equivalent percentage disagreeing. Equal percentage of 45.5% were both neutral and agreeing that most SMEs can sufficiently pay the loan facilities provide to them. Only 9.1% strongly agreed with the assertion. Elsewhere, in the assertion seeking to find out if favorable interest rate among many MFIs has facilitated easy loan payment among SMEs revealed that, 45.5% had a neutral opinion, 27.3% agreed with new assertion, 18.2% disagreed as 9.1% strongly agreed.

Neutrally, the provision of unsecured loans increasing accessibility for finance SMEs has led to growth of SMEs as indicated by 36.4%. Response of 27.3% had an agreeing opinion while 18.2% strongly agreed. On the contrary, 18.2% expressed a disagreeing opinion towards the assertion. Follow up programmes for the loans provided has ensured that SMEs use the loans for the provided service. This assertion received a mixed opinion with the majority of the

respondents expressing neutral opinion revealed by 45.5%, agreeing opinion with 36.4% and equal percentage of 9.1% to both strongly agree and disagree.

Among the financing facilities offered by the MFIs, provision of suitable loan products to SMEs, follow up programmes for the loans provided and favorable interest rate are the most benefiting facilities of financing. The response indicates that, if the MFIs concentrate and increase their efforts towards these facilities can curb financing challenges facing SMEs and provide an opportunity for them to grow and expand.

4.3.6 Provision of Financial Literacy Skills and Growth and Development of SMEs

Table 4. 10 ; Provision of Financial Literacy Skills and Growth and Development of SMEs

Parameter	Level of Agreement	Frequency	Percentage
Most SMEs owners/ managers are able to do basic accounting for their business	Strongly agree	0	0.0
	Agree	2	18.2
	Neutral	6	54.5
	Disagree	2	18.2
	Strongly Disagree	1	9.1
	Total	11	100
There is high level of documentation of business activities among SMEs	Strongly agree	0	0.0
	Agree	2	18.2
	Neutral	4	36.4
	Disagree	3	27.3
	Strongly Disagree	2	18.1
	Total	11	100
Most SMEs have changed their view on adoption of financial innovations among banks	Strongly agree	0	0.0
	Agree	3	27.3
	Neutral	5	45.5
	Disagree	2	18.1
	Strongly Disagree	1	9.1
	Total	11	100
Poor financial management skills among SMEs has been a major hurdle towards their growth and development	Strongly agree	2	18.2
	Agree	4	36.4
	Neutral	3	27.2
	Disagree	1	9.1
	Strongly Disagree	1	9.1
	Total	11	100
Majority of SMEs are able to manage business finances and personal finances and grow	Strongly agree	1	9.1
	Agree	3	27.3
	Neutral	5	45.1
	Disagree	2	18.5
	Strongly Disagree	0	0.0
	Total	11	100

From the MFI's respondents on the provision of financial literacy skills, most of them were neutral with a percentage of 54.5% that most SME owners/mangers are able to do basic

accounting for their business. This statement was agreed by 18.2% as equivalent percentage of 18.2% disagreed. On the extreme, 9.1% strongly disagreed with the statement.

Existence of high level of documentation of business activities among the SMEs received a negative of 27.3% and 18.2% representing disagree and strongly disagree. Neutral opinion was sought by 36.4% as 18.2% agreed with the statement. In response to the statement that Most SMEs have changed their view on adoption of financial innovations among banks, majority expressed a neutral stand on the statement as 27.3% agreed. 18.2% and 9.1% disagreed and strongly disagreed.

As expressed by many MFIs, poor financial management skills among SMEs have been a major hurdle towards their growth. This was shown by 36.4% who agreed and 27.3% of those who strongly agreed. Only a small percentage of 9.1% had disagree and strongly disagree opinion. Elsewhere, a neutral opinion dominated the response to a statement that sought to establish if majority of SMEs are able to manage business finances and personal finances. This was represented by 45.5%. Of the agreeing and strongly agreeing opinion were represented by 27.3% and 9.1% against 18.2% who disagreed.

In all the assertions gauging the level of financial literacy of SMEs and the provision of the skills by MFIs indicates that, poor financial management skills among SMEs is a major obstacle towards their growth and development. Majority of them are unable to document their business operations and perform basic accounting. From the response of those who expressed agree and strongly opinion, though minimal, it shows that the provision of the skills by MFIs has helped them manage their finances. However, given that the majority expressed a neutral opinion coupled by disagreeing opinion, there is concern that the MFIs have not provided these services to the satisfactory to help most of the SMEs grow and develop.

4.3.7 Development of Management skills among SMEs

Table 4. 11 ; Development of Management skills among SMEs

Parameter	Level of Agreement	Frequency	Percentage
We are unlikely to provide financial services to SMEs without first taking them through a training	Strongly agree	1	9.1
	Agree	3	27.3
	Neutral	5	45.5
	Disagree	2	18.1
	Strongly Disagree	0	0.0
	Total	11	100
SMEs owners / managers trained on management skills are able to grow their business better	Strongly agree	1	9.0
	Agree	4	36.4
	Neutral	4	36.4
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100
Among the management skills that we provide SMEs are strategies on improving business sustainability	Strongly agree	1	9.1
	Agree	4	36.4
	Neutral	5	45.4
	Disagree	1	9.1
	Strongly Disagree	0	0.0
	Total	11	100
We train SME owners on talent retention and employee motivation	Strongly agree	0	0.0
	Agree	3	27.3
	Neutral	6	54.5
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100
We occasionally engage experts on use of ICT to manage SMEs businesses	Strongly agree	0	0.0
	Agree	2	18.2
	Neutral	7	63.6
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100

Development of Management skills by MFIs received a mixed reaction based on some of the services provided on the matter. Neutral opinion equivalent to 45.5% preceded the statement that the institutions are unlikely to offer financial services to SMEs without first taking them through training. Same statement was agreed upon by 27.6% and strongly agreed by 9.1%. However,

18.2% disagreed with this assertion. Majority of the respondents supported the assertion that SMEs owners / managers trained on management skills are able to grow their business better. This response comprised of 36.4% of those agreed and 9.1% of those who strongly agreed. 36.4% held a neutral opinion as 18.2% disagreed.

Forty-five percent of the respondents were neutral that among the management skills that the MFIs provide, SMEs are strategies on improving business sustainability. 36.4% agreed with the statement as 9.1 strongly agreed. On the contrary were 9.1% who disagreed with the assertion. 54.5% were neutral based on the assertion that they train SME owners on talent retention and employee motivation. 27.3% agreed while 18.2% disagreed. Respondents tallying to 63.6% are neutral on occasionally engaging experts on use of ICT to manage SMEs. Equal percentages of 18.2% agreed and disagreed with the assertion.

Managing enterprises is a challenge to many owners of enterprises and even managers employed. This is due to little skills the people have while starting the businesses. As seen from the literature, a typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. The consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. From the information provided by the MFIs, it is evident that, the institutions provide the management skills but to small extent owing to the high response of neutral. The use of ICT is minimally used and provided by MFIs.

4.3.8 Facilitation of marketing by MFIs and Growth and Development of SMEs

Table 4.12 : Facilitation of marketing by MFIs and Growth and Development of SMEs

Parameter	Level of Agreement	Frequency	Percentage
We have managed to facilitate registration of SMEs in business associations	Strongly agree	1	9.1
	Agree	3	27.3
	Neutral	6	54.5
	Disagree	1	9.1
	Strongly Disagree	0	0.0
	Total	11	100
Many SMEs have registered themselves in associations dealing with their products	Strongly agree	1	9.1
	Agree	3	27.3
	Neutral	5	45.4
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100
We actively facilitate use of ICT among SMEs	Strongly agree	0	0.0
	Agree	3	27.3
	Neutral	6	54.5
	Disagree	2	18.2
	Strongly Disagree	0	0.0
	Total	11	100
We have updated database about the SMEs in town and the respective business activities	Strongly agree	1	9.1
	Agree	4	36.4
	Neutral	5	45.4
	Disagree	1	9.1
	Strongly Disagree	0	0.0
	Total	11	100
We have facilitations for forming business club among SMEs	Strongly agree	1	9.1
	Agree	2	18.2
	Neutral	4	36.3
	Disagree	3	27.3
	Strongly Disagree	1	9.1
	Total	11	100

The facilitation of marketing as a service offered by the MFIs has achieved a neutral response from 54.5% of those who said they have managed to facilitate registration of SMEs in business associations. 27.3% agreed as 9.1% strongly agreed and disagreed. On the registration 45.5% were neutral that many SMEs have registered themselves in associations dealing with their

products. 36.4% comprising of those agreeing and strongly agreeing supported the assertion while 18.2% disagreed. Fifty-four percent neutrally responded that they actively facilitate use of ICT among SMEs. This move was agreed upon by 27.3% as 18.2% disagree. The MFIs have updated database about the SMEs in town and the respective business activities. This is shown by 45.5% of those who were neutral. 36.4% agreed as 9.1% strongly agreed and disagreed.

However, 36.4% disagreed on the assertion that MFIs have facilitations for forming business club among SMEs. Similar proportion of 36.4% was neutral on the issue of having facilitations for forming business clubs among the SMEs. Those who had agreeing and agreeing opinion were represented by 27.3%.Lack of sufficient market information poses a great challenge to small enterprises. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas. The Microfinance Institutions have managed to register SMEs in businesses association and updated their database, as a way to facilitate marketing. However, the institutions suffer from facilitations for forming business clubs and facilitation of ICT use among the SMEs.

4.3.9 Rate of Business Operations in Terms of Growth and Development

Table 4. 13 : Rate of Business Operations in Terms of Growth and Development

Parameter	Rate of Expansion	Frequency	Percentage
Rate of Expansion in terms of asset capital	Increasing	13	25.0
	Constant	22	42.3
	Unpredictable	17	32.7
	Total	52	100
Rate of Expansion in terms Recruitment of new employees	Increasing	21	40.4
	Constant	24	46.1
	Unpredictable	7	13.5
	Total	52	100
Rate of Expansion in terms Opening up branches in new regions	Increasing	9	17.3
	Constant	29	55.8
	Unpredictable	14	26.9
	Total	52	100

In order to determine the impact of MFIs on SMEs growth and development, expansion measure in terms of asset capital, recruitment of new employees and opening of new branches were tested. The study used a measure of increasing, constant and unpredictable to measure the rate of

expansion. Gauging the rate of expansion in terms of assets capital, majority of the respondents have experienced constant rate of expansion, represented by 42.3%. Those holding unpredictable option were shown by 32.7% and 25% experiencing increasing rate of expansion.

When the rate was measured in terms of new employee recruitment, 46.2% have remained constant with their old employees, 40.4% have increasing expansion rate in recruiting new employees while 13.5% expressed their expansion as unpredictable. The rate of expansion based on opening of new branches has remained constant for most of businesses as expressed by 55.8%. 26.9% expressed unpredictable expansion while only 17.3% have increasing expansion.

Generally, most of the enterprises have remained constant based on the parameters used to measure the level of expansion. Others are unpredictable as a small portion indicates an increasing rate. This information shows that, there are major challenges facing these businesses that have not been handled to substantial level to enhance their expansion and development.

4.3.10 Relationship of Rate of Expansion and MFIs Products and Services

Table 4. 14 : Relationship of Rate of Expansion and MFIs Products and Services

Parameter	Response	Frequency	Percentage
SME business accounts	Yes	29	55.8
	No	23	44.2
	Total	52	100
SME Credit facilities	Yes	31	59.6
	No	21	40.4
	Total	52	100
Increased networking facilitated	Yes	29	55.8
	No	23	44.2
	Total	52	100
Training on financial management skills	Yes	37	71.2
	No	15	28.8
	Total	52	100
Business management skills	Yes	35	67.3
	No	17	32.7
	Total	52	100
Low interest rates on loan facilities	Yes	27	51.9
	No	25	48.1
	Total	52	100
Adequate grace period to settle loans	Yes	28	53.8
	No	24	46.2
	Total	52	100

Majority of the respondents have attributed the rate of expansion to some of the products and services offered by MFIs. Training on financial management skills and business management

skills are the most attributed factors as shown by the large proportion that held a yes opinion. However, the other products have received a moderate attribution according to high number of respondents who do not attribute such rates of expansion to these e products and services. These are SME business accounts given Yes opinion of 55.8% against 44.2%, SME owners; managers and employees credit facilities attributed by 59.6% against 40.4% with contrary opinion and increased networking facilities accredited by 55.8% against 44.2%. This therefore reveals that, of all these products and services, training on financial management skills and business management are the key factors offered by the MFIs, which SMEs can credit them towards the rate of expansion of their enterprises.

4.3.11 Extent of Expansion of SMEs Due to Interventions by MFIs

Table 4. 15 : Extent of Expansion of SMEs Due to Interventions by MFIs

Parameter	Level of agreeing	Frequency	Percentage
Use of mobile banking has reduced operational costs in our business	Strongly agree	4	7.7
	Agree	15	28.8
	Undecided	19	36.5
	Disagree	11	21.2
	Strongly disagree	3	5.8
	Total	52	100
Availability of branchless banking has increased accessibility to financial services	Strongly agree	6	11.5
	Agree	20	38.5
	Undecided	21	40.4
	Disagree	4	7.7
	Strongly disagree	1	1.9
	Total	52	100
SMEs customized loans have reduced the level of financial challenges faced by SMEs	Strongly agree	3	5.8
	Agree	16	30.8
	Undecided	21	40.4
	Disagree	10	19.2
	Strongly disagree	2	3.8
	Total	52	100
Business groups facilitated by SMEs has increased marketing of our products	Strongly agree	3	5.8
	Agree	13	25.0
	Undecided	27	51.9
	Disagree	9	17.3
	Strongly disagree	0	0.0

	Total	52	100
	Strongly agree	2	3.9
	Agree	15	28.8
We are able to sustain our business in a better way due to management skills provided by MFI	Undecided	26	50.0
	Disagree	9	17.3
	Strongly disagree	0	0.0
	Total	52	100
	Strongly agree	3	5.8
	Agree	14	26.9
MFI have increased the level of financial literacy among SME owners	Undecided	24	46.2
	Disagree	10	19.2
	Strongly disagree	1	1.9
	Total	52	100
	Strongly agree	0	0.0
	Agree	12	23.1
We have opened new branches as a result of financing from MFIs	Undecided	29	55.7
	Disagree	11	21.2
	Strongly disagree	0	0.0
	Total	52	100

In order to determine the extent to which SMEs attribute expansion and growth of their enterprises to MFIs products and services, some benchmark parameters were used. The study used a five point likert scale testing the extent from strongly agree to strongly disagree. Findings from the study were clear that majority of the respondent held an undecided opinion based on these parameters.

The fact that use of mobile banking was seen as a factor that has reduced operational costs in businesses, 36.5% were undecided, 28.8% expressed an agreeing opinion, 7.7% strongly agreed. However, 21.2% disagreed on the use of mobile banking similar to 5.87% who strongly disagreed. Forty percent were undecided on the assertion that availability of branchless has increased accessibility to financial services. Nevertheless, respondents supporting the assertion represented by strongly agree with 11.5% and 38.5% of agree opinion, were the majority, with only 9.6% holding a contrary opinion.

Undecided extent of 40.4% was received towards expansion and growth of the enterprises, measured by the statement that, SMEs customized loans have reduced the level of financial challenges faced by SMEs. Respondent equivalent to 36.6% comprised of those agreeing and strongly agreeing supported the statement. Only 23% held a contrary opinion. On the other hand, business groups facilitated by SMEs have increased marketing of products to undecided extent as shown by 51.9%. Of positive response were 25% with agreeing extent and 5.8% who strongly agreed. 17.3% disagreed with the idea of business groups being attributed to expansion and growth.

Majority of the respondents equivalent to 50% are undecided while relating expansion and growth of enterprises to the fact that the businesses are able to sustain their business in a better way due to management skills provided by MFI. Same factor was agreed and strongly agreed by 32.6% as 17.3% disagreed. Most of the respondents, 46.2%, remain undecided based on the assertion that MFIs have increased the level of financial literacy among SME owners. Of close proportion are 32.7% who strongly agreed and agreed. The least percentage was 21.1% with contrary opinion of disagreeing and strongly disagreeing.

With a similar trend from the discussed parameters, opening of new branches as a result of MFI financing received undecided extent by 55.8%. 23.1% expressed agreeing extent and 21.2% held a disagreeing extent. Availability of branchless banking and SMEs customized loans are among the most attributed products and services to growth and development. This is because they have reduced the level of financial challenges faced by SMEs. The analysis presents a situation where provision of management skills, financial literacy, and facilitation of marketing among others have not tackled most of the challenges these SMEs are facing.

4.3.12 Effect of services provided by MFI in facilitating business growth

Table 4. 16 : Effects of services provided by MFI in facilitating business growth

	Frequency	Percentage
No effect	11	21.15
Positive contribution	39	75.00
Negative contribution	2	3.85
Total	52	100.0

Response, on the effect of services provided by the MFIs in facilitating business growth shown that, 75% have experienced positive impacts due to these services, 21.15% explained that they have not seen an impact while 3.85% said that these services have a negative contribution towards the growth of their businesses. Therefore, given that the majority have expressed a positive impact towards these services, it emerges that, MFIs products and services help small and medium enterprises grow.

4.4 Regression analysis on the effect of MFI on growth of SMEs

A regression analysis was conducted to find, how different MFI services affected growth of SMEs within Machakos town. For this according to (25), the respondent's overall average score on growth of SMEs was the dependent variable and services provided by MFI being the independent variables. Thus mean aggregate scores of different MFI services were regressed on the overall score for SME growth. The beta coefficient provided the relative importance various services provided by MFIs. The highest beta coefficient for SME services considered to have maximum influence SME growth while the second highest beta coefficient stands second in terms of relative significance and so on. The overall model was also statistically significant, where ($R^2 = .405$, $p < .001$). we got the adjusted R Square value 0.397, which shows that this model has accounted for 39.7 % of the variance in the dependent variable. The Regression results are shown in tables below

Table 4.17: Summary of regression model

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Change Statistics			
R Square Change	F Change	df1	df2	Sig.	F Change				
1	.637	.405	.397	.47973	.405	46.245	5	339	.000

a. Predictors: (Constant), Financing, Development of management skills, provision of financial literacy, facilitation of marketing

b. Dependent Variable: Growth of SMEs

Table 4.18: Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.		
	B	Std. Error	Beta			
1	(Constant)	.524	.261	2.011	.045	
	Financing	0.184	0.55	0.780	3.372	0.001
	Development of management skills	0.361	0.59	0.350	6.102	0.000
	Provision of financial literacy	0.125	0.51	0.119	2.434	0.015
	Facilitation of marketing	0.114	0.55	0.109	2.087	0.038

$$Y = \alpha + \beta_1(R.Avd) + \beta_2(R.Rdn) + \beta_3(R.Rtn) + \beta_4(R.Rtn) + \varepsilon$$

$$\text{Thus } Y \text{ (Growth of SMEs)} = 0.524 + 0.184(R.Avd) + 0.36(R.Rdn) + 0.125(R.Rtn) + 0.114(R.Rtn)$$

B: Dependent variable

For further testing of the relations, a correlation analysis was done and results presented in table below. Table 4.18 is showing the correlation analysis values with its level of significance.

Table 4.19 : Correlation Analysis

MFI services to SMEs	r (Correlation coefficient)	p
Financing	.491	.000
Development of Management skills	.584	.000
Provision of financial literacy	.404	.000
Facilitation of marketing	.427	.000

The results indicate that Financing, development of management skills, provision of financial literacy and facilitation of marketing play a positive correlation with growth of SMEs (significance level <0.001). With development of management skills being the highest, followed by financial facilitation and provision of finance literacy in that order.

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, as regards to the main objectives of the study. Based on these findings the conclusions were drawn and some recommendations on the way forward made. The main objective of the study was to establish the impact of microfinance institutions on growth and development of small and medium enterprises. The impacts of products and services offered by Microfinance institutions including financing provision of managerial skills, financial literacy and marketing facilitation have been covered.

5.2 Summary

Indeed, all SMEs face challenges that prevent them from growth and expansion. The challenges preventing SMEs from growth and development are lack of enough finances, still financial management skills, poor financial literacy, and lack of market for products. Among these challenges, lack of finances is most prevalent rated 30.77% while marketing of lack of market SMEs products is rated 19.23%.

The microfinance institutions provide a series of products and service that include Small-scale business accounts, Business management training and marketing services and financial literacy skills. Small-scale Business loans are the major product offered by Microfinance institutions rated 36.36%. Small-scale business accounts, Business management training, and marketing services all rated 18.18% while financial literacy skills are the least offered represented by 9.1%.

5.2.1 Effect of Microfinance Institutions in Financing SMEs

Provision of finances and business loans were upheld by many SMEs as one of the products that have facilitated their growth and expansion. The impacts of MFIs financing to SMEs on the growth and development of the small and medium enterprises measured by different assertions revealed that, most of MFI respondents are neutral. Providing SMEs suitable loan products had decreased financial challenges among SMEs as agreed upon by 27.3%. From the suitable loan provided, most SMEs can sufficiently pay the loan facilities provided to them fairly as revealed

by the dominance of neutral opinion. As a way to obtain loan repayment from SMEs, MFIs have offered the loans at favorable interest rate to facilitate easy loan payment among SMEs as agreed by 27.3%. Neutrally, the provision of unsecured loans increasing accessibility for finance SMEs has led to growth of SMEs as indicated by 36.4%. On the other hand, follow up programmes for the loans provided has ensured that SMEs use the loans for the provided service 36.4%. The beta coefficient value for financial services indicated a value of 0.184 while the correlation value was 0.49. Indicating a moderate positive relationship with SME growth. Thus any increase in financing of SMEs by MFI would increase growth by a coefficient of 0.184.

5.2.2 Effect of MFIs in Provision of Financial Literacy among SMEs

On the challenges facing SMEs, Financial literacy is among them, which prevents their enterprises from growth and development. The study further revealed that, in relation to the rate of expansion based on different parameters, few respondents can attribute their expansion to financial literacy skills provided by the MFIs. This service to SMEs scored 26.9% on the agreeing opinion and 46.2% undecided.

On the other hand, MFIs expressed a mixed reaction with the majority holding undecided opinion. Financial literacy is challenging to some of SMEs based on 54.5% who held that most SME owners/managers are able to do basic accounting for their business. Existence of high level of documentation of business activities among the SMEs was disagreed by 45.5%. Elsewhere, 63.7% agreed that poor financial management skills among SMEs have been a major hurdle towards their growth. The beta coefficient value for provision of financial literacy indicated a value of 0.361 while the correlation value was 0.404. Indicating a moderate positive relationship with SME growth. Thus any increase in financing of SMEs by MFI would increase growth by a coefficient of 0.361

5.2.3 Effect of MFIs in developments of management skills among SMEs

Managerial skills among the SMEs are very crucial in preparing SME owners to face changes in the business environment and to plan appropriate changes in technology. This is shown by 45.7% who held that SMEs owners and managers trained on management skills are able to grow their business better. However, development of management skills by MFIs received a mixed reaction

based on some of the services provided on managerial skills. Based on the response from the majority, the Microfinance Institutions provide managerial skills but at a moderate extent. This is revealed by neutral opinion sought by many respondents.

Quite a bigger percentage of 36.7% are unlikely to offer financial services to SMEs without first taking them through training. However, with regard to 45.5% who held undecided opinion, there is a gap on the provision of the loans and management skills. Similarly, 45% of the respondents were neutral that among the management skills that the MFIs provide, SMEs are strategies on improving business sustainability. The beta coefficient value for provision of financial literacy indicated a value of 0.125 while the correlation value was 0.584. Indicating a moderately strong positive relationship with SME growth. Thus any increase in financing literacy of SMEs by MFI would increase growth by a coefficient of 0.125.

5.2.4 Effect of MFIs in Facilitating Market Networking Among SMEs

Facilitation of marketing and formation of business clubs among the SMEs score low in the assertions measuring the provision of marketing services to SMEs. The facilitation of marketing as a service offered by the MFIs has achieved a neutral response from 54.5%. Even though quite a big number represented by 36.4% ascertain that SMEs have registered themselves in associations dealing with their products, equivalent percentage disagree that MFIs have facilitations for forming business club among SMEs. The beta coefficient value for provision of financial literacy indicated a value of 0.114 while the correlation value was 0.427. Indicating a moderately strong positive relationship with SME growth. Thus any increase in financing of SMEs by MFI would increase growth by a coefficient of 0.114

5.3 Conclusions

Among the financing facilities offered by the MFIs, provision of suitable loan products to SMEs, follow up programmes for the loans provided and favourable interest rate are the most benefiting facilities of financing. The response indicates that, if the MFIs concentrate and increase their efforts towards these facilities can curb financing challenges facing SMEs and provide an opportunity for them to grow and expand.

In all the assertions gauging the level of financial literacy of SMEs and the provision of the skills by MFIs, poor financial management skills among SMEs is a major obstacle towards their growth and development. Majority of them are unable to document their business operations and perform basic accounting. From the response of those who expressed agree and strongly opinion, though minimal, it shows that the provision of the skills by MFIs has helped them manage their finances. However, given that the majority expressed a neutral opinion coupled by disagreeing opinion, there is concern that the MFIs have not provided these services to the satisfactory to help most of the SMEs grow and develop. The Microfinance Institutions have managed to register SMEs in businesses association and updated their database, as a way to facilitate marketing. However, the institutions suffer from facilitations for forming business clubs and facilitation of ICT use among the SMEs. It is apparent that most SMEs would need to be facilitated to do business through financing and provision of adequate management skills. This would probably enhance the level of resource allocation skills by SME managers and thus facilitate growth.

5.4 Recommendations

1. Only financing services have helped SMEs attain growth and development. In most of the statements alluding to provision of financial literacy, minimal levels of these skills have been offered. Therefore, it is recommended, that before granting loans to SME owners, they should first train them on how to account for the finance. The MFIs should also plan for seminars and workshops to train the SMEs on financial management.
2. Lack of management skills dominates most of the SME owners and the managers. Incompatibility highly occurs when the financing is provided to a reasonable depth and used by people lacking managerial skills. Therefore, MFIs should multiply their efforts on providing managerial skills.
3. The use of ICT in facilitating marketing and business management is underutilized. This study therefore recommends intensified use and facilitation of ICT to help SMEs reach services and information that can help them grow and develop.

5.5 Suggestion for further study

1. A related study can be done to analyze the economic challenges affecting microfinance institutions in financing SMEs.
2. A similar study on the impacts of Microfinance Institutions on growth and development of Small and Medium Enterprises in other towns apart from Machakos Town can be done.

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APPENDICES

Appendix I: Introduction letter

Samson Mbaluka
Nairobi University
P.O Box 10205-00100
Nairobi
30th May, 2012

The town Clerk
Machakos Municipal Council
Nairobi

Dear Sir / Madam,

RE: PERMISSION TO COLLECT DATA FOR ACADEMIC RESEARCH

I am a master's student in Nairobi University taking a course in project management. This research is part of the requirement to solve a problem within my area of specialization. I therefore intend to carry out a study on "The Impact of microfinance Institutions on Growth and development of small and medium enterprise, with focus on Machakos town. The information provided will solely be used to accomplish this academic goal. I therefore request you to allow me to gather information on projects within your area of jurisdiction.

Yours Faithfully,

Samson.

Appendix II: Questionnaire for MFI representatives

Dear Respondent,

This questionnaire is aimed at gathering primary data on effect of microfinance institutions on growth and development of SMEs. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for the purpose of accomplishing an academic goal. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

SECTION 1: Background information

1. Kindly indicate your gender
 - a. Male
 - b. Female
2. How long have you worked in this Microfinance institution?
 - a. 1-5 Years
 - b. 5-10 Years
 - c. Above 10 years
3. Indicate your work category
 - a. Top level management
 - b. Middle level management
 - c. Lower level management
 - d. Marketing executive
 - e. Support staff

SECTION 2: EFFECT OF MICROFINANCE INSTITUTIONS ON GROWTH AND DEVELOPMENT OF SMEs

4. Please indicate some of the products and services that are specifically tailored to SMEs
 - a. Small scale business loans
 - b. Small scale business accounts
 - c. Mobile banking
 - d. Business management training
 - e. Marketing services

- f. Financial literacy skills
- g. Others (Please specify)
5. Do you any of the above mentioned services have affected growth and development of SMEs?
- a. Yes
- b. No
- c. I don't Know
- d. Please explain your

The following statements indicate statement indicate parameters related to effect of microfinance institutions on growth and development of SMEs. Please indicate the extent of agreement with the statements using the symbol √; 1- Strongly agree (SA), 2- Agree (A) 3- Neutral (N), 4- Disagree (D), 5- Strongly Disagree (SD)

Statement	1-SA	2- A	3- N	4-D	5-SD
Financing SMEs by MFIs and growth and Development of SMEs					
1. Providing SMEs suitable loan products had decreased financial challenges among SMEs					
2. Most SMEs can sufficiently pay the loan facilities we provide them					
3. Favorable interest rate among Many MFIs has facilitated easy loan repayment among SMEs					
4. Provision of unsecured loans has increased accessibility for finance among SMEs					
5. Follow up programmes for the loans provided has ensured that SMEs use the loans for the provided service.					
Provision of financial literacy skills and growth and development of SMEs					
6. Most SMEs owners/ managers are					

able to do basic accounting for their business					
7. There is high level of documentation of business activities among SMEs					
8. Most SMEs have changed their view on adoption of financial innovations among banks					
9. Poor financial management skills among SMEs has been a major hurdle towards their growth and development					
10. Majority of SMEs are able to manage business finances and personal finances and grow					
Development of Management skills among SMEs					
11. We are unlikely to provide financial services to SMEs without first taking them through a training					
12. SMEs owners / managers trained on management skills are able to grow their business better					
13. Among the management skills that we provide SMEs are strategies on improving business sustainability					
14. We train SME owners on talent retention and employee motivation					
15. We occasionally engage experts on use of ICT to manage SMEs businesses					
Facilitation of marketing by MFIs and Growth and Development of SMEs					

16. We have managed to facilitate registration of SMEs in business associations					
17. Many SMEs have registered themselves in associations dealing with their products					
18. We actively facilitate use of ICT among SMEs					
19. We have updated database about the SMEs in town and the respective business activities					
20. We have facilitations for forming business club among SMEs					

21. In what other ways do you think microfinance institutions have enhanced growth and development of SMEs in Machakos town among banks have enhanced growth and development among SMEs

- i.
- ii.
- iii.
- iv.
- v.

End

Thank you for your participation

Appendix III: Questionnaire for SMEs

Dear Respondent,

This questionnaire is aimed at gathering primary data on effect of microfinance institutions on growth and development of SMEs in Machakos. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with utmost confidentiality and will be used for the purpose of accomplishing an academic goal. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

SECTION 1: Background information

1. Kindly indicate your gender
 - a. Male
 - b. Female

2. How long have worked in this this enterprise
 - a. 1-5 Years
 - b. 5-10 Years
 - c. Above 10 years

3. Indicate category under which you represent this enterprise
 - a. SME owner
 - b. Employee
 - c. Manager
 - d. Other_____ (Please specify)

SECTION B: EFFECT OF FINANCIAL INNOVATIONS AMONG BANKING INSTITUTIONS ON GROWTH OF FINANCIAL INNOVATIONS

4. How would you rate your business operations in terms of following parameters in the last 1 year?

	Increasing	Constant	Unpredictable
Expansion in terms of asset capital			
Expansion in terms of asset capital			
Recruitment of new employees			
Opening up branches in new regions			

5. Do you attribute your answer in question 4 above to any of the following services provided by microfinance institutions? Kindly tick (√) one of the options provided.

	Yes	No
SME business accounts		
SME Credit facilities		
Increased networking facilitated		
Training on financial management skills		
Business management skills		
Low interest rates on loan facilities		
Adequate grace period to settle loans		

6. Are you facing any challenges that bar you from growth and expansion?

a. Yes

b. No

7. If yes in question 7 above what are some of the challenges that hinder growth and development of your enterprise?

a. Lack of enough finances

b. Lack / still financial management skills

c. Lack of market for products

d. Poor financial literacy

e. Others (Please specify) _____

8. To what extent do you agree that expansion and growth of your enterprises has been attributed to the following parameters provided by microfinance institutions

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
i. Use of mobile banking has reduced operational costs in our business					
ii. Availability of branchless banking has increased accessibility to					

	financial services					
iii.	SMEs customized loans have reduced the level of financial challenges faced by SMEs					
iv.	Business groups facilitated by SMEs has increased marketing of our products					
v.	We are able to sustain our business in a better way due to management skills provided by MFI					
vi.	MFI have increased the level of financial literacy among SME owners					
vii.	We have opened new branches as a result of financing from MFIs					

9. What in your opinion is the effect of services provided by MFI as far as facilitating your business growth is concerned.

- a. They have no effect
- b. Have had positive contribution
- c. Have had negative contribution
- d. Other (Please explain)-----

10. Kindly indicate other ways in which MFIs can contribute towards growth and development of SMEs?

- i.
- ii.
- iii.

End: Thank you for your participation

Appendix iv: List of SME Population

Business Category	Business code	Description	Total count
3	315	Small transportation company	2,249
115		Small Trader, Shop or Retail Service	53,293
1	110	Medium Trader Shop or Retail Services	15,774
335		Small Petrol Filling	790
365		Small Storage Facility	813
380		Small Communications Co.	158
4	415	Small agric. Producer/Processor/ Dealer	2,201
5	515	Medium Lodging House With Restaurant Or bar	258
518		Small Lodging House With Restaurant/Bar	205
524		Medium Lodging House	305
527		Small Lodging House Basic Standard	397
546		Small Restaurant With Bar	917
549		Large Eating House; Snack Bar; Tea House	522
552		Medium Eating House; Snack Bar; Tea House	1,010
6	610	Medium professional services firm	437
615		Small professional services firm	5,166
630		Medium financial services	406
635		Small financial services	443
7	735	Small private health facility	52
740		Doctor/ Dentist/Physiotherapist	871
760		Small Entertainment Facility	63
8	815	Small Industrial	644

		Plant	
825	Medium Services-Repair Contractor	Workshop,	2,907
830	Small Workshop Repair Contractor	Service	8,727
Total			98,608

Source: *Municipal Council of Machakos (2011)*