RELATIONSHIP BETWEEN MICROFINANCE CONTRIBUTION AND SMALL AND MEDIUM SCALE ENTERPRISES GROWTH IN AHERO, KENYA

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BY

OLIVIA ADHIAMBO ACHIENG

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ABSTRACT

Microfinance has endeavored to develop sustainable enterprises and its innovations have been replicated all over the world. In East Africa, MFIs endeavored to uplift small businesses through provision of affordable capital. The emergence of the micro-finance in Kenya has led to promotion of SMEs by advancing small loans for business investments. There are existing studies on MFI contribution to SMEs but no studies have been conducted to determine the extent of MFI contribution in Ahero therefore it is unknown. Previous studies have established SME growth but no single study has been carried out in Ahero to establish the extent of SME growth. Therefore the extent of SME growth in Ahero is not clear. Prior studies show little evidence to suggest any significant associations between MFI contribution and SME growth but other studies show that MFIs that are financially sustainable with high outreach have positive relationship with SME growth. No prior studies have been conducted in Ahero to examine associations between MFI contribution and SME growth. The main objective of this study was to investigate the associations between microfinance contribution and SME growth in Ahero. Specific objectives were to: establish extent of MFI contribution in Ahero; establish extent of SME growth in Ahero and examine associations between MFI contribution and SME growth. The conceptual framework directly relates MFI contribution to SME growth. Survey research design was adopted. Study population consisted of 319 SMES and a sample size of 167 SMES was drawn using proportionate stratified sampling with 100% response rate. Pretesting revealed the measure to be reliable at an alpha of 0.72 and had a good face and content validity. Results for establishing extent of microfinance contribution in Ahero show a mean of 3.63 and standard deviation of 1.07 meaning that the extent of MFI contribution in Ahero is low. It is recommended that MFI contribution in Ahero should be improved. To establish extent of SME growth in Ahero, results report a mean of3.79 and standard deviation of 0.75 meaning that extent of SME growth in Ahero is high. It is recommended that the trend of SME growth should be sustained in Ahero. To examine association between MFI contribution and SME growth in Ahero, results indicate a moderate correlation at r=0.496(p=0.000) meaning that the association between MFI contribution and SME growth is highly positively significant. It is recommended that MFI contribution towards SME growth should be strengthened. This study will be of significance to entrepreneurs for growth of their enterprises, to government for policy formulation and for academic purposes it will be of significance to researchers for further research in this subject area and to students and lecturers for more information.

CHAPTER ONE

INTRODUCTION

This section presents an overview of the research proposal. The introduction presentation is followed by a background of the study that leads to the formulation of the problem statement, objectives, research questions and rationale of the study.

1.1. Background of the study

The history of microfinance dates back to early 1970s. In the 1970s and 1980s, micro-finance institutions were started and began providing small loans to poor people around the world. An economist, Muhammad Yunus, the winner of the Nobel Peace Prize in 2006, pioneered microfinance institutions in Bangladesh by creating a special bank called Grameen Bank with the aim of providing financial services to low-income customers. Since its birth in the 1970s, microfinance has endeavored to develop sustainable enterprises and its innovations have been replicated from country to country, each time with renewed enthusiasm and innovation leading to international best practices that have benefited and guided the practice of microfinance credit (Asiama, 2007).

In East African nations, microfinance institutions have had endeavored to uplift small businesses through provision of affordable capital. With the help of World Bank and other donors, microfinance institutions have vigorously spearheaded strategies mainly for ensuring that small enterprises are catered for through financial loans with low interest rates. In Uganda and Kenya, SMEs form the backbone of the economy. Finance in East Africa had been quite scarce and the presence of micro-finance institutions in these nations had filled the void that was left by commercial banks by providing small loans at lowest interest rate in 1980s and 90s(United Nations, 2003). The emergence of the micro-finance in Kenya has played a great role in the promotion of small businesses by advancing small loans for business investments. Beneficiaries of microfinance in Kisumu County are given advice and training from experts who nurture them with the capability to manage and mobilize resources to develop their small scale businesses over time. Financial services given by micro-finance institutions in Kisumu County significantly play an integral role in helping the small scale business owners leverage their initiative, accelerating the process of building incomes, assets and economic security (United Nations, 2003). The influx of microfinance institutions in Ahero Township over the past five years and their importance to SMES has attracted debate since the effects of microfinance contribution on SMEs have not received adequate attention in Ahero. This study reports on the relationship between microfinance institutions and small and medium scale enterprises growth in Ahero Township.

Microfinance businesses aim to extend microloans and other services to borrowers who typically lack collateral, steady employment and a certifiable credit history. But many microfinance businesses now function as independent banks and this make their effects diffuse and heterogeneous. Microfinance is recognized as an effective and common tool for poverty reduction though it has not sufficiently penetrated the poorer strata of society. There is comparatively little convincing evidence in the grand claims about the success effects of microfinance on small businesses because high cost of over 60% annual interest rate on microloans in developing nations means that high returns to capital is needed to improve on tangible outcomes of such business income (Buckley, 1997). In Kenya though, only 5 - 6% of the population is reported to have access to formal banking facilities (Basu et al., 2004). Microfinance institutions (MFIs) have become the main source of funding for micro enterprises in Africa and in other developing regions. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with micro and small enterprises leading to MFIs being the major contributors to SME growth (Basu et al., 2004).The studies above differs since Basu et al.(2004) shows that MFI contribution has led to growth of SMEs but according to Buckley(1997), states that MFI contribution does not increase SME growth. No studies have been done to establish extent of MFI contribution to SME growth in Ahero township. The extent of microfinance contribution to SME growth in Ahero is therefore unknown.

A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Hiedhues, 1995).Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment. (Davidson, Delmar & Gartner, 2006). In developing countries SMEs are usually competing with price over added value. On the other hand SMEs in developing countries have generally a lower productivity than in developed countries and because a country's productivity level is a major indicator of improved living standards, added value should be seen as one of the important indicators of growth (Davidsson, Delmar & Gartner, 2006).There is no study available on the extent of growth of SMEs in Ahero. Specifically, the extent of SME growth in Ahero is not clear.

Navajas (2002) says micro financing is a major strategy in meeting the MDGs by building global financial systems that meet the needs of the poorest people. Littlefield and Rosenberg (2004), state that microfinance is unique among development intervention because it delivers social benefits on permanent basis and on a large scale. Hulme and Mosley (1996) after concluding a research on micro-credit however argues that most present-day microfinance schemes are less helpful than they are expected to be. The authors argued that microfinance services are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. To a very large extent, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty and increase SME performance (Battilana & Dorado 2010). It had also been established that the poor person operating in SME pay higher costs for credits than businessmen operating in average large business and also pay higher for insurance services offered for their businesses. Researchers had interestingly noted that, though MFIs are committed to poverty alleviation, they also aim at enriching themselves from their profit gained from charging high interest rates. No studies state the association between MFI contribution and SME growth in Ahero. There is no available research on associations between MFI contribution and SME growth in Ahero.

1.2. Statement of problem

There is literature existing on the extent of MFI contribution and this varies amongst researchers with each researcher using different measures to establish MFI contribution. In Ahero no such studies have been carried out. The extent of MFI contribution is not known in Ahero. Prior studies have established extent of growth using different measures like size and resources of the firm. There are no available studies establishing extent of growth of SMEs in

Ahero and this is still unknown. Small and medium enterprises (SMEs) have been known to contribute greatly in economic growth of both developed and developing countries and microfinance institutions (MFIs) have become the main source of funding for SMEs in Africa and in other developing regions. Previous studies have shown that MFI contribution leads to growth of SMEs yet other studies state that there is comparatively little evidence in the grand claims about the success associations between MFI contribution and SME growth. In Ahero association between microfinance contribution and SME growth have not been researched therefore it is not known.

1.3. Objectives of the Study

The main objective is to investigate the relationship between microfinance contribution and Small and medium scale enterprises growth in Ahero, Kenya.

Specific objectives are:

1. To establish extent of microfinance contribution in Ahero.
2. To establish extent of small and medium scale enterprises growth in Ahero.
3. To examine association between microfinance contribution and small and medium scale enterprises growth of in Ahero.

1.4. Research questions

1. What is the extent of microfinance contribution in Ahero?
2. What is the extent of small and medium scale enterprises growth in Ahero?
3. What is the association between microfinance contribution and small and medium scale enterprises in Ahero?

1.5 Scope of the study

The study will be conducted in Ahero Township of Nyando sub county, Kisumu County. Ahero is found in Nyando which is one of the 12 Sub counties in Kisumu County which was carved out of Kisumu District in 1998. It borders Kisumu County to the west, Nandi County to the north, Kericho County to the East and Rachuonyo Sub County to the North. The

Township lies in the Eastern part of large low land surrounding the Nyanza gulf of it in Kano plains (Nyando District Development plan, 2008). The township has a current population of approximately 61,566(GOK, 2009) with majority of them being farmers and small business owners (Nyando District Development Plan, 2008). The study targets SME owners in the township. It also studies the micro finance institutions within the Township to determine their contribution to growth of SMES in the study area. The subject of the study falls under strategic management specifically the unit of small business management and it assesses the growth of small businesses in relation to factors contributing to and affecting growth of small businesses. The time scope this study is between the January to December 2015 as part of research project requirement fulfillment. This study focuses on the relationship between microfinance contribution and Small and medium scale enterprises growth in Ahero Township.

1.6. Significance of the study

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in developing countries like Kenya. This study was centered on the activities of MFIs and their contributions to the development of small and medium size businesses in Kenya. A study of this nature is very imperative as it would provide the government with the needed information in designing a policy frame work to enhance the development of the SME industry. It will also enlighten the public on the role MFIs play in the SMEs sector. Microfinance as a whole provides the average Kenyan with a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the millennium development goal of alleviating poverty in developing countries. The study will assist MFIs to adopt the necessary measures needed to ensure the desired growth in the SME industry. In addition, the study would serve as a source of reference for other researchers or members of the general public who need information in the subject. More importantly, entrepreneurs of SMEs may find it useful in the successful operation of their enterprises as the study will unveil some of the reasons why some SMEs fail.

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1.7 Conceptual framework

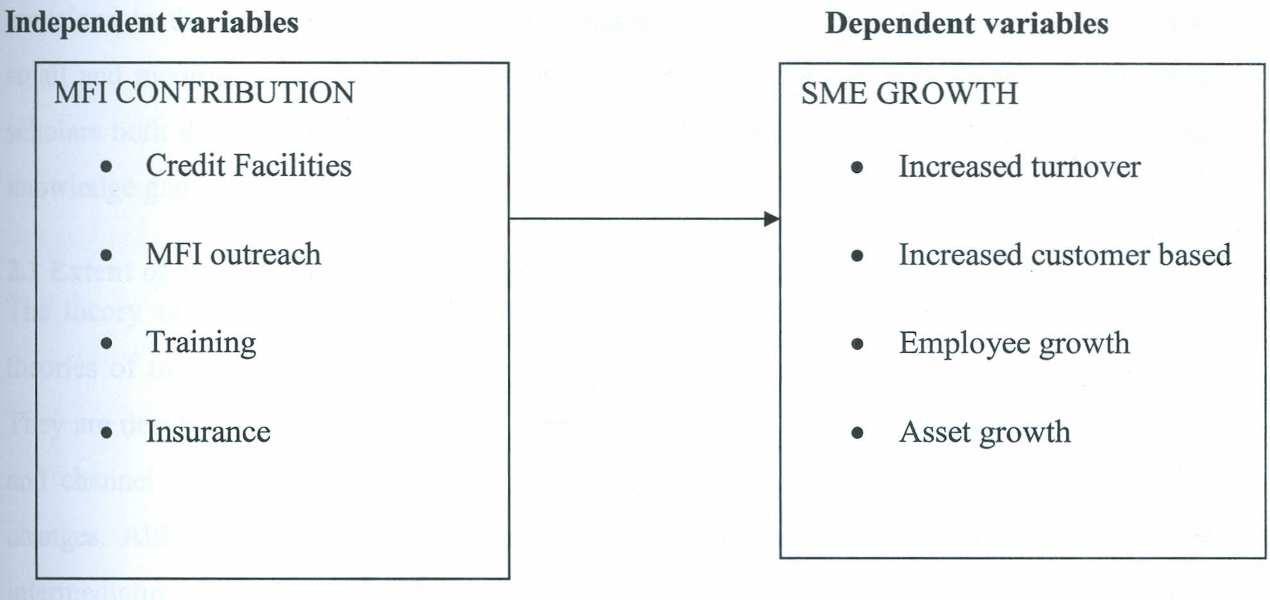

Fig.1.1: MFI contribution on SME growth

Adapted from: (Davidson, Delmar & Gartner, 2006).

The independent variables in Figure 1.1 is MFI contribution measured by credit facilities, MFI outreach, training and insurance services while the dependant variable is SME growth measured in terms of increased turnover, increased customer base, employee growth and asset growth. MFI contribution leads to increased growth, the more the contribution; the greater the growth is in terms of increased number of employees, assets, customer base and turnover. (Davidson, Delmar & Gartner, 2006).This study modifies the above by investigating the relationship between MFI contribution and SME growth.

CHAPTER TWO LITERATURE REVIEW

This chapter revives the existing literature of the subject being researched, the matter contained in this chapter relates to the relationship between micro finance institutions and small and medium scale enterprises. It takes into account the research carried out by other scholars both theoretical and empirical, compares and critiques literature and brings out the knowledge gaps of each objective.

2.1 Extent of Microfinance Contribution

The theory under MFI contribution is the theory of financial intermediaries. Traditional theories of intermediation are based on the transaction costs, and asymmetric information. They are designed to account for institutions which take deposits or issue insurance policies and channel funds to firms. However, in the recent decades there have been significant changes. Although transactions costs and symmetric information have declined, financial intermediation has increased. The information asymmetries generate market imperfections, i.e. deviations from the neoclassical framework. Many of these imperfections lead to specific forms of transaction costs. Financial intermediaries appear to overcome these costs, at least partially (Robinson, 1998). Hiedhues (1995) interpreted financial intermediaries as information sharing coalitions and points that banks and other financial institutions are considered as coalitions of depositors that provide households with insurance against idiosyncratic shocks that adversely affect their liquidity position. They show that these intermediary coalitions can achieve economies of scale and also act as delegated monitors on behalf of ultimate savers, monitoring will involve increased returns to scale, which implies that specialization may be attractive. Individual households will delegate the monitoring activities to such a specialist, i.e. to the financial intermediary.

The households will put their deposits with the intermediary. They may withdraw the deposits in order to discipline the intermediary in his monitoring function. Furthermore, they will positively value the intermediary's involvement in the ultimate investment. The relevant transaction costs consist of search, verification, monitoring and enforcement costs (Hiedhues, 1995). The financial intermediaries act as coalitions of the individual lenders or borrowers who exploit economies of scale or scope in the transaction technology. The role of the financial intermediaries is to transform particular financial claims into other types claims called qualitative asset transformation. As such, they offer liquidity and diversification opportunities. The provision of liquidity is a key function for savers and investors and increasingly for corporate customers. Financial intermediaries are active because market imperfections prevent savers and investors from trading directly with each other in an optimal way (Robinson, 1998).

Other studies by Adams and Von Pischke (1992) state that microfinance refers to the provision of deposits, loans facilities and other non-financial services to small businesses without tangible collateral but whose activities are linked to income generating ventures. Microfinance is the supply of loans, savings, and other basic financial services to the poor. Microfinance is a general term to describe financial services to low-income entities or to those who do not have access to typical banking services (Adams and Von Pischke, 1992). Credit unions and lending cooperatives have been around hundreds of years. However, the pioneering of modern microfinance is often credited to Dr. Mohammad Yunus, who began experimenting with lending to poor women in the village of Jobra, Bangladesh during his tenure as a professor of economics at Chittagong University in the 1970s. He would go on to found Grameen Bank in 1983 and win the Nobel Peace Prize in 2006 .Since then, innovation in microfinance has continued and providers of financial services to the poor continue to evolve. Today, the World Bank estimates that about 160 million people in developing countries are served by microfinance (Asiama, 2007).

A microfinance institution (MFI) is an organization that provides microfinance services. MFIs range from small non-profit organizations to large commercial banks. Microfinance contribution encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (Asiama, 2007). The contribution provided by microfinance institutions can be categorized into two broad different categories: Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards. Second is an enterprise development service or non financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis MFI contribution is mostly used in developing economies where SMEs do not have access to other sources of financial assistance(Adams and Von Pischke, 1992).

Otero (1999) says that microfinance institutions creates access to capital jointly with education and training of human capital, addresses social empowerment to move people out of poverty and strengthened their dignity by empowering them to contribute to the economy and society. Littlefield and Rosenberg (2004) argued that the poor in society are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. In the very recent times researchers like Littlefield, and the IMF report (2005) have applauded that microfinance institutions are contributing greatly towards achieving the Millennium Development Goals (MDGs) which target at poverty reduction, empowering women, assisting vulnerable groups, and improving standards of living.

The main objective of MFI contribution according to Navajas (2002) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. The problem of Small businesses difficulty in accessing funds from finance providers to finance fixed assets and working capital for their operations is also paramount in Kenya. Several studies had identified an increasing gap in the financial support offered by commercial banks to Small businesses as compared to large firms. This is due to un-affordability of collateral and credit utilization by SMEs for other purposes (Aryeetey *et al.*, 1994).

The concept of microfinance had been a practice in different forms in Kenya for decades and assist in saving funds or taking credits by individuals and families as self-help or to engage in small business. Available evidence indicates that the formal concept of microfinance in Kenya begun in the form of granting microcredit to low income earners to improve their life conditions (Asiama ,2007). Since its inception, the microfinance sector has gone through many stages in accordance with the various financial policies and programmes carry out by various governments since Kenya's independence. According to history, the government of Kenya in 1950s made provision for subsidized credits to individuals and start-ups organizations to ensure their development (Asiama, 2007). According to Daniels & Ngwira (1993), about 88% of Malawian MFI provides contribution in terms of managerial training, foreign technologies and credit facilities while in a study done in Ghana by Parker et al, (1995), MFI contribution is through subsidizing on interest rates of loan facilities, limited access to public contracts and subcontracts and providing efficient distribution channels. Most countries in Africa provide MFI outreach through crating awareness on the services offered by MFIs and investment opportunities that are available.

The above studies state the extent of MFI contribution in terms of provision of deposits, loans facilities and other non-financial services to small businesses without tangible collateral but whose activities are linked to income generating ventures according to Adams and Von Pischke (1992) while Navajas (2002) state that the main objective of MFIs is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. According to Daniels &Ngwira (1993), about 88% of Malawian MFI provides contribution in terms of managerial training, foreign technologies and credit facilities while in a study done in Ghana by Parker et al, (1995), MFI contribution is through subsidizing on interest rates of loan facilities, limited access to public contracts and subcontracts and providing efficient distribution channels. Available evidence indicates that the formal concept of microfinance in Kenya begun in the form of granting microcredit to low income earners to improve their life conditions (Asiama ,2007).Otero (1999) and Littlefield and Rosenberg (2004) only talk about extent of MFI contribution to people's livelihoods in terms of poverty alleviation and not on SME growth. The literature does not give statistical data of the percentages and mean results of their studies. There are several MFIs in Ahero and the number has grown over the past five years. Extent of contribution of these MFIs has not been established since studies have not been conducted in Ahero to establish this. Therefore the extent of MFI contribution is not known in Ahero.

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2.2 Extent of Small and Medium Scale Enterprises growth

Business growth theory states that firm growth in general refers to increase in size. In research, a firm's growth has been operational zed in many ways and different measures have been used. Other explanations have also been presented (Basu *et al.*, 2004). Business grows from micro too small to medium and to large. Previous research reveals that business growth is a multidimensional phenomenon. Business growth patterns are related to the demographic characteristics of firms such as a firm's age (Basu *et al.*, 2004). The most frequently used measure for growth has been change in the business's turnover (Ledgerwood, 1999).Another typical measure for growth has been change in the number of employees. Migration from micro too small to medium & too large and migration in terms of the sources of finances from microfinance to other sources of funds/borrowings from financial institutions/securities market is another indicator of growth. It has however been found that the measures which are frequently used in the small businesses context are strongly inter-correlated (Storey, 2000). Many organizations' life cycle models present growth as one stage of development in organization life cycle. Previous studies have not focused on whether microfinance could be a factor behind the longevity and growth of small businesses (Ledgerwood, 1999). This study took a holistic and extensive approach to how microfinance affects the growth of small businesses.

According to Penrose (1995) the term growth implies an increase in the amount of output, export and sales. Secondly, it is a process of overall business development. Growth has usually been considered as an essential objective for its contribution to small businesses survival and competitiveness (Penrose, 1995).Business growth is increased throughput through the business system. Represented visually, business growth is acceleration clockwise around the business triangle an increase in the throughput at which products and services are developed, sold and delivered (Storey, 2000). A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature. The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state. The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable (Penrose, 1995).

It might seem difficult to obtain a precise definition of small and medium scale enterprise. Several writers have propounded various definitions and explanations as to what small enterprises are. Some have defined them based on the characteristics of the business, such as size, level of operations, type of industry, assets employed, number of employees, turnover, market, and management or control of business. Thus its definition is relative and differs from industry to industry and country to country. The classification may be based on the firm's assets, number of employees or annual sales. It may also be classified on the basis of initial capital outlay, sales turnover, form of ownership or number of employees (GOK, 2005).The determining factor for a firm's growth is the availability of resources to the firm (Hiedhues, 1995).Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment (Davidson, Delmar & Gartner, 2006).

In developing countries SMEs are usually competing with price over added value. On the other hand SMEs in developing countries have generally a lower productivity than in developed countries and because a country's productivity level is a major indicator of improved living standards, added value should be seen as one of the important indicators of growth (Davidsson, Delmar & Gartner, 2006). Enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999).

The growth of the SMEs is related to various factors that vary greatly throughout Africa. SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favor of private enterprise (Elmuti and Kathawala, 1999). Elsewhere the rise of a small-business class has been hindered by political instability or strong dependence on a few raw materials. In the Democratic Republic of Congo, for example, most SMEs went bankrupt in the 1990s – as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses (Blundell, 2012). Between these two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system. In Nigeria, SMEs (about 95 percent of formal manufacturing activity) are key to the economy but t insecurity, corruption and poor infrastructure prevent them being motors of growth.

Longenecker *et al.,* (2003) provides statistics indicating that the USAs 23 million small businesses continue to be a strong driving force in their economy. The small business absorbs 52% of the private work force and contributes 51% to GDP in the USA (Longenecker *et al.,* 2003). Elmuti and Kathawala (1999) also suggest that a study conducted by the Small Business Administration in the USA revealed that small business accounted for half of all new innovations in the USA. According to Burns (2003) and Day (2004) small firms in the United Kingdom employs 62% of the labor force and contribute 25% to GDP. In the European Community as a whole, small firms employ 66% of the work force. Burns emphasizes the major role small firm's play in the European Community, by citing the employment generated by small firms in various European countries. He suggests that small businesses contribute 79%, 63% and 60% to employment creation in Italy, France and Germany respectively.

The growth of the SMEs is related to various factors that vary greatly throughout Africa. SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favor of private enterprise (Elmuti and Kathawala, 1999).This study does not give the factors that led to SME growth in South Africa, Mauritius and North Africa and also do not give the extent of this growth. In Ahero it is not clear whether there is growth in SMEs over the past five years and no study has been conducted to establish extent of this growth. Therefore the extent of SME growth in Ahero has not been established.

2.3 Association between Microfinance contribution and SME growth

Microfinance institutions provide financial services - in the form of small amounts of loans and management services in different form of products and systems focused at low income clients. It includes loans, savings, insurance, transfer services and other relevant financial products and services (United Nations, 2005).Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

Navajas (2002) says micro financing is a major strategy in meeting the MDGs by building global financial systems that meet the needs of the poorest people. Littlefield and Rosenberg (2004), state that microfinance is unique among development intervention because it delivers social benefits on permanent basis and on a large scale. It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME growth because they guarantee sustainable access to credit by the poor (Rhyme and Otero, 1999).The former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit pointed out that Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs.

Rosenberg (2009) in his assessment of whether micro finance contribution really helps poor people affirmed that most microfinance borrowers use their loans for non-business purposes. Based on the susceptibility of their income, the low income households have to borrow constantly from microfinance lenders in order to meet their consumption needs. He said his recent analysis had doubts on some of the older research studies that established that microcredit increases household income. Rosenberg concluded that many borrowers use the loan for a non-business purpose, such as repaying another loan, or meeting day-to-day household expenses. Hulme and Mosley (1996) after concluding a research on micro-credit however argues that most present-day microfinance schemes are less helpful than they are expected to be. The authors argued that microloans are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. To a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty and increase SME performance (Battilana & Dorado 2010). It had also been established that the poor person operating in SME pay higher costs for credits than businessmen operating in average large business and also pay higher for insurance services offered for their businesses. Researchers had interestingly noted that, though MFIs are committed to poverty alleviation, they also aim at enriching themselves from their profit gained from charging high interest rates.

Daryl and Murdoch (2009) opined that microfinance loans help the low income borrowers to gradually step out from complete poverty and deal fairly with their economic circumstances by assisting them to be engaged in economic activities even though it does not help them to totally escape poverty. Daryl and Murdoch also gave more credit to microfinance institutions because they seem more reliable, flexible and convenience to the borrowers than all other tools they can access to manage their daily cash flow, both in business and at home. They explained that even though most borrowers go back for microfinance loans and most inconveniently, repay the loans at exceedingly high rates, it still remain the only sector that pay more attention to small businesses growth. Borrowers rush to repay the loan when the main motive for prompt repayment is not lenders pressure or business success, but rather the desire to maintain future access to such helpful service. Another advantage of microfinance is that, it enables households and individuals and small businesses that would not nor could not raise capital to honor payment of their fixed – acquiring assets to start business to do so through borrowing to become entrepreneurs. MFIs assist borrowers to use the savings or income from their loans for investment in life-improving amenities such as housing, education, food, and health which signifies actual reduction in poverty of such clients (Daryl and Murdoch, 2009).

According to SENET (2004) over 99% of the 3.2 million businesses in the UK are small medium sized enterprises (SMEs) and they account for more than two thirds of the business turnover. According to Longenecker *et al.,* (2003) the growing significance of SMEs in China's economy is worth noting. Chinese and foreign experts estimate that SMEs are now responsible for approximately 60% of China's industrial output, and employ around 75% of the workforce in China's cities and towns. During the 2013 recession, negative growth of SMES were recorded mainly in the construction, manufacturing, banking, transport, trade and other service sectors. Micro finance institutions played a major role in the growth of these SMEs especially in the period of recession when most banks avoided dealing with SMEs for the fear of bankruptcy (Burns, 2003).

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Despite the wide-ranging economic reforms instituted in the various developing regions, SMEs face a variety of constraints owing to MFI contribution given the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Liedholm, 1990 and Steel & Webster, 1990). The constraints include; Input Constraints: SMEs face a variety of constraints in factor markets. However, factor availability and cost were the most common constraints. Finance is the other constraint; access to finance remains a dominant constraint to small scale enterprises in Kenya. Credit constraints pertaining to working capital and raw materials were cited by respondents between 24% and 52% in Parker *et al.* (1995).

Aryeetey *et al* (1994) reported that 38% of the SMEs surveyed mention credit as a constraint, in the case of Malawi, it accounted for 17.5% of the total sample (Daniels & Ngwira, 1993). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity. The third constraint is the labor Market which seems a less important constraint to SMEs considering the widespread unemployment or underemployment in developing countries. SMEs generally use simple technology which does not require highly skilled workers. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. Aryeetey et al (1994) found that 7% of their respondents indicated that they had problems finding skilled labor, and 2% had similar problems with unskilled labor. However, only 0.9% of firms were reported to have had labor problems.

Navajas (2002); Hiedhues (1995) and Diagne and Zeller (2001) support that MFIs play a major role in growth and improvement of SMEs but Rosenberg (2009) in his analysis had doubts on some of the older research studies that established that microfinance increases household income. Despite the wide-ranging economic reforms instituted in the various developing regions, SMEs face a variety of constraints owing to MFI contribution given the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm& Mead, 1987; Liedholm, 1990 and Steel & Webster, 1990).The association between MFI contribution and SME growth differs across studies but in Ahero studies have not been done to determine this association. It is therefore unknown whether there is any association between MFI contribution and SME growth.

2.4 Gaps to be filled

It is clear that extent of MFI contribution greatly differs across studies. Previous studies have established extent of MFI contribution using different descriptions. Studies have not been carried out in Ahero to establish the extent of MFI contribution and this creates a knowledge gap that this study seeks to fill. Study findings of previous research also differ on the extent of SME growth. Previous studies have shown that extent of SME growth is established by the firm's size while others state that it is established using assets and employment. However no studies have been carried out to establish the extent of SME growth in Ahero and this remains unknown. Similarly various studies show diverse opinions on the associations between MFI contribution and SME growth yet in Ahero no studies have been carried on the same. There exists a knowledge gap as to whether there is any association between MFI contribution and SME growth.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Introduction

This section focused on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design and provides details regarding the population, sample and sampling techniques and the research instruments used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.2. Research design

Survey research design was adopted in this study to assess the relationship between MFI on the growth of SMEs in Kenya. The survey is a non-experimental, descriptive research method which tends to be quantitative and aims to collect information from a sample of population such that the results are representative of the population within a certain degree of error. Survey research design was chosen because the sampled elements and the variables that were being studied were simply being observed as they were without making any attempt to control or manipulate them. Also the design was chosen because quantitative information needed to be collected through the use of standard and structured questionnaire and it ensured that requisite data was in accordance with the problem at hand and was collected accurately (Blundell, 2012).

3.3. Study area

The study was conducted in Ahero Township of Nyando sub county, Kisumu County. The study targeted small business owners in the township. Ahero Township is found in Nyando which is one of the 7 sub counties in Kisumu County. It borders Kisumu County to the west, Nandi County to the north, Kericho County to the East and Rachuonyo Sub County to the North. (Nyando District Development Plan, 2008). The township has a current population of approximately 61,566(GOK, 2009), with majority of them being farmers and small business owners (Nyando District Development Plan, 2008). The influx of microfinance institutions in Ahero Township over the past five years and their importance to SMES has attracted heated debate since the effects of microfinance contribution on SMEs have not received adequate attention in Ahero. This study therefore assesses the relationship between MFIs and SME growth in Ahero.

3.4 Population

The population of this study consisted of small and medium scale enterprises in Ahero Township. The population consists of 319 SMEs in Ahero by April 2014. The respondents were entrepreneurs who own SMEs and they were the contact persons for the researcher in Ahero.

3.5Sampling Frame

Proportionate stratified sampling technique was used to make it possible to reduce the sample size required to achieve a given precision and to increase the precision with the same sample size (Meller, 2001).The study adopted a proportionate stratified sampling since the sample size of each stratum is proportionate to the population size of the stratum meaning that each stratum has the same sampling fraction.

The SME sample was drawn from the population by the help of Israel (1992)formula for sample size determination. This was used because the sample was homogenous in composition and character. The formula was used by Daniels &Ngwira (2003) in his study on survey on micro, small and medium enterprises in Malawi. The formula is gives similar results as Yamane's formula for determining sample size. The population used to draw the sample size was 287 since 32 SMEs were used for pretesting.

The Israel's formula is:

$n = N/(1 + Ne^2)$...Eq. 3.1

Where;

n – Sample Size

N – Population Size

e – Level of significance (0.05)

Sample size will be

$n = 287/ \{1+ (287x0.05^2)$

$n = 167$

The total sample size was 167SMEs.

3.6 Data Collection Methods

Quantitative research approach was used to carry out this study. The major concern for this study is to assess the relationship between microfinance contribution and growth of SMEs and quantitative information is of relevance in providing information that can use statistics to generalize findings (Blundell, 2012). This study used questionnaires and observations to get primary data for this research. The specific target group for quantitative method had been the entrepreneurs owning SMEs and this was the main source of primary quantitative data at the same time on site observation was also carry out quantifying.

3.6.1 Data Sources

The primary data was collected from the field by the researcher from entrepreneurs owning Small and Medium Scale Enterprises (SMEs) in Ahero. Observations and questionnaires were used as primary sources of data. In addition documents from different sources and from different books, articles, publications and books of accounts from entrepreneurs were used.for obtaining secondary data.

3.6.2Data Collection Procedure

Proportionate stratified sampling was applied such that the researcher divided the population into separate groups then a probability sample was drawn from each group(Blundell, 2012). Pretesting was done with 32SMES and these have been excluded from the sample. The respondents were issued with questionnaires and the researcher reached them by walking to where their businesses were and requesting them to fill them.

3.6.3 Research Instruments

The study employed the use of questionnaires. The questionnaires were mainly be used to gather information from entrepreneurs in the SME sector. The use of questionnaire allows the researcher to collect large amount of data in a relatively short time. The availability of a number of respondents in one place makes possible an economy of time and provides a high proportion of usable responses. It also can establish relationship, motivate respondents, clarify doubts and has 100% response rate (Navajas, 2002).

Questionnaires were used to gather data in a short span of time and within minimum expenses. Questionnaire unlike interviews could also be administered to a large number of respondents in a short time period, yet it guarantees a high response rate with diversity of information on the same (Meller, 2001).

3.6.4Reliability tests

Reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. Reliability is an extent to which a questionnaire or any measurement procedure produces the same results on repeated trials (Meller, 2001).

The reliability of the research instrument was established through a pilot study, Cronbach's alpha was used in the assessment of the questionnaire which was considered a significant tool and instrument in this study. The instrument was reliable and had high level of internal consistency because alpha was at 0.72which was above the0.7 cut off level.

Table 3.1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of items
0.7	0.72	10

Source: Survey data, 2014

3.6.5 Validity Tests

Validity tests is the degree to which a test measures what it is supposed to measure (Blundell, 2012).Questionnaires were pre-tested with 2 MFI's and 32 SMEs and this was useful in eliminating partiality and fault in the design of the instrument, made the researcher more familiar with the questionnaire and scrutinized the sequence, contents and procedure (Blundell, 2012).The instrument had a good face and content validity. The SMEs and MFIs used for the pre-test were excluded from the final sample of the study.

3.7 Data Analysis

Data collected from the questionnaire was analyzed, summarized, and interpreted with the aid of descriptive statistical techniques such as frequencies to tally the number of responses, percentages to find the percentage rate of effect of various variables, means and standard deviation to determine the average and the level of variation and Pearson product moment correlation to measure bivariate association between variables (Blundell, 2012).

3.8 Data Presentation

Data presentation is the method by which people summarize, organize and communicate information using a variety of tools, such as diagrams, distribution charts, histograms and graphs. The methods used to present mathematical data vary widely. Common presentation modes including coding data, data analysis, drawing diagrams, box plots tables, pie charts and histograms (Meller, 2001). In this research, data was presented using tables, figures and graphs.

CHAPTER FOUR
RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents data analysis and findings of the study in two major sections. The first section gives a demographic view of the respondent in question, and the second section discuses the findings of the research objectives.

4.1 Characteristics of the Sample

Primary data was collected by means of self administered questionnaires and 167 questionnaires were completed at a response rate of 100%. A summary of the respondents who participated in the case study is presented in Tables 4.1 and4.2.

Table 4.1: Gender of Respondents

Gender	Frequency	Percent
FEMALE	80	47.9
MALE	87	52.1
Total	167	100.0

Source: Survey data, 2014.

Results from Table 4.1 indicate that regarding gender, there were more male respondents running SMEs (about 52.1%) than females (47.9%). These results show both females and males have near equal parity in running SMEs in Ahero. Evidence from an accounting knowledge as an indicator of women empowerment concluded that women are marginalized when it comes to access to credit hence most SMEs are run by males (Ackerly, 1995). In Ahero there is near equal parity in running of SMES therefore this contradicts study by Ackerly(1995) that women are marginalized when it comes to SME ownership. Table 4.2 presents the ages of respondents.

Table 4.2: Age of Respondents

Age	Frequency	Percent
< 25YEARS	33	19.8
25-30YEARS	34	20.4
31-35YEARS	23	13.8
36-40YEARS	23	13.8
41-45YEARS	27	16.2
46-50YEARS	16	9.6
ABOVE 50YEARS	11	6.6
Total	167	100.0

Source: Survey data, 2014.

Source: Survey data, 2014.

It was also observed from the Table 4.2, showing distribution of respondents by age groups that the majority of the respondents were between25-30 and below 25years, (20.4% and 19.8% respectively) while those aged 50 and above was 6.6% only. The implication here is that most of the SMEs are owned and managed by young people.Audrestch (1999) stated that most SMES are run by young people since they are ambitious and are risk takers which this study has ascertained.

4.2 Extent ofMicrofinance Contribution

The first objective of the studyestablished the extent of microfinance contribution in Ahero. Figure 4.1 presents areas MFI contribution

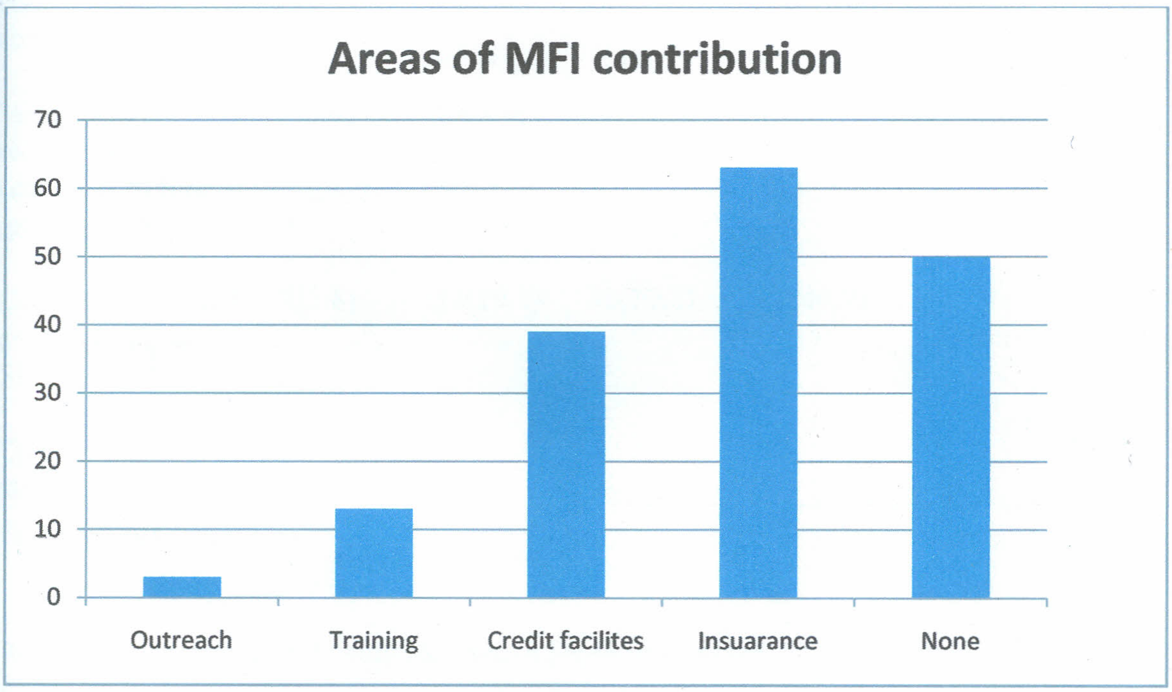

Figure 4.1: Areas of MFI contribution

Source: Survey data, 2014.

Figure 4.3 shows how various respondents in SMEs benefited from the services offered by MFIs. The ones who benefited from outreach services were 3, training were 13, credit facilities 39, insurance services 63 and those who did not benefit from any services were 50.This means that SMEs benefit most from insurance services and least from outreach services.MFIs offer insurance services most to SMEs probably because it is more beneficial to MFIs .They however contribute least through outreach therefore a huge number of SMEs

Dorado (2010) stating that to a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty (Battilana & Dorado 2010).SMES need to emphasize on outreach services so that all SMEs in Ahero benefit from their services.

Table 4.3: Extent of MFI contribution

Table 4.3 presents the extent of MFI contribution.

Extent of MFI contribution	**Strongly disagree F (%)**	**disagree F (%)**	**Somehow agree F (%)**	**Agree F (%)**	**Strongly agree F (%)**	**Mean**	**Std dev**
Criteria for accessing MFI contribution is cumbersome	8(4.8)	20(12.0)	35(21.0)	63(37.7)	41(24.6)	3.65	1.11
MFIs always require collateral securities before granting loans	9(5.4)	14(8.4)	31(18.6)	76(45.5)	37(22.2)	3.71	1.07
Collateral required are too high for SMEs	3(1.8)	32(19.2)	32(19.2)	75(44.9)	25(15)	3.52	1.02
Overall mean and standard deviation						3.63	1.07

Source: Survey data, 2014.

Results from Table 4.3 indicate that 139(83.3%) agree that criteria for accessing MFI contribution is cumbersome while only 28(16.7%) disagree. This means that most SMEs feel that accessing MFI contribution is cumbersome in Ahero. This contradicts literature by Basu *etal.* (2004) that microfinance institutions (MFIs) have become the main source of funding for micro enterprises in Africa and in other developing regions. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with micro and small enterprises leading to MFIs being the major contributors to SME growth (Basu et al., 2004).This study does not quantify the number who support that MFIs are the main source of funding for SMEs and how banks find SMEs unattractive to deal with. In Ahero most SMEs feel that accessing MFI contribution is cumbersome represented by 83 percent, it shows that MFIs are not the major contributors to SME growth and this is new knowledge to this area of study.

The other issue is collateral security and 144(86.2%) stated that MFIs always require collateral securities before granting loans whereas only 13.8% disagreed and another 132(79%) responded that collateral required by MFIs is too high whereas only 21% disagreed. This means that SMEs feel that MFIs require very high securities before giving loans to SMES. Daryl and Murdoch also gave more credit to microfinance institutions because they seem more reliable, flexible and convenience to the borrowers than all other tools they can access to manage their daily cash flow, both in business and at home. They explained that even though most borrowers go back for microfinance loans and most inconveniently, repay the loans at exceedingly high rates, it still remain the only sector that pay more attention to small businesses growth. This literature is partly supported by the results in table 4.3 in the sense that MFI loans are paid at higher rates. The study by Daryl and Murdoch however does not tell us the number or percentage of SMEs who go back to the MFIs for loans despite the high rates and the percentage of those who feel that the rates are high. This study brings in new knowledge that 79% of SMEs in Ahero feel that collateral securities required by MFIs is too high and only 21% disagree.

An overall mean of 3.63 which when rounded off comes to 4.0 and standard deviation of 1.07is reported. This means that the extent of MFI contribution in Ahero is very low since most respondents agree to this. These results support literature by Hulme and Mosley (1996) that most present-day microfinance schemes are less helpful than they are expected to be. The authors argued that microloans are not a universal remedy for poverty-alleviation and that in some cases the poorest people have been made worse-off. According to Battilana & Dorado (2010), to a very large extend, an increasing number of microfinance institutions, if not all, are now in operation for profit than serving as a means to alleviate poverty (Battilana & Dorado, 2010). However, the studies by Hulme and Mosley (1996) and Battilana & Dorado (2010) do not give us the percentages, means and standard deviation from their research. The new knowledge in this study is that a mean of 3.63 and standard deviation of 1.07 shows that extent of MFI contribution in Ahero is low.

4.3 Extent of Small and Medium Scale Enterprises growth

The second objective of the study established the extent of small and Medium Scale enterprises growth in Ahero. Figure 4.2 displays responses of how SMEs in Ahero measure growth

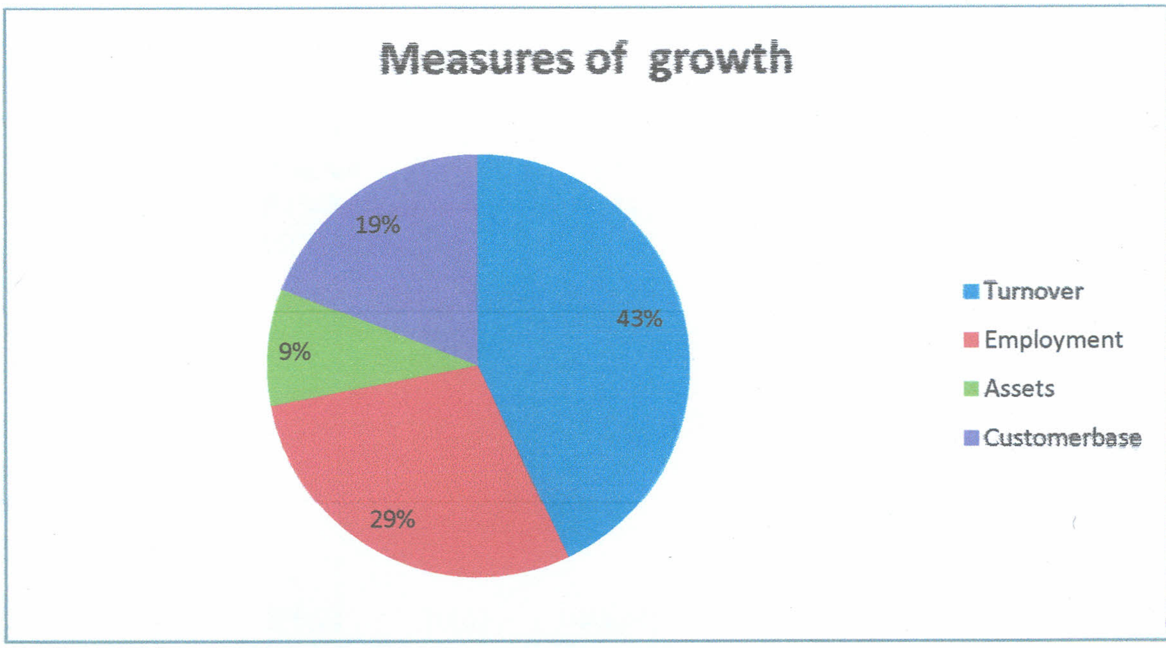

Figure 4.2: Measures of growth

Source: Survey data, 2014.

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Figure 4.1 state that 43% of respondents us turnover as a measure of growth while only 9% measure growth using assets. This means that the major measure of growth in Ahero is turnover. Other measures include employment, assets and customer base. Davidson, Delmar & Gartner (2006) state that measuring sales growth and employment growth during a specific time period is the most common indicators used to measure growth. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment (Davidson, Delmar & Gartner, 2006). The above results support this literature since turnover and employment take a greater percentage of 72%. Davidson, Delmar & Gartner (2006) do not however give by what percentage sales and employment are used to measure growth but this study's results clearly states that 72% uses employment uses sales or turnover. It however contradicts literature by Penrose (1995) that the term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state. The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable (Penrose, 1995). This is not so in Ahero since SME growth is measured in terms of turnover, employment, assets and customer base.

Table 4.4: Extent of SME growth

Table 4.4 presents extent of SME growth.

Extent of growth	Strongly Disagree F (%)	Disagree F (%)	Somehow agree F (%)	Agree F (%)	Strongly agree F (%)	Mean	SD
Lack of credit leads to stunted growth of my business	35(21)	15(9)	12 (7.2)	58(34.7)	47 (28.1)	3.40	1.50
Credit facilities have led to financial growth of my business	4(2.4)	9 (5.4)	40(24)	68(40.7)	46(27.5)	3.86	0.97
MFI training has improved managerial skills in my business	2(1.2)	10(6)	40(24)	72(43.1)	43(25.7)	3.86	0.91
Insurance services has led to asset growth of my business	2(1.2)	17(10)	21(12.6)	70(41.9)	57(34.1)	3.98	0.99
Credit facilities has helped me employ more people	2(1.2)	6(3.6)	28(16.8)	96(57.5)	35(21)	3.93	0.79
Outreach services have improved on customer loyalty	5(3)	10(6)	31(18.6)	102(61)	19(11.4)	3.72	0.86
Overall mean and standard deviation						3.79	0.75

Source: Survey data, 2014.

Results from table 4.4 shows that 117(70.1%) of respondents agree that lack of credit leads to stunted growth of my business,154(92.2%) agree that credit facilities have led to financial growth of my business, 155(92.1%) agree that MFI training has improved managerial skills in my business, 148(88.6%) agree that insurance services has led to asset growth of my business, 159(95.2%) agree that credit facilities has helped me employ more people and 152(91%) agree that outreach services have improved on customer loyalty. An average percentage of 88.2 percent agree that there is SME growth in Ahero as compared to 11.8 percents who disagree. This means that there is SME growth in Ahero. The SME growth in Ahero is as a result of MFI contribution done through credit facilities, training, outreach and insurance services.

Rosenberg (2009) in his assessment of whether micro finance contribution really helps poor people affirmed that most microfinance borrowers use their loans for non-business purposes. Based on the susceptibility of their income, the low income households have to borrow constantly from microfinance lenders in order to meet their consumption needs. He said his recent analysis had doubts on some of the older research studies that established that microfinance increases household income. Rosenberg concluded that many borrowers use the loan for a non-business purpose, such as repaying another loan, or meeting day-to-day household expenses. Results from table 4.4 contradict this study since a bigger percentage shows that there of SME growth in terms of asset growth, financial growth, growth in customer base and employee growth. Rosenberg (2009) does not give statistics of his studies like the number of SMEs who use credit facilities for non business purposes. This study states that 88.2 percent of SMEs in Ahero have experienced growth through credit facilities, training, outreach and insurance contributed by microfinance institutions.

An overall mean of 3.79 which when rounded off comes to 4 and a standard deviation of 0.75 is reported. This means that most respondents agree that extent of SME growth is high in Ahero. Research by Elmuti and Kathawala (1999) state that the growth of the SMEs is related to various factors that vary greatly throughout Africa and SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favor of private enterprise (Elmuti and Kathawala, 1999). This study does not state which factors are related to growth and does not give statistical evidence of the extent of the stated growth in South Africa, Mauritius and North Africa. This study has generated a mean of 3.79 and standard deviation of 0.75 establishing the extent of SME growth in Ahero. It has further stated that growth is attributed to credit facilities, outreach, insurance and training.

4.3. Association between MFI Contribution and SME Growth

The third objective of the study association of Microfinance contribution and small and Medium Scale enterprises growth in Ahero.

Table 4.5: Correlations of MFI Contribution to SME Growth

		Contribution Mean Score	Growth Mean Score
Contribution Mean Score	Pearson Correlation	1	.496**
	Sig. (2-tailed)		.000
	N	167	167
Growth Mean Score	Pearson Correlation	.496**	1
	Sig. (2-tailed)	.000	
	N	167	167

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Survey data, 2014.

Table 4.5 results show the correlations of MFI contribution and SME growth. The results shoe a moderate correlation of r=0.496(p=0.000) significant at 99%confidence level. This means that the association between MFI contribution and SME growth is highly positively significant. In other words as MFI contribution increases, so does SME growth. The results merely show associations and not causation. Rhyme and Otero (1992) argues that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME growth because they guarantee sustainable access to credit by the poor (Rhyme and Otero, 1992). These results support the literature but Rhyme and Otero (1992) only states that MFI contribution has a positive impact on SME growth but do not show the correlations to support their findings. MFI contribution in Ahero is positively correlated to SME growth therefore if MFI contribution increases, SME growth also increases and this is new knowledge.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the findings of the study, conclusion and suggested policy recommendation. Areas for further study research are presented at the end of this chapter

5.1 Summary of the findings

The first objective was to establish the extent of MFI contribution in Ahero. The study results show that MFI contribution is at a low extent such that SMEs find it cumbersome to access MFI services in Ahero. The MFIs also need high collateral so as to give credit facilities which discourages SMEs from receiving these services.

The second objective was to establish extent of growth in Ahero Township. The highest percentage of respondents the mean and standard deviation agreed that there is SME growth in terms of assets, customer base, sales and employment. This means that the extent of SME growth in Ahero is high.

The third objective is to examine the association between MFI contribution and SME growth. The study results indicates a significant positive correlation between MFI contribution and SME growth. This means that there is a positive association between MFI contribution and SME growth such that as MFI contribution increases so does SME growth.

5.2Conclusion

From the first objective, it is concluded that MFI contribution to SME growth is to a less extent in Ahero. On the results of the second objective, it is concluded that the growth of SMEs in Ahero is to a high extent. Based on the results of the third objective, it is concluded that MFI contribution is positively associated with SME growth in Ahero.

5.3Recommendation

On the first objective which is to establish extent of MFI contribution, it is recommended that MFIs should improve the services to SMEs. Based on the results of the second objective which is to establish extent of SME growth in Ahero it is recommended that MFIs should intensify their contribution to SMEs so that the high extent of growth is sustained.

The third objective is to examine the association between MFI contribution and SME growth. The recommendation is based on the third conclusion that the association between MFI contribution and SME growth should be strengthened.

5.4 Limitations of the study

There are two limitations of this study. The study only focuses on MFIs yet there are other institutions like banks and NGOs that can support SMEs in terms of both financial and non financial basis. The other limitation is that the study has only established correlations and not regression analysis.

5.5Suggestions for Future studies

Access to finance remains a dominant constraint to small scale enterprises. MFIs have become an important financing source for the development of SMEs. And also they have become of an increasing important component of strategies to reduce poverty and promote SMEs development. It's therefore important for researchers not only base their study on MFIs and SMEs but also incorporate banks and NGOs as they also play part towards growth of any business enterprise.

This study only analyzed relationship between variables using correlations and a regression analysis should be carried out in other studies for further analysis and to bring in new knowledge to this area of study.

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