# EFFECT OF MICRO-FINANCE SERVICES ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISUMU EAST DISTRICT, KENYA



BY

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# ABSTRACT

Though micro-finance institutions and markets literature show non-financial services, savings mobilization and micro-credit loans as important aspect of enhancing SMEs growth and sustainability, the effect of non-financial services on growth of SMEs is unknown. Prior studies fail to link savings mobilization to SMEs growth and it is unknown how micro-credit loans associate with growth of SMEs. The purpose of this study was therefore to establish the effect of micro-finance services on performance of Small and medium enterprises in Kisumu East District, Kenya. The objectives of the study were to; determine the effect of non-financial services on growth of SMEs, establish the relationship between savings mobilization and growth of SMEs and assess the effect of micro-credit loans on growth of SMEs in Kisumu East District. The study was guided by a conceptual framework, in which micro-finance services was the independent variable, SMEs growth as the dependent variable. The study adopted correlational research designs. The population comprised of all the 2,232 SMEs within Kisumu East District. Stratified random sampling was used to pick a sample of 339 SMEs. Primary and data was collected through a structured questionnaire and desk review respectively. Instrument validation and reliability was done using expert review and Cronbach's Alpha reliability test respectively where all variables had alpha coefficient of above 0.7 indicating internal consistency. Data was analyzed inferential statistics namely Pearson's correlation and multiple regression analyses. The findings of the study were presented in tables, charts and graphs. The study findings were that non-financial services were negative significant predictor of growth of SMEs ($\beta$ = -.094 (p = .087) implying that intensifying non-financial services leads to decline in growth of SMEs; savings mobilization had negative significant predictor of growth of SMEs ($\beta$ = -.121 (p = .009) meaning that increased savings mobilization leads to reduced growth of SMEs and micro-credit loans had a positive significant association with growth level(r = 0.288, p =.000) implying that increase in micro-credit loans leads to improved growth in SMEs. The study concludes that; enhancing non-financial services given to SMEs leads to decline in growth of these SMEs; intensifying savings mobilization by SMEs leads to decline in growth of these SMEs and increasing micro-credit loans given to SMEs leads to improved growth of these SMEs. The study recommends that; SMEs in Kisumu East District should de-emphasize non-financial services; reduce their mobilized savings and seek more micro-credit loans. The research findings may be significant to SME financing policy makers in designing appropriate micro-credit products that maximize the firm's value. It may also be useful to entrepreneurs in making optimal financial structure decisions and provide new empirical evidence on the micro-finance services and performance of SMEs and form a basis for future research in the area.

# CHAPTER ONE

# INTRODUCTION

This chapter presents the background to the study, statement of the research problem, study objectives, research questions, scope, justification and the conceptual framework.

## 1.1 Background to the study

Micro-finance service is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. The aim was to provide collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers were organized into groups and peer pressure among them reduced the risk of default (Sauser, 2005). According to Basu and Yutek (2004), micro-finance services should address capital investment decisions, general business management and risk management. Wanjohi and Mugure (2008) have identified three major micro-finance services required by most SMEs in Kenya, namely, non-financial services, savings mobilization and micro-credit loans.

According to Sauser (2005), non-financial services refer to training in micro-enterprise investment services extended to small and medium enterprises and other related services. Few approaches to assisting very poor people rely on microfinance services alone. In addition to the financial services, most poverty-focused organizations organize, by themselves or through strategic partnership with other institutions, non-financial interventions to strengthen the livelihoods of very poor people. Almost all such organizations seem to believe that this target group lacks the experience to manage a microenterprise and therefore offer some type of entrepreneurial and/or vocational skill development in addition to their core financial service (Barr, 2005).

Empirical evidence (Jide *et al.,* 2011; Wanjohi and Mugure, 2008; Otto *et al.*, 2010; Kerongo and Veronica, 2014 and Njiwakale, 2013) show that non-financial services offered by MFIs are critical determining SMEs' success. While a study by Jide *et al.* (2011) failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises and it covered only small enterprises and omitted medium enterprises; Wanjohi and Mugure (2008) concentrated on MSEs as opposed to SMEs and did not cover SMEs in Kisumu East District. Similarly, Otto *et al.* (2010) mainly dwelt on lending by MFIs and did not study SMEs in Kisumu East District. Other studies (Kerongo and Veronica, 2014 and Njiwakale, 2013) used descriptive research design as opposed to correlational research design, did not cover SMEs in Kisumu East District and did not explore the relationship between non-financial services and growth.

Reviewed literatures show that non-financial services offered by MFIs are critical determinants of SMEs success. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; study micro-enterprises. They employ primary data based on cross-sectional study units, but fail to study SMEs using correlational research design. Therefore, no empirical studies relating non-financial services to growth of SMEs.

Savings mobilization is seen as a major force in microfinance (Mead, 1998). The importance of savings mobilization has been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are employed by various institutions and are then compared to the results (Wisniwski,1999).

Empirical literature (Olwande, 2013; Otto *et al.*, 2010; Jide *et al.,* 2011; Wanjohi and Mugure, 2008; Kerongo and Veronica, 2014 and Njiwakale, 2013) indicate that savings mobilization is an important driver of business growth.

On the contrary, a study by Jide *et al.* (2011) found that both financial and non financial services from MFBs had highly benefitted SMEs in Nigeria and influenced their growth positively. However, the study failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises. It covered only small enterprises and omitted medium enterprises and did not test the relationship between savings mobilization and growth in Kisumu East District. On the other hand, Otto *et al.* (2010) mainly dwelt on lending by MFIs and did not study the relationship between savings mobilization and growth of SMEs in Kisumu East District.

Kerongo and Veronica (2014) found that there exist a positive and significant relationship between micro- finance services and growth of SMEs. However, the study used descriptive research design as opposed to correlational research design and did not cover SMEs in Kisumu East District. Another study by Njiwakale (2013) on the effect of microfinance lending on business performance did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design, and did not explore the relationship between savings mobilization and growth of SMEs in Kisumu East District.

Reviewed studies indicate that savings mobilization is an important driver of business growth. Previous researches use small samples and exploratory or case study research and descriptive research designs; study micro-enterprises, but fail to study SMEs using correlational research design. Therefore, no known studies linking savings mobilization to growth of SMEs in Kisumu East District.

Micro-Credit loan refers to the provision of financial and non-financial services by micro finance institutions (MFIs) to low income groups without tangible collateral but whose activities are linked to income generating ventures (Lidgerwood, 1999 and Business and Christen and Rosenberg, 2000). The term also refers to the practice of sustainably delivering those services. More broadly, it refers to a movement that envisions "a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." (Robert *et al,* 2004).

Previous studies (Lyons, 2003; Makokha *et al,* 2006; Wanjohi and Mugure, 2008; Otto *et al,* 2010 and Jide *et al.,* 2011) indicate that micro-credit loans offered by MFIs are critical determinants of SMEs success. Lyons (2003) investigated factors contributing to failure of loaning schemes and found that the non- remission of funds disbursed was a major factor contributing to the failure of these schemes. The study concentrated on disbursement procedures as opposed to actual effect of micro-financing and did not test the effect of microcredit loans on growth of SMEs in Kisumu East District. Makokha et al (2006) studied factors affecting women entrepreneurs in Micro and Small Enterprises in Kenya. However the study was biased on women and youth did not take into consideration medium enterprises. Moreover the study did not bring out any relationship between micro-credit loans and growth of SMEs in Kisumu East District.

Another study by Wanjohi and Mugure (2008) on factors affecting growth of MSEs using exploratory research design found that business environment was among the key factors that affect the growth of MSEs. However, the study concentrated on MSEs as opposed to SMEs and did not test the effect of microcredit loans on growth of SMEs in Kisumu East District. On the contrary, Otto *et al* (2010) assessed the effect of lending by micro-financing institutions on the general performance and growth in Komarok Nairobi-Kenya using correlational research design. However, their study only dwelt on lending by MFIs and did not study SMEs in Kisumu East District and did relate micro-credit loans on growth of SMEs.

On the same vein, a study by Jide *et al.* (2011) on the effects of micro-financing on small enterprises in Southwest Nigeria found that; both financial and non financial services from MFBs had highly benefitted SMEs in Nigeria; micro-finance banks have more industrial clients than group based clients. However, the study failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises and this lead to complex method of data analysis which could not give exact results. The study further failed to show effects of micro-credit loans on the growth of SMEs of SMEs. It covered only small enterprises and omitted medium enterprises.

Empirical evidence indicates that micro-credit loans offered by MFIs are critical determinants of SMEs success. Prior researches employ exploratory or case study research and descriptive research designs; study micro-enterprises, but fail to study SMEs using correlational research design. Therefore, no known studies linking micro-credit loans to growth of SMEs in Kisumu East District. Therefore this study seeks to establish the effect of micro-finance services on performance of SMEs in Kisumu East District.

Small and Medium Enterprises (SMEs) are acknowledged in Kenya as significant contributors to economic growth. Despite this, it is estimated that up to 40% of the start-ups fail by year 2 and at least 60% close their doors by year 4. Micro-finance services are credited as one of the causes of these failures. Micro-finance services refer mainly to small loans; savings mobilization and training in micro enterprise investment services extended to poor people to enable them undertake self-employment projects that generate income.

In Kenya, SMEs are acknowledged as vital and significant contributors to economic development through their critical role in providing job opportunities, reducing poverty levels, nurturing the culture of entrepreneurship and are a vital link in the economy through their supply chain and intermediary role in trade (Oketch, 2000). According to the Economic Survey of 2012, SMEs contributed over 50% of new jobs created in the year 2012 and over 20% to the GDP of the country. In recognition of this indispensable role, the government of Kenya has increased funding to the enterprise support programmes such as Women and Youth Enterprise Funds introduced in the year 2006 and 2007 respectively to fuel the development of these enterprises. Also, many micro finance institutions have joined the foray in providing them with Micro-Finance Services hence, seeing their access to micro-finance services increase from 7.5% in 2011 to 17.9% in 2012 (FSD Kenya, 2012). However, the International Labour Organization (2010) estimates that two-thirds of the enterprises were generating income equal to or below the minimum wage, a sobering finding that must temper one's enthusiasm for the growth of SME's as a solution to the country's poverty and employment problems.



## 1.2 Statement of the Problem

Though micro-finance institutions and markets literature show non-financial services, savings mobilization and micro-credit loans as important aspect of enhancing SMEs growth and sustainability, the effect of non-financial services on growth of SMEs is unknown. Prior studies fail to link savings mobilization to SMEs growth and it is unknown how micro-credit loans associate with growth of SMEs. Moreover, most reviewed studies do not focus on SMEs in the Kisumu East District. They are more or less exploratory, are not specific to the SME industry in Kisumu East District. They employ exploratory research design and use small samples. Given the dynamic nature of micro-financing activities of firms, the effect of non-financial services on growth of SMEs, the relationship between savings mobilization and growth of SMEs and the effect of micro-credit loans on growth of SMEs in Kisumu East District are not known. Therefore, this study seeks to establish the effect of microfinance services on performance of SMEs in Kisumu East District, Kenya.

## 1.3 Objectives of the study

The main objective of this study was to establish the effect of micro-finance services on performance of SMEs in Kisumu East District, Kenya.

Specifically, the study sought to:

1. Determine the effect of non-financial services on growth of SMEs in Kisumu East District.
2. Establish the relationship between savings mobilization and growth of SMEs in Kisumu East District.
3. Assess the effect of micro-credit loans on growth of SMEs in Kisumu East District.

## 1.4 Research Hypotheses

The study was guided by the following research hypotheses:

1.4.1 $H_{0:}$ Non-financial services have no effect on growth of SMEs in Kisumu East District.

Ha: Non-financial services have an effect on growth of SMEs in Kisumu East District

1.4.2 $H_{0:}$ There is no relationship between savings mobilization and growth of SMEs in Kisumu East District.

Ha: There is a relationship between savings mobilization and growth of SMEs in Kisumu East District

1.4.3 $H_{0:}$ Micro-credit loans have no effect on growth of SMEs in Kisumu East District.

Ha: Micro-credit loans have an effect on growth of SMEs in Kisumu East District.

## 1.5 Scope of the Study

The scope of the study is examined in terms of subject, area and time scopes. In terms of the subject scope, this study is limited to the broad business field of financial management and its subfields of financial institutions and markets. Area or geographical scope is the second aspect of scope in this study. The study area is Kisumu East District being the commercial hub of Kisumu City, where most SMEs in the county are situated. According to the County Council of Kisumu Revenue (2013) there are 2,232 SMEs operating in Kisumu East District distributed across communication, food and beverage, medical services, clothing and textiles, general shops and others (MCK, 2013).

Small and Medium enterprises are chosen because they are biggest beneficiaries of micro-finance services offered by micro-finance institutions in Kisumu East District. In terms of time scope, this study was conceived in 2014 and was done between January 2014 to November, 2014.

## 1.6 Significance of the study

The use of micro-finance services effectively and efficiently will in effect result in the growth and expansion of SMEs in the ever rapidly changing corporate world due to the injection of funds in the venture which when used well will ultimately aid this. This will also ease the realization of overall goals and objectives of the individual firms/organizations involved as par the various stake holders' requirements. For instance business creditors will be confident that they will be paid, the owners will be content that the business/ organization will maximize their wealth, employees will be confident of holding their job due to perceiving the continuity of the venture and the government will also in due course be a beneficiary. Positive results such as growth and expansion are bound to occur only in the case where the microcredit funds have been put to the right use, however in case of misuse of funds dire negative effects such as persistent loss making or even in dire cases closure of the business would result.

## 1.7 Conceptual framework

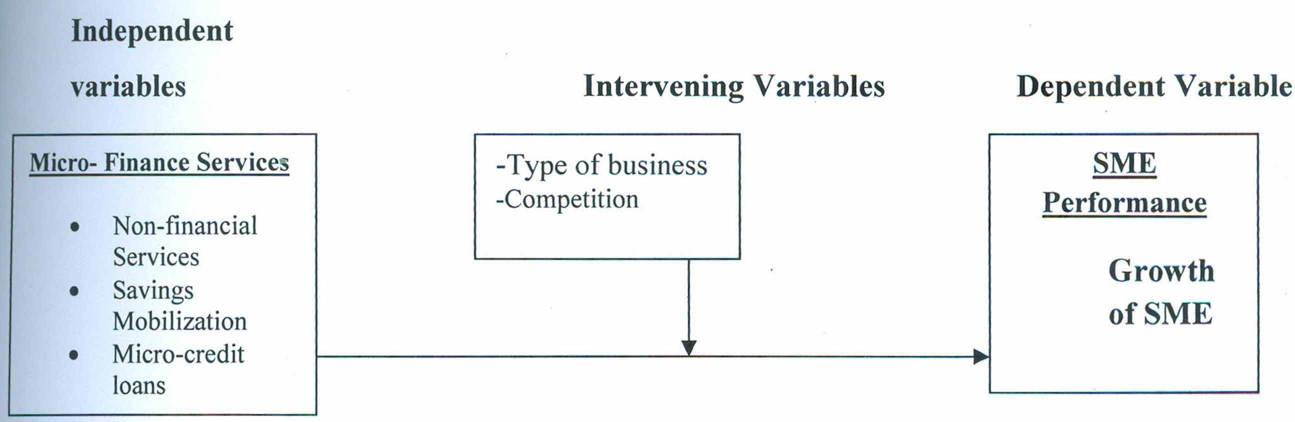


**Figure 1.1: Micro-Finance Services- Performance Relationship**

Source: Adapted from Wanjohi and Mugure (2008).

Figure 1.1 shows the relationship between micro-finance services and performance. In the framework, the independent variable is micro-finance services which has three elements namely non- financial services, savings mobilization and micro-credit loans. The dependent variable is SME performance which is measured in terms of growth in SME. In addition, there exist a number of intervening variables which include type of business and competition.

# CHAPTER TWO

# LITERATURE REVIEW

This chapter reviews the literature related to the study. The literature is reviewed under the following headings: financial growth theory, pecking order theory, contract theory, Micro-Finance Services, SMEs performance, conceptual framework, constraints facing SMEs and empirical studies.

## 2.1 Theoretical Review

### 2.1.1. Financial Growth Theory Linking Micro-Finance Services to Growth of SMEs

Berger and Udell (1998) propose a financial growth theory for small businesses where the financial needs and financing options change as the business grows, becomes more experienced and less informationally opaque. They further suggest that firms lie on a size/age/information continuum where the smaller/younger/more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The growth cycle model predicts that as firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the firm becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

Problems related to financing are dominant in the literature with regard to small firms. There are numerous empirical studies describing inadequate financing as the primary cause of SMEs' failure (Coleman, 2000; Owualah, 2007). The capital structure of smalls firm differs significantly from larger firms because small firms rely more on informal financial market which limits the type of financing they can receive. The small firm's initial use of internal financing creates a unique situation in which capital structure decisions are made based on limited financing options. It is widely accepted that small firms have different optimal capital structures and are financed by various sources at different stages of their organizational lives (Berger and Udell, 1998). Researchers have found that certain attributes of small firms influence the type of funds available to finance the firm's operations (Van Auken and Neeley, 1996; Hall et al., 2000, Romano et al.,2001;). This theory is relevant to the present study since as cited in the previous studies (for example Coleman (2000) and Owualah (2007), inadequate Micro-Finance Services may hinder growth of SMEs and hence affect their overall performance and sustainability.

### 2.1.2 The Concept of Micro-Finance Services

Micro-finance services refer to the provision of financial services to low-income clients, including consumers and the self- employed (Ledgerwood, 2000). The term also refers to the practice of sustainably delivering those services. More broadly, it refers to a movement that envisions "a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." (Robert *et al,* 2004).

Modern micro credit finance emerged in late 1970s with a strong orientation towards private sector solutions. This resulted from evidence that state owned agricultural development banks in developing countries had been a monumental failure, actually undermining the development goals they were intended to serve (Adams et al 1984). Nevertheless public officials in many countries hold a different view, and continue to intervene in microfinance markets. Micro Credit finance means building permanent local institutions. Micro credit finance also means integrating the financial needs of poor people into a country's mainstream financial system. "The job of government is to enable financial services, not to provide them." "Donor funds should complement private capital, not compete with it." "The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building. Interest rate ceilings hurt poor people by preventing micro finance institutions from covering their costs, which chokes off the supply of credit. Micro finance institutions should measure and disclose their performance, both financially and socially (Ledgerwood, 2000).



### 2.1.3Micro – Finance Products

Micro-finance products rest with the potential of provision of financial intermediation to SME's owners. They provide this by issuing credit inform of loans to the SME owners. Microcredit also focuses on providing employment opportunity to the poor people by providing them loan to start their businesses. Muhammad Yunus, pioneer of the microcredit movement and founder of the Grameen Bank in Bangladesh, argues that microcredit creates new employment opportunities for the underserved (Yunus, 1999). In a paper prepared for 1986's World Food Day conference, Yunus hypothesized that "self-employment, supported by credit, has more potential of improving the asset base than wage employment has.

Microcredit institutions provide services such as social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services. Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997).

Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes. For small-scale enterprises, reliable access to short term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. They further argued that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access (Schmidt and Kropp, 2007)

The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of Smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established. On the issue of interest rates, the bank also supports the view that high interest rate credit can help to keep away the influential non-target group from a targeted credit programme. This further demonstrates the need to develop appropriate institutions for the delivery of loans to small-scale borrowers. Notable disadvantages of the formal financial institutions are their restriction of credit to specific activities, making it difficult to compensate for losses through other forms of enterprises, and their use of traditional collateral like land. There is need for a broad concept of rural finance to encompass the financial decisions and options of rural economic units, to consider the kind of financial services needed by households, and which institutions are best suited to provide them(Hossain, 2008).

### 2.2.4 Non financial Services

Few approaches to assisting very poor people rely on microfinance services alone. In addition to the financial services, most poverty-focused organizations organize, by themselves or through strategic partnership with other institutions, non-financial interventions to strengthen the livelihoods of very poor people. Almost all such organizations seem to believe that this target group lacks the experience to manage a microenterprise and therefore offer some type of entrepreneurial and/or vocational skill development in addition to their core financial service (Barr 2005). BRAC, for instance, promotes certain income-generating activities, such as poultry rearing, and teaches members relevant technical skills. Since it promotes certain business activities on Rutherford,(2004) in Helping Mickles Make Muckles Large Scale, the IGVGD program also establishes appropriate marketing links for processing or selling products. Such specialized market development services however, are rarely offered by most other microenterprise development programs that target the very poor.

Similar health and nutrition education is often delivered via savings groups and self-help groups, assisted by organizations that promote savings-led microfinance models. Social safety nets, skill training, healthcare, awareness-raising and empowerment are not common ingredients in minimalist microfinance, which limits service provision strictly to credit and other financial products. The more vulnerable and poor the target group, however, the more such nonfinancial services seem to take a more prominent place in what Hickson calls a comprehensive approach to poverty alleviation. This approach is based on the belief that "very poor households are essentially incapable of effectively managing small businesses and therefore are unable to use financial services (Hickson, 1999) without first participating in awareness and capacity-building programs." However, not all microfinance initiatives that target the very poor include comprehensive non-financial services. Safe Save, for example, sticks to financial services only "on the grounds that even extremely poor clients are able to make good use of properly tailored financial services without other support, and that provision of non-financial services is costly and of questionable benefit."

### 2.2.5 Savings Mobilization

In the past, micro-credit finance focused almost exclusively on credit; savings were the "forgotten half" of financial intermediation. Today savings mobilization is seen as a major force in microfinance. The importance of savings mobilization has been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are employed by various institutions and are then compared to the results (Wisniwski,1999). Deficiency of savings facilities creates problems at three levels: at the individual level, at the level of the financial institution; and at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor.

## 2.2 Relationship between Micro-Finance Services and SME's Performance

SMEs' performance implies attributes that show changes in volumes of activities or physical size. It indicates the enterprises ability to prevail. When these changes are increases the performance is generally positive. In this study, SME performance was measured in terms of SME growth (Roberts, 2004). An SME's growth means different things to different organizations. There are many parameters a company may use to measure its growth (Roberts, 2004). Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial data. Other business owners may use one of the following criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share (Liptons, 2003). Ultimately, success and growth will be gauged by how well a firm does relative to the goals it has set for itself. Growth is something for which most companies strive, regardless of their size. Small firms want to get big, big firms want to get bigger. Indeed, companies have to grow at least a bit every year in order to accommodate the increased expenses that develop over time (Roberts, 2004).

## 2.3Empirical studies

### 2.3.1 Effect of Non-Financial Services on Growth of SMEs

A study by Jide *et al.* (2011) on the effects of micro-financing on small enterprises in Southwest Nigeria found that both financial and non financial services from MFBs had highly benefitted SMEs in Nigeria and influenced their growth positively. However, the study failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises. It covered only small enterprises and omitted medium enterprises.

Another study by Wanjohi and Mugure (2008) on factors affecting growth of MSEs using exploratory research design found that business environment was among the key factors that affect the growth of MSEs. Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of SMEs but also to the Kenyan economy. The study also found that offering non-financial services to the borrowers had a positive effect on growth and sustainability of the MSEs. However, the study concentrated on MSEs as opposed to SMEs and did not cover SMEs in Kisumu East District

Otto *et al* (2010) assessed the effect of lending by micro-financing institutions on the general performance and growth in Komarok Nairobi-Kenya using correlational research design. The study found that MFIs greatly influenced the development of most SMEs in Nairobi. Their study also indicated that apart from loans SMEs received the MFIs; they also received some pieces of advice on how to manage the funds to effectively run the business as a result there was a greater expansion and growth of most SMEs. The study further found that despite the lending from MFIs to SMEs, the poorly managed enterprises collapse due to inadequate knowledge in business management. However, their study mainly dwelt on lending by MFIs and did not study SMEs in Kisumu East District.

A study by Kerongo and Veronica (2014) on the effects of micro-financing on growth of small and micro-enterprises in Mombasa county, Kenya found out that there exist a positive and significant relationship between micro- finance services and growth of SMEs. However, the study used descriptive research design as opposed to correlational research design and did not cover SMEs in Kisumu East District.

A study by Njiwakale (2013) on the effect of microfinance lending on business performance carried out in Kitale Municipality using descriptive research design and found that many SMEs fail to grow due to factors such as limited financial resources due collateral required at the time of lending and the short repayment periods granted by MFIs. However the study did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design, did not explore the relationship between non-financial services and growth of SMEs in Kisumu East District.

Olwande (2013) assessed on the effects of micro financing on the growth of micro and small enterprises in Siaya town Kenya and the findings were that micro-financing positively affected growth of SMEs in Siaya county. However the study did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design.

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Reviewed literatures show that non-financial services offered by MFIs are critical determinants of SMEs success. Prior researches use convenient sampling methods and exploratory or case study research designs and descriptive statistics; study micro-enterprises. They employ primary data based on cross-sectional study units, but fail to study SMEs using correlational research design. Therefore, no empirical studies relating non-financial services to growth of SMEs.

### 2.3.2 Relationship between Savings Mobilization and Growth of SMEs

A study by Jide *et al.* (2011) on the effects of micro-financing on small enterprises in Southwest Nigeria found that both financial and non financial services from MFBs had highly benefitted SMEs in Nigeria and influenced their growth positively. However, the study failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises. It covered only small enterprises and omitted medium enterprises and did not test the relationship between savings mobilization and growth in Kisumu East District.

Otto *et al.* (2010) assessed the effect of lending by micro-financing institutions on the general performance and growth in Komarok Nairobi-Kenya using correlational research design. The study found that MFIs greatly influenced the development of most SMEs in Nairobi. Their study further showed that apart from loans SMEs received the MFIs; they also received some pieces of advice on how to manage the funds to effectively run the business as a result there was a greater expansion and growth of most SMEs. The study further found that despite the lending from MFIs to SMEs, the poorly managed enterprises collapse due to inadequate knowledge in business management. However, their study mainly dwelt on lending by MFIs and did not study the relationship between savings mobilization and growth of SMEs in Kisumu East District.

A study by Kerongo and Veronica (2014) on the effects of micro-financing on growth of small and micro-enterprises in Mombasa county, Kenya found out that there exist a positive and significant relationship between micro- finance services and growth of SMEs. However, the study used descriptive research design as opposed to correlational research design and did not cover SMEs in Kisumu East District.

Another study by Njiwakale (2013) on the effect of microfinance lending on business performance carried out in Kitale Municipality using descriptive research design and found that many SMEs fail to grow due to factors such as limited financial resources due collateral required at the time of lending and the short repayment periods granted by MFIs. However the study did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design, did not explore the relationship between savings mobilization and growth of SMEs in Kisumu East District. A study by Kerongo and Veronica (2014) found that there exist a positive and significant relationship between micro- finance services and growth of SMEs. However, the study used descriptive research design.

Reviewed studies elucidate savings mobilization by SMEs offered as an important driver of growth. Previous studies researches use small samples and exploratory or case study research and descriptive research designs; study micro-enterprises, but fail to study SMEs using correlational research design. Therefore, no known studies linking savings mobilization to growth of SMEs.

### 2.3.3 Effect of Micro-Credit Loans on Growth of SMEs

Otto *et al* (2010) assessed the effect of lending by micro-financing institutions on the general performance and growth in Komarok Nairobi-Kenya using correlational research design. The study found that MFIs greatly influenced the development of most SMEs in Nairobi. Their study revealed that most SMEs that received large loans frequently had larger labor force than those small enterprises that received smaller loans. The enterprises that received larger loans graduate to medium enterprise as per their findings. Their study further showed that apart from loans SMEs received the MFIs, they also received some pieces of advice on how to manage the funds to effectively run the business as a result there was a greater expansion of most SMEs. The study further found that despite the lending from MFIs to SMEs, the poorly managed enterprises collapse due to inadequate knowledge in business management. However, their study only dwelt on lending by MFIs and did not study SMEs in Kisumu East District and did relate micro-credit loans on growth of SMEs.

Another study by Jide *et al.* (2011) on the effects of micro-financing on small enterprises in Southwest Nigeria found that; both financial and non financial services from MFBs had highly benefitted SMEs in Nigeria; micro-finance banks have more industrial clients than group based clients. However, the study failed to give conclusive findings because its scope was too wide as it covered the general effects of micro-financing on small enterprises and this lead to complex method of data analysis which could not give exact results. The study further failed to show effects of micro-credit loans on the growth of SMEs of SMEs. It covered only small enterprises and omitted medium enterprises.

A study by Kerongo and Veronica (2014) on the effects of micro-financing on growth of small and micro-enterprises in Mombasa county, Kenya found out that there exist a positive and significant relationship between micro- finance and growth of SMEs. The study further found out that county government policies and programs designed to develop SMEs are ineffective and thereby need to be conceptualized. However, the study fall short due to the following weakness: The study did not clearly show the sample size used and techniques of sampling used in Mombasa county, moreover, the study only concentrated on MFIs and not micro-financing by banks and it did not did not attempt to check the link between micro-credit loans and the growth of SMEs in Kisumu East District.

Another study by Njiwakale (2013) on the effect of microfinance lending on business performance carried out in Kitale Municipality using descriptive research design and found that many SMEs fail to grow due to factors such as limited financial resources due collateral required at the time of lending and the short repayment periods granted by MFIs. However the study did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design, did not explore the association between micro-credit loans and growth of SMEs in Kisumu East District.

Olwande (2013) assessed on the effects of micro financing on the growth of micro and small enterprises in Siaya town Kenya and the findings were that micro-financing positively affected growth of SMEs in Siaya county. However the study did cover SMEs in Kisumu East District, used descriptive research design as opposed to correlational research design.

Makokha et al (2006) studied factors affecting women entrepreneurs in Micro and Small Enterprises in Kenya in Nairobi and rural parts of Mombasa Kenya. The study focused on Micro and small enterprises and used secondary sources and found that 70% of SME's are in the trade sector. The study also found that women tend to operate smaller business as compared to their male counterparts. It was also revealed that women tend to operate enterprises associated with traditional women's roles such as hairstyling, hotels & restaurants, retail shops and wholesale outlets, ME's access to financial support service's in Kenya. However the study was biased on women and youth did not take into consideration medium enterprises. Moreover the study did not bring out any relationship between micro-credit loans and growth of SMEs in Kisumu East District.

Another study by Wanjohi and Mugure (2008) on factors affecting growth of MSEs using exploratory research design found that business environment was among the key factors that affect the growth of MSEs. Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of SMEs but also to the Kenyan economy. However, the study concentrated on MSEs as opposed to SMEs and did not test the effect of microcredit loans on growth of SMEs in Kisumu East District.

Lyons (2003) investigated factors contributing to failure of loaning schemes and found that the non- remission of funds disbursed was a major factor contributing to the failure of these schemes. However, the study concentrated on disbursement procedures as opposed to actual effect of micro-financing and did not test the effect of microcredit loans on growth of SMEs in Kisumu East District.

Empirical evidence indicates that micro-credit loans offered by MFIs are critical determinants of SMEs success. Prior researches employ exploratory or case study research and descriptive research designs; study micro-enterprises, but fail to study SMEs using correlational research design. Therefore, no known studies linking micro-credit loans to growth of SMEs.

## 2.4 Knowledge Gap

Though micro-finance institutions and markets literature show non-financial services, savings mobilization and micro-credit loans as important aspect of enhancing SMEs growth and sustainability, the effect of non-financial services on growth of SMEs is unknown. Prior studies fail to link savings mobilization to SMEs growth and it is unknown how micro-credit loans associate with growth of SMEs. Moreover, most reviewed studies do not focus on SMEs in the Kisumu East District. They are more or less exploratory, are not specific to the SME industry in Kisumu East District. They employ exploratory research design and use small samples. Given the dynamic nature of micro-financing activities of firms, the effect of non-financial services on growth of SMEs, the relationship between savings mobilization and growth of SMEs and the effect of micro-credit loans on growth of SMEs in Kisumu East District are not known. Therefore, this study seeks to establish the effect of microfinance services on performance of SMEs in Kisumu East District, Kenya.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## Introduction

This chapter presents the research methodology, research design, study area, target population, sampling frame, data collection methods, data analysis and finally data presentation.

## 3.1 Research design

Nachmias and Nachmias (1996) assert that research design refers to the master plan that was used in the study in order to answer the research hypotheses. A correlational research design was used for this study. This research technique is used to relate two or more variables and allow predictions of outcomes based on causative relationships between the variables (Kothari, 2004). Therefore, correlational research design was appropriate since it aided the researcher to establish the effect of microfinance services on performance of SMEs in Kisumu East District.

## 3.2 The study area

The study area was Kisumu East District Town in Kisumu County, headquarters of Kisumu East District Division, one of four administrative divisions of Kisumu District. Kisumu East District division has a population of 65304 of whom 2199 are classified as urban (1999 census) Kisumu East District Town is located along Kisumu-Busia highway 20 kilometers northwest of Kisumu, the provincial capital. Kisumu city has a population of 394684 (2009 census).

## 3.3 Study Population

The population of this study comprised all the managers of the 2232 SMEs in Kisumu East District.

**Table 3.1: Population Distribution of SMEs in Kisumu East**

| Category of traders SMEs | Population |
|---|---|
| Communications | 402 |
| Food and Beverage | 412 |
| Medical Services | 72 |
| Clothing and Textile | 202 |

| | |
|---|---|
| General Shops | 388 |
| Others | 756 |
| **TOTAL** | **2232** |

**Source: County Government of Kisumu, 2014**

## 3.4 Sample Size

The formula adopted for the sample size was:

n= N/ [1+N $(e)^2$] (Yamane, 1967)

Where n is the required sample size, N (2232) is the population of SMEs and e is the level of precision at 95% confidence level set at 0.05.

Therefore;

n= 2232/ [1+2232(0.05)*(0.05)] =2232/6.58

= 339 SMEs

## Table 3.2: Sampling Frame

| Category of traders SMEs | Population | Sample |
|---|---|---|
| Communications | 402 | 61 |
| Food and Beverage | 412 | 63 |
| Medical Services | 72 | 11 |
| Clothing and Textile | 202 | 31 |
| General Shops | 388 | 59 |
| Others | 756 | 115 |
| **TOTAL** | **2232** | **339** |

**Source: Modified from County Government of Kisumu Records, 2014**

## 3.5 Sampling Technique

This study used the stratified random sampling technique. Stratified random sampling is a modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or more attributes (Saunders, *et al*., 2007). This sampling design was used because it was deemed suitable for a highly concentrated geographical area where face to face contact is required and also where the population can be divided into two or more sub units based on certain internal characteristics (Mugenda and Mugenda, 1999).The

SMEs were stratified by categories of business activities. Simple random sampling was then used to pick 339 enterprises that formed the sample for the study. Owners or the overall- in- charge of the enterprises be respondents.

## 3.5 Data collection

### 3.5.1 Data collection procedure

As far as primary data is concerned, oral interviews in the area were conducted. Observations of any emerging trends were duly noted plus sampling in the study area was carried out to establish the real situation on the ground. This produced important information as data that were analyzed to address study objectives.

### 3.5.2 Data collection instruments

Primary data was collected using structured questionnaires. The questionnaire provides a more comprehensive view than any other research tool. The questionnaires included structured questions and were administered by the researcher personally to the respondents. Questionnaires formed a major data collection tool for collecting basic statistical facts. This method of data collection is cheap because it conserved time and money. All the respondents were asked the same questions in the questionnaire considering both open and closed form of questions.

### 3.5.3 Validity of Research Instrument

Validity is the amount of systematic or built-in error in measurement (Norland, 1990). Construct and face validities were checked using expert opinion of researchers in the field of finance and accounting who were asked to assess the extent to which the constructs used to measure variables of the study sufficiently addressed the subject area based on theoretical and practical consideration (Robson, 2002).

### 3.5.4 Reliability of Research Instrument

A pilot study was done on 60 SMEs drawn from all the categories of traders in Kisumu East District, these respondents were excluded in the final sample of the study and the questions were revised to reduce cases of ambiguity. Checks were also be performed to ensure that sample respondents were representative of the broader population. First, the size characteristics of the sample were compared to the overall population. The results of the reliability test were analyzed using Cronbach's Alpha Method (Cronbach, 1951). According to Sekaran (2001), alpha values for each variable under study should not be less than 0.7 for the statements in the instruments to be deemed reliable. As such all the statements under each variable were subjected to this test and results compared to the threshold of 0.7. The alpha values of all variables were above 0.70.

**Table 3.5: Summary of Cronbach's Alpha Reliability Test Results**

| Construct | No. of Items | Cronbach's Alpha |
|---|---|---|
| Non financial services | 3 | 0.750 |
| Savings mobilization | 3 | 0.984 |
| Micro-credit loans | 3 | 0.927 |

**Source: Survey Data, 2014**

Non-financial services had alpha of 0.750, savings mobilization had 0.984 and micro-credit loans had 0.927. This indicates strong internal consistency among measures of variable items.

## 3.6 Data analysis

The study adopted descriptive analysis approach which was used to summarize the characteristics of the respondents. The quantitative data was analysed by use of both the descriptive and inferential statistics. The descriptive statistics involved the use of mean, frequency, percentages and standard deviation. In order to check the relationship between the Micro-Finance Services and SMEs performance, Pearson Correlation analysis was used.

### 3.6.1 Model Specification

To assess the effect of micro-finance services on growth of SMEs, the researcher conducted a multiple regression analysis. The study adopted multiple regression guided by the following model:

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_t \qquad (3.1)$$

$X_1$= Non-financial services

$X_2$= Savings mobilization

$X_3$= Micro-credit loans

$\beta_0$,= Refers to time-invariant firm-specific effects

$\beta_1$,$\beta_2$ and $\beta_3$= are constants

$\varepsilon$ = is a random disturbance

### 3.7 Data presentation

These frequencies were converted into percentages. The descriptive statistics involving the use of frequencies and percentages were used to summarize data which were presented in tables, graphs and pie charts.

# CHAPTER FOUR

# RESULTS AND DISCUSSIONS

This chapter contains a detailed presentation of the results of the study which have been discussed under thematic areas and sub-sections in line with the research objective. Information analyzed was generated from questionnaires administered to sampled respondents. Data was analyzed by use of SPSS program so as to compute various statistics. Closed-ended questions were grouped, analyzed and presented on tables, graphs and charts. The interpretation and presentation of data gathered in this study was analyzed and addressed the objectives of the study.

## 4.1 Response Return Rate

The researcher administered the questionnaires in person to the respondents. Some respondents filled the questionnaires in the researcher's presence and returned them immediately. Others opted to fill them at their own free time. Out of the 339 questionnaires administered to the respondents, 252 were returned. Hence, the response rate achieved was therefore 74.34 % of the administered questionnaires. The questionnaires received were completed to a high standard and were found useable as they were complete and consistent.

## 4.2 Demographic Characteristics of the Sample

The study sought to establish the background of the respondents in the study. In view of this, the respondents were asked to state their gender, age, length in business and type of business engaged in. The results were as shown in following sections.

### 4.2.1: Gender of the Respondents

As shown in the Table 4.1 below, majority of the respondents that is 140 (55.6 %) were female while 112 (44.4 %) were male. The same results are also depicted by Figure 4.1.

**Table 4.1: Respondents' Gender**

| Gender | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| **Male** | 112 | 44.4 | 44.4 | 44.4 |
| **Female** | 140 | 55.6 | 55.6 | 100.0 |
| **Total** | 252 | 100.0 | 100.0 | |

**Source:** Survey Data, 2014

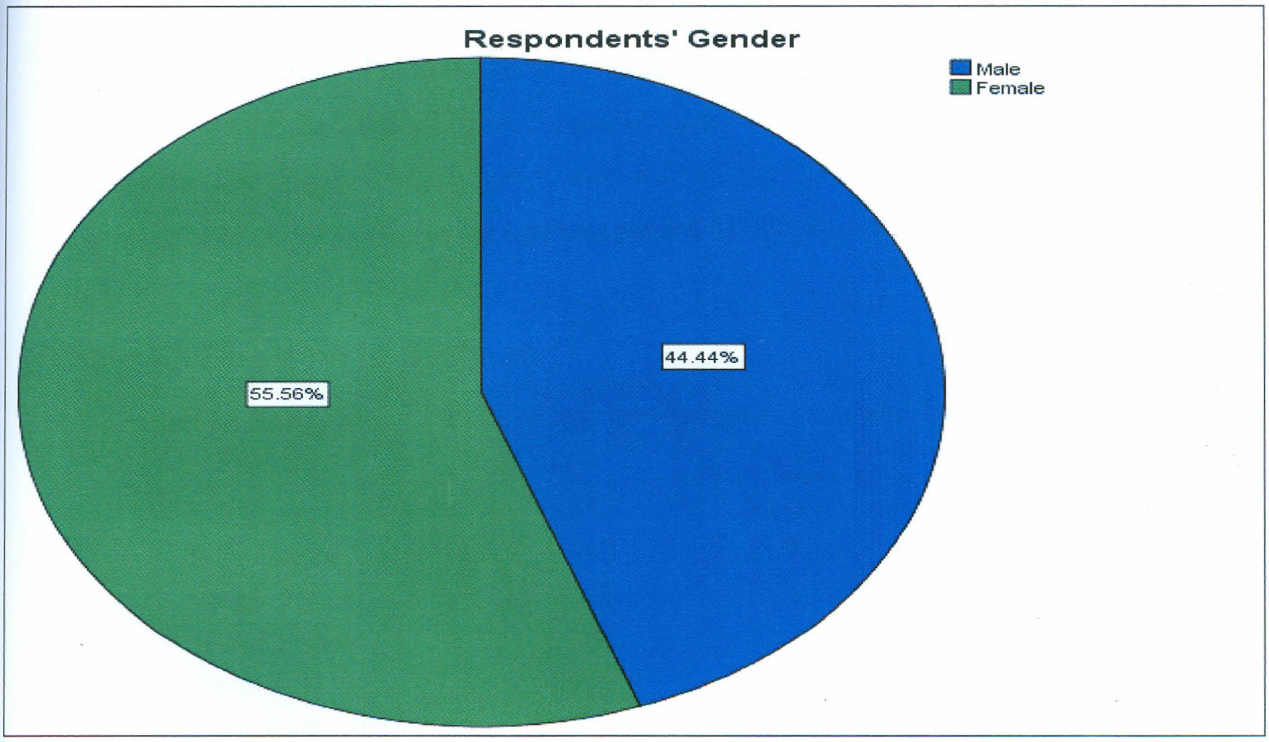


**Figure 4.1: Gender of the Respondents**

**Source:** Survey Data, 2014

## 4.2.2 : Respondents' Age Bracket

The respondents were also asked to respond on their ages. The findings are presented below in the categories of ages between 0-20 years, 21-40 years, 41-60 years and 61-80 years.

**Table 4.2 Respondents' Age**

| Age Bracket | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 0-20 Years | 41 | 16.3 | 16.3 | 16.3 |
| 21-40 Years | 152 | 60.3 | 60.3 | 76.6 |
| 41-60 Years | 35 | 13.9 | 13.9 | 90.5 |
| 61-80 Years | 24 | 9.5 | 9.5 | 100.0 |
| Total | 252 | 100.0 | 100.0 | |

**Source:** Survey Data, 2014

Table 4.2 above reveals that majority of those interviewed were in the age bracket of 21-40 years that is, 152 out of the total 252 that translated to 60.3 %. They were followed at a distance by those in the age group of 0-20 years who formed the 16.3 % of the respondents. The least percentage obtained was that in the age brackets of 61-80 years who were an insignificant 9.5 %.

**Table 4.3 Duration in Business**

| Duration in Business | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| 0-5 Years | 132 | 52.4 | 52.4 | 52.4 |
| 5-10 Years | 48 | 19.0 | 19.0 | 71.4 |
| 11-15 Years | 40 | 15.9 | 15.9 | 87.3 |
| 16-20 Years | 32 | 12.7 | 12.7 | 100.0 |
| Total | 252 | 100.0 | 100.0 | |

Source: **Survey Data, 2014**

Table 4.3 above reveals that majority of those interviewed had been in business for a period between 0-5 years, that is,132 out of the total 252 that translated to 52.4 %. They were followed by those had had traded for a period between 5-10 years who formed the 19.0 % of the respondents. The least percentage obtained was who had been in business for a period between 16-20 years who were an insignificant 12.7 %.

**Table 4. 4 Type of Business**

| Type of Business | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Communications | 53 | 21.0 | 21.0 | 21.0 |
| Food and Beverages | 66 | 26.2 | 26.2 | 47.2 |
| Medical services | 26 | 10.3 | 10.3 | 57.5 |
| Clothing and Textiles | 31 | 12.3 | 12.3 | 69.8 |
| General Shops | 76 | 30.2 | 30.2 | 100.0 |
| Total | 252 | 100.0 | 100.0 | |

Source: **Survey Data, 2014**

The respondents were also asked to state the numbers of years (work experience) they had served at their respective research units. The findings are presented in table 4.3.4 below. The findings revealed that 1(1.9 %) of the respondents had served the research unit the shortest time. However, from Table 4.4 it can also be revealed that the categories of 10 and above years and 6-10 years had highest concentration as they obtained 54.7 % and 32.1 % respectively.

## 4.3: Effect of Non-financial Services on Growth of SMEs

In order to assess the effect of non-financial services on growth of SMEs, Pearson's correlation and multiple regression analyses are performed. The result presents how non-financial services associate with the growth of SMEs.

**Table 4.5: Correlations of Non-financial Services with Growth of SMES**

| Variables | 1 | 2 |
|---|---|---|
| 1. Non-Financial Services | 1 | |
| 2. Growth Level | -.161* (0.011) | 1 |

**Source:** Survey Data, 2014

*. Correlation is significant at the 0.05 level (2-tailed).

When the growth level after obtaining micro-finance services were correlated with non-financial services, the findings indicated that non-financial services had a negative insignificant association with growth level ($r = -.161$, $p = .011$). This implies that enhancing non-financial services given to SMEs leads to decline in growth of these SMEs. These results are in tandem with those of Wanjohi and Mugure (2008) and Kerongo and Veronica (2014) who found a negative relationship between non-financial services and growth of SMEs.

In addition, this finding is at variance with that of Jide *et al.* (2011) and Otto *et al.* (2010) who found a positive relationship between non-financial services and performance of SMEs.

The correlation coefficient of this association however, is small ($r < -.50$) indicating that some other variables might be influencing the associations between the variables as a result, further analysis permitting all variables that influence bank performance at once is necessary (Maddala, 2005).Multiple regression analysis, a multivariate analysis technique is used to estimate equation 3.1. Table 4.6 presents multiple regression results on the effect of micro-finance services on growth of SMEs.

**Table 4.6: Multiple Regression Analysis Estimation Results on the Effect of Micro-Finance Services on Growth of SMEs**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | 3.316 | 0.273 | | 12.134 | 0.000 | | |
| Micro-Finance Loans | 0.005 | 0.053 | 0.006 | 0.098 | 0.922 | 0.993 | 1.007 |
| Non-Financial Services | -0.094 | 0.054 | -0.111 | -1.720 | 0.087 | 0.914 | 1.094 |
| Savings Mobilization | -0.121 | 0.046 | -0.170 | -2.631 | 0.009 | 0.916 | 1.092 |
| R | 0.229 | | | | | | |
| $R^2$ | 0.052 | | | | | | |
| Adj.$R^2$ | 0.041 | | | | | | |
| Durbin-Watson | 1.88 | | | | | | |

a. Dependent Variable: Growth Level after obtaining Micro-Finance Services

**Source: Survey Data, 2014**

Results of the multiple regression analysis (Table 4.6) indicate that non-financial services were negative significant predictor of growth of SMEs ($\beta$ = -.094 (p = .087). This value is statistically significant since the p-value is less than 0.10. It can be inferred from this value that a unit change in non-financial services leads to a decrease in growth of SMEs in Kisumu East District of 0.094, all things being fixed. These results are in tandem with those of Wanjohi and Mugure (2008) and Kerongo and Veronica (2014) who found a negative relationship between non-financial services and growth of SMEs.

$R^2$ is 0.052. The adjusted $R^2$ is 0.041. The shrinkage in this case is 0.011 which is below the level of 0.5 suggested by Field (2005) and implies that the model is valid, has stability for prediction and predicts variance of SME performance at 5.2 %. In addition, the variance inflation factors (VIF) were less than 2.0 which show that there was no multi-collinearity among the three predictor variables.

## 4.4: Effect of Savings Mobilization on Growth of SMEs

In order to assess the effect of savings mobilization on growth of SMEs, Pearson's correlation and multiple regression analyses are performed. The result presents how savings mobilizations associate with the growth of SMEs.

**Table 4.7: Correlations of Savings Mobilization with Growth of SMES**

| Variables | 1 | 2 |
|---|---|---|
| 1. Savings Mobilization | 1 | |
| 2. Growth Level | -.202** (0.001) | 1 |

**Source:** Survey Data, 2014

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.7 indicates that savings mobilization had a negative significant association with growth level (r = -.202, p =.001). This implies that enhancing savings mobilization by SMEs leads to decline in growth of these SMEs. These results are at variance with those of Njiwakale (2013) and Olwande (2013) who found a positive relationship between savings mobilization and growth of SMEs.

In addition, this finding concur with those of Jide *et al.* (2011) and Otto *et al.* (2010) who found a negative relationship between savings mobilization and performance of SMEs.

The correlation coefficient of this association however, is small ($r < -.50$) indicating that some other variables might be influencing the associations between the variables as a result, further analysis permitting all variables that influence bank performance at once is necessary (Maddala, 2005).
Results of the multiple regression analysis (Table 4.6) indicate that savings mobilization had negative significant predictor of growth of SMEs ($\beta = -.121$ ($p = .009$). This value is statistically significant since the p-value is less than 0.05. It can be inferred from this value that a unit change in savings mobilization leads to a decrease in growth of SMEs in Kisumu East District of 0.121, all things being fixed. This finding concur with that of Jide *et al.* (2011) and Otto *et al.* (2010) who found a negative relationship between non-financial services and performance of SMEs. However, it contradicts the findings of Njiwakale (2013) and Olwande (2013) who found a positive relationship between savings mobilization and growth of SMEs.

## 4.5 Effect of Micro-Credit Loans on Growth of SMEs

In order to assess the effect of micro-credit loans on growth of SMEs, Pearson's correlation and multiple regression analyses are performed. The results are presented in Table 4.8.

**Table 4.8: Correlations of Micro-Credit Loans with Growth of SMES**

| Variables | 1 | 2 |
|---|---|---|
| 1. Non-Financial Services | 1 | |
| 2. Growth Level | 0.288** (0.000) | 1 |

**Source:** Survey Data, 2014

**. Correlation is significant at the 0.01 level (2-tailed).

When the growth level after obtaining micro-finance services were correlated with micro-credit loans, the findings indicated that micro-credit loans had a positive significant association with growth level($r = 0.288$, $p = .000$). This implies that increasing micro-credit loans given to SMEs leads to improved growth of these SMEs. These results are in tandem with those of Jide *et al.* (2011) and Otto *et al.* (2010) who found a positive relationship between micro-credit loans and performance of SMEs. In addition, this finding is at variance with that of Wanjohi and Mugure (2008) and Kerongo and Veronica (2014) who found no relationship between non-financial services and growth of SMEs.

The correlation coefficient of this association however, is small ($r < -.50$) indicating that some other variables might be influencing the associations between the variables as a result, further analysis permitting all variables that influence bank performance at once is necessary (Maddala, 2005).

Results of the multiple regression analysis (Table 4.6) indicate that micro-credit loans was a positive insignificant predictor of growth of SMEs ($\beta = .005$ ($p =. 922$). This value is statistically insignificant since the p-value is greater than 0.05. It can be inferred from this value that a unit change in micro-credit loans leads to an increase in growth of SMEs in Kisumu East District of 0.005, all things being equal. These results are in tandem with those of Jide *et al.* (2011) and Otto *et al.* (2010) who found a positive relationship between micro-credit loans and performance of SMEs. In addition, this finding is at variance with that of Wanjohi and Mugure (2008) and Kerongo and Veronica (2014) who found no relationship between non-financial services and growth of SMEs.

# CHAPTER FIVE

## SUMMARYOF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The chapter presents the summary of the study findings, conclusions, limitations of the study and finally recommendations for further research.

### 5.1 Summary of Findings

The first objective was to determine the effect of non-financial services on growth of SMEs. The findings were that non-financial services were negative significant predictor of growth of SMEs ($\beta$ = -.094 (p = .087).

The second objective of the study was to establish the relationship between savings mobilization and growth of SMEs and findings were that savings mobilization had negative significant predictor of growth of SMEs ($\beta$ = -.121 (p = .009).

The third objective of the study was to assess the effect of micro-credit loans growth of SMEs and findings were that micro-credit loans had a positive significant association with growth level(r = 0.288, p =.000).

### 5.2: Conclusions

The study conclusions are outlined as per the objectives as follows:

From the findings of objective one, it can be concluded that that enhancing non-financial services given to SMEs leads to decline in growth of these SMEs. Based on objective two, it can be concluded that enhancing savings mobilization by SMEs leads to decline in growth of these SMEs. Finally, with regard to the findings of objective three, it can be concluded that increasing micro-credit loans given to SMEs leads to improved growth of these SMEs.

## 5.3 Recommendations of the Study

From the conclusion of objective one, the study recommends that SMEs in Kisumu East District should de-emphasize non-financial services as this was found to be affect growth in SMEs negatively.

From the conclusion of objective two, the study recommends that SMEs in Kisumu East District should reduce their mobilized savings as this was found to affect growth of SMEs negatively. Lastly, from conclusion of objective three, the study recommends that SMEs in Kisumu East District should seek more micro-credit loans as this was found to influence growth positively.

## 5.4 Limitations of the Study

A number of limitations were identified in the conduct of this study. First, only SMEs in Kisumu East District were included in the study and SMEs in other constituencies were not included. Secondly, the study was done in one district, hence restricting generalizations of the findings. Lastly, the study relied on opinions given by respondents and did not collect secondary data to compliment the primary data in form of opinions given by the respondents.

## 5.5 Suggestions for further research

This study did not explore certain areas that were equally important. Such areas were left out because the scope and limitation of this study warranted and also due to limitation in time and other resources. In view of this, the study recommends the following areas for further research. First, the effect of business competition on profitability of SMEs in Kisumu City. Second, the relationship between business loans and savings mobilization on sustainability of SMEs in Western region and lastly, effect of managerial skills and talents on growth of SMEs in Kisumu East District.

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