ROLE OF MICROFINANCE ON GROWTH OF SMALL AND MEDIUM ENTERPRISES IN URBAN CENTERS IN KIRINYAGA COUNTY

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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ABSTRACT

Microfinance institutions have a role to play on small and medium enterprises performance. The current study sought to find out the role of Microfinance institutions on small and medium enterprises performance in urban Kirinyaga County. Specifically the study sought to determine the effect of performance evaluation on small and medium enterprise performance, effect of training on small and medium enterprises performance and to establish the effect of the use of information technology on small and medium enterprises performance. The study was guided by Small and medium Firm Growth Theory, the Micro credit theory, Life Cycle Theory, Poverty alleviation Theory, and Games Theory of Microfinance. Descriptive research design was adopted to answer the research questions. Stratified sampling technique was used to select a sample size of 158 respondents. Descriptive, correlation and regression analysis design were applied to analyse the data. The study found a negative significant relationship between performance evaluation and small and medium enterprise performance, a positive significant relationship between training, use of information technology and small and medium enterprises performance. There is need to develop performance evaluation metrics customized for every small and medium enterprise, all small and medium enterprises should be sensitized to have a fully-fledged information systems rather than the current scenario of accounting systems among the majority. Training should be enhanced to ensure that small and medium enterprise benefits optimally.

Keywords: SME growth, Information technology, Microfinance institutions, Performance evaluation.

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DEDICATION

This work is dedicated with a lot of love to my family, my wife Agnes and my son Leon and Lennox for their support both moral, financial and encouragement they adored to me. Thanks a lot and may almighty bless you abundantly.

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ACRONYMS AND ABBREVIATIONS

GoK	Government of Kenya
LAIFOMS	Local Authority Integrated Financial Operating Management System
MFI's	Micro Finance Institutions
NCCK	National Council of Churches of Kenya
SME's	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and micro all Enterprises (SMEs) are widely defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location and the market share (Opondo, 2003). According to World Development Indicators Database 2014, Micro, Small and Medium-size enterprises are businesses that may be defined by the number of employees. There is no international standard definition of firm size; however, many institutions that collect information use the following size categories; micro enterprises have 0-9 employees, small enterprises have 10-49 employees, and medium-size enterprises have 50-249 employees.

SME growth is defined as the change in amount over a period of time of factors such as number of employees, sales, market share, profits, and asset base among others (Davidsson, Achtenhagen, & Naldi, 2005). Small and medium enterprises are an important economic force globally. SME's play an important role in driving gross domestic product (GDP) growth and sustaining employment, the evidence suggests that SME's are vitally important for economic health, in both high-income and low-income economies, worldwide (Edinburgh Group, 2013).

According to Wymenga, Spanikova, Barker, Konings, & Canton (2012) SME's form the backbone of the EU economy- accounting for 99.8 per cent of non-financial enterprises in 2013, which equates to 20.7 million businesses. In employment terms, SME's provided an estimated 67.4 per cent of jobs in the non-financial business economy in 2013 (Wymenga, Spanikova, Barker, Konings, & Canton, 2013).

In Japan, the SME sector accounts for nearly 70 per cent of total employment and over half of manufacturing value-added. Businesses span many industries and have historically served as key suppliers to large manufacturing firms and represent the backbone of the service sector (Lam & Jongsoon, 2012). In South Africa, it is estimated that 91 per cent of the formal business entities are SME's and employ a large amount of the labor force (Edinburgh Group, 2012). In Kenya, SME's are an important sub-sector of the economy they employ about 85 per cent of the workforce, about 7.5 million Kenyans of the country's total employment (Ong'olo & Awino, 2013).

Although SME's employ about 85 per cent of the workforce, Ong'olo & Awino (2013) state that they contribute about 20 per cent of GDP in Kenya. This means that SMEs are woefully underperforming, and require policies that would enable their growth to be formulated. The government has seen this problem and has sought to remedy it through the SME act. Certainly it is not just favorable policies that hinder the growth of SME's both locally and internationally. According to Bowen, Morara, & Samuel (2009) the main challenges faced by SME's in Nairobi were competition, insecurity, debt collection, lack of working capital, power interruptions, cost of materials, hawkers, low demand and restrictive by-laws. These challenges restrict growth of SME's and can even lead to their demise. According to the Kenya National Bureau of Statistics (2007) three out of five SME's in Kenya fail within the first few months of operation.

To address the above challenges and improve the growth of SME's the Government of Kenya has formulated policy initiatives such as Sessional Paper number 2 of 2005 on development of SME's for wealth and employment creation (Government of Kenya, 2005); Sector Plan for labor, youth and human resource development 2008-2012 (Republic of Kenya,

2008); Poverty Reduction Strategy Paper 1999-2015; and SME bill 2006 which established a council to facilitate development of SME's and the creation of the SME development fund (Government of Kenya, 2006).

Researchers such as Oywa (2012), and Bowen, Morara, & Samuel (2009), have studied the challenges affecting the growth and performance of SME's in Kisumu West District, and Nairobi respectively. Various other institutions such as the Global Entrepreneurship Monitor (Global Entrepreneurship Monitor, 2010), Ong'olo & Awino (2013), have also studied the challenges that hinder SME growth in Kenya. Accessing finance has been identified as a key element for small and micro enterprises to thrive in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Idowu, 2010). Without finance, small and micro enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (Idowu, 2010).

The study on the role of microfinance on growth of SMEs is of great significance to business people who are already in business or to those inspiring to start a business as it captures the key elements of business growth, it brings out their impacts. In addition, most of the studies which have been done on this area have not been customized to specific County and the current study studied the role of microfinance on SME growth in Kirinyaga County.

1.1.1 Growth of Small and Medium Enterprises

One of the most important themes that come up in discussions about business is the subject of growth. Majority of studies on growth have been undertaken based on the law of Proportionate Effects or Gibrat's law. Gibrat's law states that firm growth rate is independent of firm size.

The studies have therefore categorized businesses into three categories: small, medium and large enterprises. The available studies on growth have also used varied metrics to measure growth.

Howard (2006) laid out a framework describing how businesses grow. While he identifies seven stages of organizational growth, the first three stages are of particular importance and interest to small businesses. The first stage is that of new venture, which is when a small business is just beginning. Markets and products are being developed in this stage. The second stage is expansion and can focus on increased sales, revenues, market share, and ultimately the number of employees. Howard,(2006). The third stage is professionalization, and focuses on formalizing the goals, processes and functions of the organization and is considered to be closely related to expansion. Stage four is consolidation, and focuses on issues faced by firms once they have made the transition to professionally managed organizations with working systems in place, focusing more on managing its corporate culture.

Diversification is the fifth phase, focusing on developing new products for markets for which the organization is already providing goods and services. The sixth stage is integration, focusing on developing an infrastructure to support multiple business units. The final stage is that of decline and revitalization and focuses on rebuilding the organization at all levels, to ensure continued survival. The study will focus growth of small and micro enterprises in terms of increase of sales, business infrastructures, system advancement, and increase in customer base and management expertise.

1.1.2 Background Information Kirinyaga County

Kirinyaga County is one of the 47 counties in Kenya and is located between latitudes 0 degrees and 40 degrees south and longitudes 37 degrees. According to county transition implementation plan (CTIP) 2014, Kirinyaga sits at the foothills of Mt Kenya some 112km from Nairobi, it

covers 1479.09 square kilometers and boarders Embu to the East, Machakos to the south, Murang'a to South West and Nyeri to the West. Mt Kenya which lies on the northern side greatly influences the landscape of the county as well as other topographical features. According to the national Bureau of statistics 2009 report, 528,054 people live in Kirinyaga County.

Kirinyaga County is made of four constituencies which are as well the county sub counties, Mwea, Gichugu, Ndia and Kirinyaga central. The GoK through its various policies such as the Micro and Small Enterprises Bill 2006 (Government of Kenya, 2006), Sector Plan for Labor, Youth and Human Resource Development 2008-2012 (Republic of Kenya, 2008), and Sessional Paper number 2 of 2005 on development of SME's for wealth and employment creation (Government of Kenya, 2005) has sought to improve the economic and social wellbeing of poor communities in all corners of the country through the growth and development of SMEs.

Micro finance institutions also comes in to make sure these Government initiatives come to be through lending of loans and offering other SMEs growth oriented projects like offering of trainings ,introduction of modern technologies to SMEs and also progress reviews. Despite these the growth rate of SMEs in Kirinyaga County is still low and alarming. According to various financial institutions on SMEs, majority of the small and medium enterprises lack collateral security to access loans and other financial services that would accelerate their growth. In Kirinyaga County unless small and medium enterprises form or join cooperatives to extend financial services and advise to them only limited SMEs will be available in the current set up.

1.2 Statement of the Problem

Small and Medium enterprises are referred to as the engines of economic development in many economies. The production of SMEs contributes significantly to the growth of GDP and contributes positively in employment generation and poverty alleviation (Ouma et al, 2009).

Despite this great contribution, according to the Kenya National Bureau of Statistics (2007) three out of five SME's in Kenya fail within the first few months of operation. Vanderberry (2004) confirms that access to financial and business development services are fundamental for the growth and development of SMEs, Majority of the SMEs close down due to lack of both financial and non-financial services. The concept of growth is still a grey area as there is yet to be a conclusive approach and definite indicators of business growth despite the fact that it's every entrepreneur's wish to have their businesses grow.

Thus the subject of business growth is still a fertile area for study in Kenyan context. The micro finance industry has become a major backbone in the sustenance and survival of SMEs in Kenya. Microfinance institutions, as part of their core business is to provide credit to SMEs, in addition to these financial services, Microfinance institutions also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted to them, Kemei (2011).

A number of studies have been conducted on the relationship between microfinance's and SMEs. Li (2006) conducted a study on the microfinance role on gender inequalities in China and discovered that there are many benefits on women provided by the microfinance's but lack conclusive evidence on the role of microfinance's in enhancing in gender inequalities. Phyllis (2012) studied the role of microfinance's in alleviating poverty in the rural setup. They observed that provision of education and training and access to cheap credit would alleviate poverty, however, there was no direct link on the role of microfinances in enhancing growth of small and medium enterprises. Kemei (2011) investigated on the relationship between microfinance services and SMEs performance and the study found that there is evidence of a positive impact

of microfinance on performance of SMEs; it was not clear of its role on growth of SMEs. There is limited literature on the role of microfinance's in enhancing the growth of SMEs in Kenya. Thus this study therefore seeks to investigate the role of microfinance in enhancing the growth of Small and Medium Enterprises in urban centers on Kirinyaga County.

1.3 Objectives of the Study

The main objective of the study sought to study the role of microfinance institutions on the growth of SMEs in Kirinyaga County. To achieve this, the study was guided by:

1. To determine the effect of performance evaluation by MFIs on the growth of SMEs in urban centers in Kirinyaga County.
2. To find the effect of training by MFIs on the growth of SMEs in urban centers in Kirinyaga County.
3. To establish the effect of information technology provided by MFIs on growth of SMEs in urban centers in Kirinyaga County.

1.4 Research Questions

The study was guided by the following research questions

1. How does performance evaluation by MFI affect growth of SMEs in urban centers in Kirinyaga County?
2. Does training conducted by MFI affect growth SMEs in urban centers in Kirinyaga County?
3. In which ways does information technology provided by MFI affect the growth of SMEs in urban centers in Kirinyaga County?

1.5 Significance of the Study

The study was bound to benefit SMEs, government agencies and non-governmental and other researchers in general in various ways. These include, understanding the effect of GoK policies

on improving the growth of SMEs in Kirinyaga county and eventually take collective action when and where it is needed, enable SMEs understand why they are not growing, help them identify new growth opportunities and also help them address the challenges that hinder their growth.

The findings of the study assisted the government in setting up specific management policies that enhanced effectiveness and sustainability of SMEs in Kenya. Potential investors in the micro finance sector as well as entrepreneurs willing to start SMEs will find this study relevant to them. The findings also will shed light on the future of micro finance institutions and SMEs thus enabling potential investors to make sound decisions. The study contributed to existing literature in this field so that academicians could use it for further research as it forms a backbone of empirical reference for student in the field of social science.

1.6 Scope of the study

The geographical scope of the study covered the SMEs in Kirinyaga County based in the urban centers. The study investigated the role of microfinance in enhancing the growth of SMEs in urban centers on Kirinyaga County. The study was conducted within a framework of six months from March 2015 and August 2015.

1.7 Limitation of the Study

Some information may not be available as they may have been lost or the management and staff busy schedule. This limitation was minimized by leaving behind questionnaire for them to fill and collect them later. Some employees were unwilling to give out information required due to fear or regret. There were sensitized that the information sought was to be used purely for academic purposes.

There was lack of information trail due to use of modern technologies and also denied access to the computer room by the accountants for fear of loss of confidentiality of data. In this regard, they were assured that the information will be treated with a lot of confidentiality.

Another challenge that the researcher faced was hostility from the respondents. The researcher encountered instances when the respondents refused to take part in the study. To deal with this, the researcher made them know the purpose for carrying out the study and the benefits that were to be derived once the study is carried out to completion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains review of books, education journals, newspapers, periodicals and the internet to secure available information in regarding the research topic. It explores the relevant literature and gives insight to theoretical review, empirical studies, conceptual framework, and summary of the literature review

2.2 Theoretical Review

The study was guided by Small and medium Firm Growth Theory, the Micro credit theory, Life Cycle Theory, Poverty alleviation Theory, and Games Theory of Microfinance.

2.2.1 Small and Medium Firm Growth Theory

According to Penrose (1959) the business firm is defined as both an administrative organization and a collection of productive resources; its general purpose is to organize the use of its 'own' resources together with other resources acquired from outside the firm for the production and sale of goods and services at a profit. Edith Penrose goes on to characterize the phenomenon of growth as a word which can be used to describe two different connotations. It can sometimes describe just an increase in amount; such as, growth in output, exports, and sales volume.

In other instances the word growth can be used in its original meaning describing an increase in size or improvement in quality and quantity as a result of a series of product manufacture which leads to increases in size accompanied by changes in the firm characteristics of the growing object. (Penrose, 1959). For the purposes of this study the use of the growth concept will focus on the size-change perspective.

2.2.2 Micro Credit Theory

The micro credit theory known as social consciousness-driven capitalism has been proposed and prompted by Muhammad Yunus in 1998. The theory argues that a species of profit-making private venture that cares about the welfare of its customers can be conceived. Thus there is a possibility of developing capitalist enterprises that maximize private profits subject to the fair interests of their customers.

The underlying principle of the theory is simple. Although self-sacrifice is not completely absent, Capitalism is founded mainly on the argument that human beings are self-centered by nature. Consequently persons interested in businesses are as expected motivated by the theory of profit-maximization, without interests of their clients. This ground is too limited to be a general representation for capitalism; this model do excludes persons concern about the welfare of client but concern with investment with guaranteed returns. Microfinance enterprisers fall in this category that has a social appeal to people referred to as social consciousness driven capitalistic enterprise (Constantine, 2004).

The economic theory regards microfinance institutions (MFIs) as newborn industries, while the psychological theory differentiates microfinance entrepreneurs from traditional moneylenders by describing them as social consciousness driven people. According to Remenyi (2000), the general idea of the economic argument is that achievement in any business venture, including MFIs, is determined by the entrepreneurs ability to deliver suitable services and profitably.

The Financial sustainability theory is concern with the long term goal of an MFI ability to sustain and its clientele including covering its administrative and other costs. The social goals

according to this of reaching the poorest and poverty alleviation are valid, sustainable standing on one's own feet is as true for low income households receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch, 2002).

2.2.3 Business Life Cycle Theory

The life cycle approach argues that just as humans pass through similar stages of psychological development from infancy to adulthood, so businesses evolve in a predictable ways and encounter similar problems in their growth (Bhidé, 2000). Although the life cycle model is not grounded in economic theory, it has received much attention from organizational theorists (Davidson, B. Kirchoff, Hatemi, & Gustavsson, 2002).

According to Greiner (Greiner, 1998), "in each phase, the firm faces distinguishable challenges and managerial problems that have to be solved in order to move to the next phase. Of course, there is always the possibility that some firms cannot pass one of the phases due to their inability to cope with changes in external conditions." Greiner posits that the same management practices cannot be maintained throughout the life span of an organization; neither the company problems nor the solutions are the same as the firm grows (Greiner, 1998).

2.2.4 Games Theory of Microfinance

The microfinance games theory also supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves it is based on Grameen lending model of microfinance which is

based on group peer pressure whereby loans are made to individual groups of four to seven. Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members (Ghatak, 2009).

Payment is usually made weekly. The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network (Ledgewood 1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts (Gruber 2005)

2.2.5 The Concept and Evolution of Microfinance

Microfinance is defined as the provision of the financial services to low income clients including the self-employed. According to Christer (1997) Microfinance is a means of providing variety of financial services to the poor based on market driven and commercial approaches. The history of microfinance back dates to about three decades when Mohammed Yunus founded Microfinance in 1976. The microfinance in Bangladesh started offering loans to poor women. He established the Grameen bank meaning Bengah which means village.

Jonna (1999), traces the history back to about 30 years from the late 1960s with the efforts made toward reduction of poverty through the promotion of income earning activities among the poor. It is an up growth small enterprise development initiative. In providing services to its client the microfinance's apply three methodologies namely, individual lending, solidarity group lending and group of groups. Individual lending is provision of credit to individuals who

are not members of the group that is not jointly responsible for loan repayment. Individual lending require close contact with the individual client to provide credit products tailored to the specific needs of the business (Jonna, 1999).

Solidarity group lending model or peer group lending is widely used in the urban setting, potential borrowers find three or four friends, colleagues, people working in the same market to come together to borrow as a group. Group members do not conduct a group activity because it is not a cooperative arrangement. They co guarantee the loan but each undertakes a personal business activity. Group of groups methodology is based on the premises of the poor requiring small quantities of financial services but lack collaterals of signatories hence the necessity of groups. The legal structure that the loans are individual based with co – guarantee but with group consequences.

The microfinance has greatly contributed to the uplifting of the status of the law income earners to a point that the bank today particularly in Bangladesh goes for the customers that they refused before. There is a need for government directive on the operations of the microfinance. Previously the industry is under the government policy on micro and small enterprises development or cooperative. The policy should include enactment of microfinance Act to be responsible for the regulation and supervision for the activities of microfinance.

2.2.6 Microfinance Lending Models

While Microfinance approaches generally include some specific product design issues, a primary means of differentiating one approach from another is in the choice of products and services provided and the manner in which the provision is made. Any approach must be based on the target markets and its demand for financial intermediation, as well as other products, contextual

factors in the country, the objectives and institutional structure of the MFI. There are four well documented methods used in accessing credit to micro – entrepreneurs, namely Individual lending, Grameen model Solidarity and group lending village banking.

Individual lending is the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. It requires frequent and close contacts with the individual client. It is most successful for larger, urban – based, production oriented businesses and for those who have some form of collateral or a willing consigner or with small scale farmers in rural areas. Normally clients are those who require working capital and or fixed assets. Loan amounts and terms are bases on careful analysis by the credit officer.

Detailed financial analysis and projections are often included with the loan application. The amount and terms are negotiated with the clients. Visit is often made to the client's place of business as specified in the loan contract. Savings may not only be provided depending on the institutional structure of the MFI (Rutherford, 2002). Training and technical assistance may be provided by the credit officers sometimes training is provided on a per- fee- basis or is mandatory (Von Pischke, 2011).

Grameen group lending model was developed by the Grameen bank of Bangladesh to serve rural, landless women wishing to finance income- generating activities. The clients are mainly from rural or densely populated urban areas and are usually women from low income groups pursuing income generating activities (Wright, 2002). Peer groups of unrelated members are self-formed and incorporated into a larger group made up of eight similar peer groups (Omondi,2008) Attendance at weekly meetings and weekly savings contributions, group fund contributions, and insurance payments are mandatory. Savings must be contributed on average

for eight weeks prior to receiving loan and must continue for the duration of the loan term. The group fund is managed by the group and may be lent out within the group. Members mutually guarantee each other and are legally responsible for the repayment by other members (Wright, 2002). No collateral is required. The group members perform loan appraisal, Credit officers verify information and make periodical visits to clients businesses.

The solidarity or peer group lending model makes loans to individual members in groups of four to seven. Clients are mostly urban and include men and women and are typically informal sector micro businesses such as traders who need small amounts of working capital. Group members collectively guarantee loan repayment; access to subsequent loans is dependent on successful repayment by all group members (Wright, 2002). The repayment is made only basis.

The model also incorporates minimal technical assistance to the borrowers such as training and organization/ group building. Loan applications are simple and are reviewed quickly. Savings are usually required but often deducted from the loan amount at the time of disbursement rather than requiring the clients to save prior to receiving a loan. Savings serve primarily as a compensating balance, guaranteeing a portion of the loan amount. Loan approval is often by credit officer based on minimal economic analysis of each loan request. Loan disbursement to individual members is by group leaders. In addition member normally receive equal loan amount, with some flexibility provided for subsequent loans. Interest rates often high and service fees are also charged (Wright, 2002).

Village banks commonly known as Financial Services Associations are community managed credit and savings associations established to provide access to financial services mostly in rural areas, build a community self- help group, and help members accumulate savings.

Members are usually from rural or sparsely populated but sufficiently cohesive area (Rutherford, 2002). These clients have low incomes but with savings capacity and mostly women although mixed groups are encouraged. Membership is based on self-selection. The bank is financed by internal mobilization of members fund as well as loans provided by the MFI.

The bank consists of membership and management committee, which receives training from the sponsoring MFI. The sponsoring MFI lends seed capital to the bank, which in turn then lends on the money to its members. Von Pischke (2011) confirms that all members sign the loan agreement to offer a collective guarantee. The loan to the bank is based on an aggregate of all individual members' loan requests. The methodology anticipates that the members will save a minimum of 20 percent of the loan amount per cycle.

Loans from the internal account set their own terms, which are generally shorter. Loans to the village banks are generally provided in a series of fixed life cycles, with lump sum payments at the end of each cycle. Village banks have a high degree of democratic control and independence. Regular weekly or monthly meetings are held to collect savings deposits, disburse loans, attend administrative issues and receive training from the MFI officer (Rutherford, 2002). No interest is paid on savings. However, members receive a share from the bank's re- lending or investment profits. The dividend distributed is directly proportional to the amount of saving each individual has contributed to the bank. Some banks have broadened service delivery to include education about agricultural innovations, nutrition's and health issues.

Al-Tamimi (2012) adds that designing appropriate lending products involves establishing appropriate loan amounts, loan terms, collateral requirements, interest rates and fees, and group

savings/ contribution. The process assumes that micro entrepreneurs value access to financial services and act in a responsible manner if they are treated as clients rather than beneficiaries.

Robinson (2001) explains that Loan amounts should be based on the cash patterns of the clients and designed as much as possible to enable clients to repay the loan without undue hardship. The appropriate loan amount is dependent on the purpose of the loan and the ability of the client to repay the loan (debt capacity). When determining the debt capacity of potential clients, it is necessary to consider their cash flow as well as the degree of risk associated with this cash flow and other claims that may come before repayment of the loan to the MFI

Often MFIs have a maximum loan size for the first time borrowers, which increase with each loan. This is designed both to reduce the risk and to create an incentive for the clients to repay their loans. In addition, increasing loan sizes enable clients to develop a credit history and understanding of the responsibility associated with borrowing (Robinson, 2001).

Further the loan term is decided, which is the period of time during which the entire loan must be paid. The loan term affects the repayment schedule, the revenue to the MFI, the financing costs for the clients and the ultimate sustainability of the use of the loan. The closer an organization matches loan terms to its client's needs, the easier it is for the clients to carry the loan and more likely that payments will be made on time and in full.

Loan repayments can be made on an installment basis of weekly and monthly or one lump sum at the end of loan term which flexible and appropriate for the poor. Generally, interest and principal are paid together. However some MFI charge interest up front and principal over the term of the loan, while others collect the interest periodically at the end of the loan term

(Robinson, 2001). The frequency of the loan repayment depends on the needs of the client and the ability of the MFI to ensure repayment. For seasonal activities, it may be appropriate to design the loan such that a lump sum payment is made once the activity is completed.

2.2.7 Effects of Micro Financing on Growth of SMEs

Accessing credit is considered to be an important factor in increasing the growth of SMEs. It is thought that credit augment income levels, business expansion, competitiveness increase sales volume and thereby more profits. It is believed that access to credit enables SMEs to overcome their liquidity constraints and undertake investments. The main objective of microcredit is to improve the welfare of the low income earners as a result of better access to small loans that are not offered by the formal financial institutions. Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-coping strategies and enables consumption smoothing overtime.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SMEs growth because they guarantee sustainable access to credit by the SMEs (Rhyne and Otero, 1992). Buckley (2007) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism carrying out research in three countries; Kenya, Malawi and Ghana,

Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SMEs growth, increased income flows or level of employment. The focus in this argument is that improvement

to access to microfinance and market for the SMEs was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Besides, the empirical evidence emerging from various studies such as Mkazi (2007) about the MSEs Performance has so far yielded mixed results that are inconclusive especially for developing countries like Kenya. Zeller and Sharma (2003) argue that microfinance can aid in the improvement or establishment of small enterprises, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (2008) indicates that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs.

A study of thirteen MFIs in seven countries carried out by Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SMEs growth. Investing in SMEs activities will have no effect in raising household income because the infrastructure and market is not developed. Some studies have also argued that using gender empowerment as an impact indicator; micro credit has a negative impact (Goetz and Gupta, 1994; Montgomery et al, 1996).

2.2.8 Evolution of the Microfinance Industry in Kenya

The Kenya microfinance industry is one of the oldest and most established in Africa. Current informal sector practices such as burial societies and Moneylenders date back to about the time when money as a medium of exchange was introduced in Kenya. What is new and potentially revolutionary is the development of an infant formal microfinance industry. It has roots that can

be traced to the mid-1950s when the Joint Loan Board Scheme was established to provide credit to indigenous Kenyans with small trading businesses.

Since then, there has been a gradual shift in interest and resources towards providing Micro Credit to Micro and Small enterprises (MSEs). In the 1970s, the main organizations providing credit to the SME's sector were church based organizations like National Council of Churches of Kenya (NCCK) and other smaller church based NGOs. These programs where heavily subsidized and were adhoc additions to other social welfare programs offered to the poor. Outreach was extremely limited.

Interest in the informal sector in Kenya can also be traced in the early 1970s after seminal ILO report on employment was issued in Kenya in 1972. This report for the first time identified the informal sector as a potentially important contributor to employment and economic growth in Kenya and other developing countries.

The 1960s were marked by targeted credit towards the Agricultural sector – recognition of the vital role that this sector played in the economic development of the country. Emphasis on Rural Poverty – urban poverty had not reached crisis levels. Development finance was not concerned about poor target groups. Main thrust was to transfer capital to developing countries in order to fill what was believed to be a structural gap in capital formation. Multilateral and bilateral funding was directed towards large industrial and infrastructural projects in the belief that there would be a 'trickle down' effect through which are poor would benefit.

In the 70's there was a shift in donor orientation emphasis on 'target group orientation' which required that development effort should be designed and implemented in such a manner

that they would directly benefit the poorer segments of the society. This new orientation resulted into the promotion of special development banks for small farmers and business people. Efforts did not create the desired effect.

Finance Trust were established and were heavily subsided at the time and used the integrated (Credit and Training) approach to assist microenterprises. The organizations introduced alternative credit delivery mechanisms for the poor that consisted of small amounts of loans without the requirement of tangible collateral. These micro credit programs, unlike previous efforts by the government have developed over time and succeeded in accessing financial services to the poor and achieving high repayment rates (Brown, 2004).

Microfinance has been associated with helping empower the low income earners to account properly and independently for their small businesses. Idowu (2010), a major barrier to growth of the small and micro enterprises sector is an absence of both debt and equity financing. Across developing countries, micro and small enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services. The reason is because access to sustainable financial services enables owners of micro enterprises to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2005).

Empirical evidence emerging from various studies about the effects of microfinance on growth of SMEs has so far yielded mixed results that are inconclusive especially for developing countries like Kenya. In spite of this emphasis previous studies did not provide sufficient justification for the link between micro financing and SMEs growth in the developing countries like Kenya, therefore the question of whether micro financing improves or worsens SMEs growth is stills worthy of further research such as the one being undertaken in this study.

2.3 Empirical Review

Niskanen (2007) investigated the determinants of growth in a sample of small and micro firms. The data set provides an excellent opportunity for investigating the effects that SMEs specific factors influencing growth. The study investigated the relationship between firm growth and relationship lending variables. The results indicated that availability of leading services from microfinance increases the growth of firms.

Further the result suggested that an increase in the number of lending banks decreases growth rates in the larger firms and that an increase in the number of banks operating in the county where the firm is located enhances growth of the larger firms and decreases growth rates of the smaller firms. It could, therefore, be argued that close lending relationships enhance growth for all firms, but that only the larger firms in the sample benefit from more competitive banking markets.

Earle and Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes appears as constrain to growth. The data suggest that entrepreneurial skills have little independent effect on growth, once demand conditions are taken into account. The evidence for the effectiveness of technical assistance is weak: only assistance provided by foreign partners yields a positive effect. The factors that influence the growth of small firms can be classified into various dimensions.

Zhou and de Wit (2009) classify the determinants of firm growth into three dimensions, namely, individual determinants, organizational determinants, and environmental determinants

(Zhou & de Wit, 2009). In the individual determinants dimension, previous studies indicate that an entrepreneur's personality traits, growth motivation, individual competencies and personal background are the most important determinants that determine the growth of a firm (Baum, Locke, & Smith, 200; Shane, Locke, & Collins, 2003).

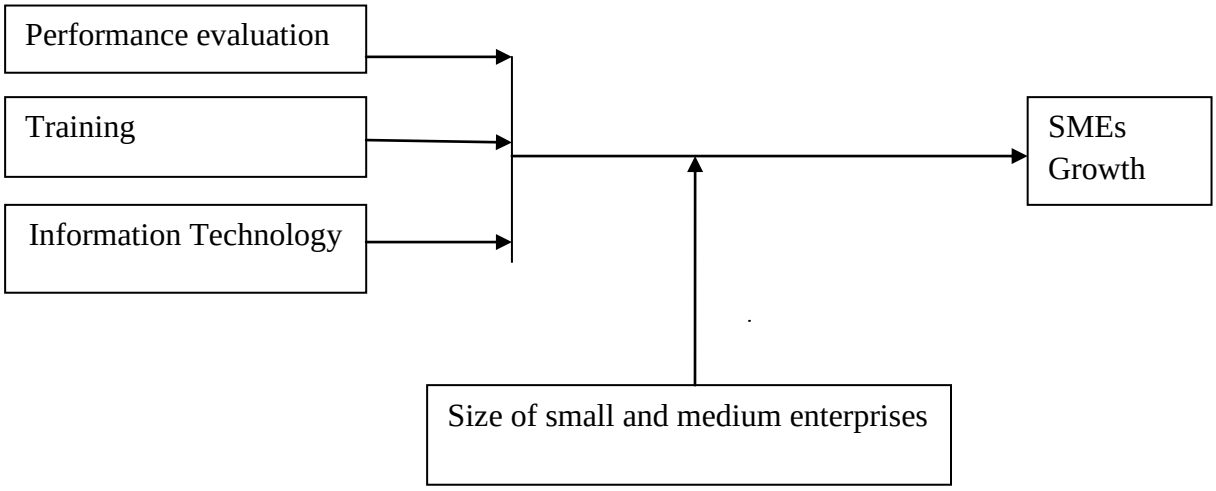
In the organizational determinants dimension scholars such as Hakkert & Kemp (2006) claim that firm growth is an increase in certain attributes such as sales, employment, and/or proift of a firm between two points in time. While Nickell, Nicolistas, & Dryden (1997) state that firm growth can be determined by the degree of effectiveness and capability with which firm-specific resources such as labour, capital and knowledge are acquired, organized, and transformed into sellable products and services through organizationalroutines, practices, and structure.

In the environmental determinants dimension, Dess & Beard, (1984) show that the environment varies along several dimensions, such as dynamism, heterogenity, hostility and munificence, and this may largely determine the growth potential of firms. Wiklund, Patzelt, & Shephard (2007) argue that that there are more opportunities for growth when there are changes in society, politics, market and technology.

2.4 Conceptual Framework

FIGURE 1

Conceptual Framework



Independent variable **Control variable** **Dependent variable**

2.4.1 Definition and Measurement of Variables

The researcher sought to investigate on the role of microfinance institutions on the growth of SMEs in Kirinyaga County. The independent variables are identified as information Technology, training and Performance evaluation and how they influence the dependent variable (growth of SMEs). The independent variables are measured in terms of indicators.

2.4.2 Evaluated Performance

Performance evaluation is a multipurpose tool used to measure actual against expected performance. It provides opportunity for the owners and supervisors of firms to discuss performance of their business. The primary purpose is to provide for an open communication about performance expectations and feedback. SME's, performance evaluation by MFI's

functions as a leading journal in area of modeling, measurement and evaluation of performance aspects of business systems.

Accessing credit is considered to be an important factor in increasing the growth of SMEs. Microfinance will evaluate the performance of the SMEs in terms of income levels, business expansion, loan usage and repayment, competitiveness increase sales volume and thereby more profits.

2.4.2 Training

Training is considered as teaching, or developing oneself or other, any skill and knowledge that relates to specific useful competences. It has specific goals of improving one's capability, capacity, performance and productivity. The microfinance trains the SMEs on the business life cycle, marketing of the products, loan management, records and group management. The training equips the proprietors with the relevant knowledge to manage the businesses, generate new viable ideas leading to growth of SMEs. Training is measured by the use Loan management record, marketing and group management.

2.4.3 Information Technology and Growth of SMEs

Information Technology (IT) is the application of computers and telecommunications equipment to store, retrieve, transmit and manipulate data often in the context of business. Firms are associated with information technology skills including computer software and hardware, internet, ecommerce, electronics and computer services. The business value of information technologies lies in the automation of business processes, provision of information for decision making, connecting business with their customers, and the provision of productivity tools to increase efficiency.

Lack of internal competence and resources have been enhanced by introducing cheap tailor made programs for SMEs. This allows the use of social media to market and create linkages with the customers and suppliers. Information technology will be measured by use of social media, Building networks and systems that increases the sales volume and customer base.

2.4.4 Size of Small and Medium Enterprises

There is no international standard definition of firm size; however, many institutions that collect information use the following size categories; micro enterprises have 0-9 employees, small enterprises have 10-49 employees, and medium-size enterprises have 50-249 employees. Employees in an institution provide both physical and mental effort towards the growth of the SME's. The number and caliber in terms of skill, expertise knowledge and experience are strong determinants of SME's growth. An institution, with small number of employees indicates its size in terms of operation. The quantity of work provided by staff has a strong impact of SME's growth. The researcher will use questions feedback from the owners of SME's to run a regression model while measuring all the variables as below,

TABLE 1

Summary of Conceptual Framework Measurement of Variables Questions in the questionnaire

Variable	Questionnaire
Evaluated performance	Question 11
Training	Question 16
Information Technology and growth of SMEs	Question 19
Size of SMEs	Question 23
Growth of SMEs	Question 24

Source: Author (2015)

2.5 Summary of Literature Review

The growth of the economy in many countries is determined by the number of SMEs successfully operating in their economies. The growth of SMEs in Kenya has been given enough attention by the government .The study is guided by micro credit theory, poverty alleviation theory and game theory of micro finances. Micro finances have evolved from the Grameen model in Bangladesh established by Mohammad Yunus in 1976.

Micro finance supports the SMEs thorough micro finances lending models. Microenterprises are defined in terms of their characteristics, capital investment, and number of employees and turn over in terms of sales. Micro finances affect the growth of SME's through provision of training, evaluation of their performance, provision of modern technologies and advice opportunities and risk management.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology used in the study. It outlines the research design, target population, sampling design, data collection instrument, procedure, data analysis and interpretation.

3.2 Research Design

The research design that was adopted in this research study was the descriptive research design. Descriptive research design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Orodho, 2002). The study chose this research design because the study aimed at collecting information from respondents on their experiences and perceptions of role of microfinance's in enhancing the growth of SMEs. In addition it was appropriate, as it presented the variables as they exist currently and researcher had no control over them or cannot manipulate them.

3.3 Population of the Study

Population refers to the entire group of individuals, events or objects having common observable characteristics (Mugenda and Mugenda, 2003). This is a set of elements that the researcher focuses upon and to which the results obtained by the sample should be generalized and therefore it's absolutely essential to describe accurately the age population (Gravetter and Forzano, 2011).

In this study, the population of interest was 1,566 small and medium enterprises whose owners were sampled for interview; it included 600 from Kerugoya, 401 from Wanguru, 340 from Kianyaga and 225 from Baricho (LAIFOMS, 2013/2014), as shown in the table 3.1 below,

TABLE 2

Population

Category of population	**Population**
Kerugoya	600
Kianyaga	340
Wanguru,	401
Baricho	225
Total	**1,566**

(Source: LAIFOMS business data analysis Kirinyaga County 2013/2014)

3.4 Sampling Design

A sample from Gramer and Howitt (2005) view is a set of entities drawn from a population with the aim of estimating characteristics of the population. The study used simple random sampling to select 10% of the target population. According to Mugenda and Mugenda (2003) a sample size of 10% to 30% is representative. Random approach gives each member an equal opportunity of being selected (Kombo and Trump, 2006).

The target population was grouped into various categories and a proportionate sample drawn. Random sampling was used in choosing the sample within the stratum. The goal of cluster random sampling was to achieve the desired representation in the target population. In stratified random sampling, subjects are selected in such a way that the existing sub-groups in the

population are more or less represented in the sample. The sample size of this study will be 158 respondents selected from owners of SMEs as shown in Table 3,

TABLE 3

Target Population and Sample Size

Category	Population	Response rate	Sample size
Kerugoya	600	10%	60
Kianyaga	340	10%	34
Wanguru	401	10%	41
Baricho	225	10%	23
Total	**1,566**		**158**

Source: Author (2015)

3.5 Data Collection Instruments

The study used primary data. A questionnaire was used as the study tool. A questionnaire is a collection of items to which respondents are expected to react, usually in writing Oso (2009). The study will be concerned with variables which cannot be directly observed such as opinion, perception and feelings of respondents. Such information can best be described through questionnaires (Oso, 2009). Its purpose will be to collect a lot of information over a short period of time. The primary data was collected using semi-structured questionnaire having mostly close-ended questions and a few open-ended questions. Hand delivery was used to deliver the questionnaire and follow up the respective respondents via telephone and e-mail. The researcher also used a Likert scale questionnaire to ensure collection of data from many respondents within a short time and respondents are free to give relevant information because they are assured of

their anonymity (Mugenda and Mugenda, 2003). The questionnaire was administered to all the 158 respondents in the targeted firms. This method of data collection was meant to increase response rate, provide confidentiality, allow for clarification of difficult questions, and enhance the control of data collection process by the researcher.`

3.5.1 Validity of Research Instrument

According to Bridget and Lewin (2005), validity is the degree by which the sample of test items represents the content the test is designed to measure. Saunders, Lewis and Thornhill (2007) indicated that content validity is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept as intended. Lacity and Jansen (1994) define validity as making common sense, and being persuasive and seeming right to the reader while Cronbach (1971), indicated that validity refers to results that have the appearance of truth or reality.

Therefore, validation of the research instrument is important to this study as it ensures that the study collects relevant information to answer the research questions. Mugenda and Mugenda (2003) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instrument the researcher gave questionnaires to 10 respondents who helped the researcher in knowing whether the key aspect of desired information is provided by the respondents using the questionnaire.

3.5.2 Reliability of Research Instrument

Joppe (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the

results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Reliability gives the internal consistency of data collected. This ensures that the data has certain internal consistent pattern. When no pattern is found in the responses, this indicates that probably the test is too difficult and as a result the respondents just guess the answers randomly. In this study, test-retest method will be used to measure the reliability of the research instrument. Further a reliability test was done from a pilot study conducted using Cronbach alpha, on average the test reviewed that the variables has a higher reliability (α mean=0.875) showing it exceeds the prescribed adopted threshold of 0.7. Therefore the instrument was valid and reliable.

3.5.3 Pilot Testing

The study carried out a pilot study to pretest and validates the questionnaire. The study selected a pilot group of 10 individuals from Embu County which was outside from the target population to test the reliability of the research instrument. The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled the researcher to be familiar with the research and its administration procedure as well as identifying items that required modification. Pilot study helps the researcher to correct inconsistencies arising from the instruments, which would ensure that they measure what is intended (Mugenda and Mugenda, 2008). Reliability estimate was measured using Cronbach-Alpha coefficient (α). Nunnally (1978) recommends that instruments used in research should have reliability of about 0.70 and above. The research instrument yielded a Cronbach Alpha of 0.875.

3.6 Data Analysis

The raw data collected was first pre-processed. This included editing of data to detect errors and omissions and correct where, it involved a careful scrutiny of the completed questionnaires to ensure that the data is accurate and consistent with other facts gathered and uniformly entered using Excel software. Secondly, the researcher coded the data to enable the responses were grouped into various categories. Thirdly, the data corrected was analyzed through SPSS (Version 20) and Microsoft Excel and be presented in tables and charts.

The study employed a multiple regression model to study the relationship between the factors studied here and growth of SME's. The study deemed regression method to be useful for this study due to its ability to test the nature of influence of independent variable on a dependent

variable and that the data set was cross-sectional and the dependent variable was a scalar. Regression was able to estimate the coefficient of the linear equation, involving one or more independent variables, which best predicts the value of dependent variable. The regression model was as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$.....(i)

Where:

Y = Growth of SME's

β_0 = Constant Term

$\beta_1, \beta_2, \beta_3$ and β_4 = Beta coefficients

X_1= performance evaluation

X_2= training

X_3= information technology

X_4= size of small and medium enterprises

ε = Error term

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the findings for the primary data collected from the respondents operating the SMEs in urban areas at Kirinyaga County. The chapter begins with back ground information, performance evaluation, and training, use of information technology, SMEs growth and inferential statistics (correlation and regression analysis).

4.1.1 Response Rate

The study sample size was 158 respondents and 150 were correctly filled and returned. They formed the study response rate which accounted for 94.9%. This response was appropriate since according to Mugenda and Mugenda (2008) if a response rate exceeds 70% then it is deemed to be adequate for the study under consideration.

TABLE 4

Response Rate

Sample size	**Number**	**Percent**
Correctly filled and returned	150	94.9
Not returned	8	5.1
Total	**158**	**100**

Source: Author (2015)

4.2 Demographic Information

Further the study sought to find the demographic information of the respondents. Specifically the study sought information on gender, age, number of years in business, highest level of education attained, awareness and involvement in MFI services and the nature of the business involved in. Both frequencies and percentages were involved in summarizing the data as shown in Table 5.

The study found that gender composition of Kirinyaga County entrepreneurs was almost the same since 52% were male and 48% female. Regarding the age majority were youthful since 42.7% aged between 27-35 years while 26.7% aged between 18-35 years. Most of the business had been in operation for a period of less than six years since 52.7% had been in operation for a period between 4-6 years and 18.7% who had been in operation between 1 to 3 years. This implies that most of the SMEs are in business incubation phase thus there is need for continuous provision of financial services which will ensure that the business can be sustained beyond incubation phase.

Regarding the highest level of education attained the study found 38% had technical or vocational training qualifications followed by 24.7% with secondary qualifications. This implies that SMEs ventures in urban Kirinyaga County had prerequisite educational training since only 9.3% had no formal education qualifications.

Micro finance activities were well known among the respondents since 78.7% were aware of them and 84.7% had sought microfinances service to accelerate their SMEs growth. Amongst the entrepreneurs in Kirinyaga County the most preferred business venture was trading accounted for by 30%, followed by 29.3% in agricultural sector and 17.3% in the manufacturing sector.

TABLE 5

Demographic Information

Characteristics		Frequency	Percentage
Gender	Male	78	52
	Female	72	48
	Total	**150**	**100**
Age	18-27yrs	40	26.7
	27-35yrs	64	42.7
	36-47yrs	39	26
	48-55yrs	7	4.7
	Total	**150**	**100**
Number of years in business	1 – 3 years	28	18.7
	4 – 6 years	79	52.7
	7 – 9 years	25	16.7
	Over 10 years	18	12
	Total	**150**	**100**
Your highest professional qualification	University or above	16	10.7
	Technical/vocational training	57	38
	Secondary school	37	24.7
	Primary school	26	17.3
	No formal school	14	9.3
	Total	**150**	**100**
Do you have any knowledge on microfinance services?	Yes	118	78.7
	No	32	21.3
	Total	**150**	**100**
Are you deeply involved in the activities microfinance?	Yes	127	84.7
	No	23	15.3
	Total	**150**	**100**
Nature of business enterprise	Manufacturing	26	17.3
	Education	18	12
	Agriculture	44	29.3
	Trading	48	32
	Service	14	9.3
	Total	**150**	**100**

Source: Author (2015)

4.3 Evaluation of Business Performance and SME Performance

The first objective of the study sought to determine the effect of performance evaluation by MFIs on the growth of SMEs in urban centers in Kirinyaga County. To achieve this, the respondents were requested to respond to questions pertaining performance in regard to training. 68% of the respondents reported that MFI's monitor the performance of their firms after financial assistance through loans and advances. In addition, 78.7% argued that their firms are assessed on income level performance by MFIs. 66% of the respondents reported that MFI's conduct loan monitoring and usage on loans advanced to them. 65.3% of the respondents reported that MFIs conduct evaluation of increase or decrease in their sales volume per annum.

TABLE 6

Evaluation of Business Performance and SME Performance

		Frequency	**Percentage**
Do MFI's monitor the performance of your firm after getting financial assistance from them for example loans or advances?	Yes	102	68
	No	48	32
	Total	**150**	**100**
Is your firm assessed on the income level performance by MFI's?	Yes	118	78.7
	No	32	21.3
	Total	**150**	**100**
Do MFI's conduct loan monitoring and usage advanced to your firms?	Yes	99	66
	No	51	34
	Total	**150**	**100**
Do MFI's conduct evaluation of increase or decrease in sales volume of your firm?	Yes	98	65.3
	No	52	34.7
	Total	**150**	**100**

Source: Author (2015)

4.3.1 Training and SME Performance

The second objective of the study sought to find the effect of training by MFIs on the growth of SMEs in urban centers in Kirinyaga County. To achieve the study sought to find out whether MFIs have ever conducted a training and execution of leadership training by MFIs. 70% of the respondents reported that MFIs had conducted training in their firms and 66.7% reported that their finance management team has been trained on their business line by MFIs.

TABLE 7

Training and SME Performance

		Frequency	**Percentage**
Have any training been conducted by MFI in your firm?	Yes	105	70
	No	45	30
	Total	**150**	**100**
Are the leaders of the firm management team trained in the line of business by MFI?	Yes	100	66.7
	No	50	33.3
	Total	**150**	**100**

Source: Author (2015)

Further the study sought to find out the impact of business management training on SMEs performance. The respondents were required to rate the training impact on a five point Likert. Results in Table 8 shows that, on average there, was a very good impact of financial management training on SME performance (mean = 3.69, S.D 1.29). 48% of the respondents reported that training on record management had very good impact on SME performance. In addition, 34.7% argued that training on loan management had very good impact on their business. 56% of the respondents reported that training on marketing management had excellent impact on their business. On average training on business life cycle had good impact in SME performance (Mean =3.35).

TABLE 8

Impact of Training on Business Management on SME Performance

		Poor	Satisfactory	Good	Very good	Excellent	mean	Std. Deviation
Training on financial management	frequency	8	31	13	46	52		
	Percent	5.3	20.7	8.7	30.7	34.7	3.69	1.29
Training on record and group management	frequency	11	8	13	72	46		
	Percent	7.3	5.3	8.7	48	30.7	3.89	1.12
Training on loan management	frequency	25	29	13	52	31		
	Percent	16.7	19.3	8.7	34.7	20.7	3.23	1.41
Training on marketing of products	frequency	9	15	17	25	84		
	Percent	6	10	11.3	16.7	56	4.07	1.27
Training on business lifecycle	frequency	6	36	41	34	33		
	Percent	4	24	27.3	22.7	22	3.35	1.18

Source: Author (2015)

4.3.2 Information Technology and SME Performance

The third objective of the study sought to establish the impact of information technology provided by MFIs on growth of SMEs in urban centers in Kirinyaga County. To achieve this, the study sought to find out the type of systems installed and used by SMEs. Results in Table 4.5 found the most commonly installed and used system was for accounting function (n=115, 97.5%) followed by salary systems (n=100, 84.7%). Procurement systems were installed only by 70.3% SMEs which could be attributed to the fact that there are no clearly stipulated procurement procedures.

TABLE 9

System Installed and used by SMEs

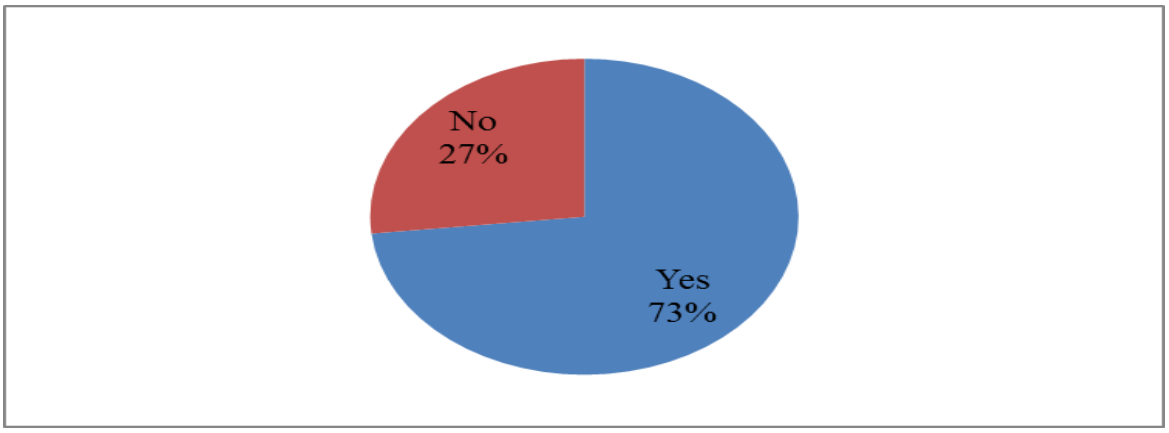
	Frequency	Percentage
Human resources system	92	78
Accounting systems	115	97.5
Salary systems	100	84.7
Procurement systems	83	70.3
Total	390	

Source: Author (2015)

The pictorial presentation in Figure 2 depicts that 73% of the SMEs reported that MFIs had a role in the installation of information technology systems in their SMEs.

FIGURE 2

MFIs Role on System Installation



Source: Author (2015)

In addition, the study sought to find out the impact of information technology on SMEs performance. The respondents were required to indicate their opinion on the extent of impact on a five point Likert scale. Results of the study were summarized using mean, standard deviation, frequencies and percentage as shown in Table 10. The study findings showed that the use of social media on a firm had a great impact on SME performance. Secondly 69.3% argued that the

use of networking had a great impact on SME performance. Thirdly, 70.7% of the respondents reported that use of computerized records had great impact on their SME performance while 69.3% argued that the use of integrated systems had great impact on SME performance.

TABLE 10

Impact of Information Technology and SME Performance

		No impact	Little impact	Moderate impact	Great impact	Very great impact	Mean	Std. Deviation
Use of social media in your firm	frequency	5	19	25	83	18		
	Percent	3.3	12.7	16.7	55.3	12	3.6	0.97
Use of networking of business activities in your firm	frequency	8	21	11	104	6		
	Percent	5.3	14	7.3	69.3	4	3.5	0.97
Use of computerized records in your firm	frequency	7	20	11	106	6		
	Percent	4.7	13.3	7.3	70.7	4	3.6	0.94
Use of integrated systems in your business	frequency	4	21	14	104	7		
	Percent	2.7	14	9.3	69.3	4.7	3.6	0.88

Source: Author (2015)

4.3.3 Percentage SME Growth

Further the study sought to find out the percentage growth in SME. SMEs growth was categorized on a five point scale. On average SMEs increased their growth rate in 61-80% on the growth attributes. 48% reported an increase of sale in their business, 53.3% reported an increase in market share, 55.3% reported an increase of profits in their business and 64% reported an increase customer base all these increased at the rate of 61-80%.

TABLE 11

Percentage SME Growth

		1%-20%	21%-40%	41%-60%	61%-80%	81%-100%
Sales of your business	frequency		15	34	72	29
	Percent		10	22.7	48	19.3
Market share	frequency	2	6	32	80	29
	Percent	1.3	4	21.3	53.3	19.3
Profits of your business	frequency		4	47	83	16
	Percent		2.7	31.3	55.3	10.7
Customer base	frequency		4	35	96	15
	Percent		2.7	23.3	64	10

Source: Author (2015)

4.4 Inferential Statistics

In addition, the study carried out inferential statistics. Correlation analysis was carried out to investigate the strength of the relationship between SME growth and performance evaluation, training, information communication technology and firm size. Inferential statistics aimed at examining the role of MFIs on urban SMEs growth in Kirinyaga County as conceptualized in chapter two.

4.4.1 Correlation Analysis

Results in Table 12 shows that there was a negative insignificant relationship between SME growth and performance evaluation (rho= -0.055, P value >0.05). Secondly, there was a positive significant relationship between training and SME growth (rho =0.284, P value<0.05). This implies that an increase in training increases SME growth in Kirinyaga County. There was a positive and significant relationship between training and SME growth since prior to MFIs

financing the financial institutions carry out financial literacy training which are geared towards improving their level of financial management.

In addition, there was a positive and insignificant relationship between SME growth and use of information communication technology (rho =0.094, p value <0.05). The use of information technology improved inventory management which minimized the cost of stock management and consequently SME growth. There was a significant negative controlling effect of firm size on SME growth (rho=-0.342, p value <0.05). This implies that an increase in SME growth decreased the chances of SMEs growth in Kirinyaga County. As SMEs firm size increased inefficiencies multiplied especially on management style adopted owing to the fact that majority of them are owned family. Family members may not be equipped with prerequisite management skills.

TABLE 12

Correlation Analysis

	SME growth	Performance evaluation	Training	Information technology	Firm size
SME growth	1				
Performance evaluation	-0.055	1			
	0.5				
Training	.284**	.173*	1		
	0.000	0.034			
Information technology	0.094	-0.042	-0.068	1	
	0.255	0.606	0.41		
Firm size	-.342**	-.180*	-0.086	.163*	1
	0.000	0.027	0.293	0.047	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
Source: Author (2015)

4.4.2 Regression Analysis

In order to fit the data into the conceptualized model in the conceptual framework, ordinary least squares regression analysis was chosen since the dependent variable was in ratio scale (SMEs growth). In this section the coefficient of determination (R square) was used as a measure of the model goodness of fit, to show the explanatory power of performance evaluation, training and use of information technology. The F statistics (ANOVA) was used as a measure of the model significance. The regression coefficient summary was used to explain the nature of the relationship between the dependent and independent variables.

Results in Table 13 shows the model summary, an R squared of 23.6% shows that 23.6% of the changes in SMEs growth can be jointly explained by performance evaluation, training, use of information technology and firm size. The remaining 76.4% of the changes in SMEs growth can be explained by other factors excluded in the model.

TABLE 13

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.486a	0.236	0.215	0.909

a Predictors: (Constant), Firm size, Training , Information technology, performance evaluation

Source: Author (2015)

Results in Table 14 shows that performance evaluation, training, use of information technology and firm size was significant (F=11.188, p value =0.000) shows that there is a significant relationship between performance evaluation, use of information technology, training, firm size and SME growth and all have a combined significant influence on SME growth.

TABLE 14

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.975	4	9.244	11.188	.000b
	Residual	119.798	145	0.826		
	Total	156.773	149			

a Dependent Variable: SME growth
b Predictors: (Constant), Firm size, Training , Information technology, Performance evaluation
Source: Author (2015)

The results regression model as shown in Table 14 is as follows

$Y = 3.985 - 0.084X_1 + 0.183X_2 + 0.081\ X_3 - 0.223X_4$ .....….(ii)

The study showed that there was a negative in significant relationship between SMEs growth and performance evaluation, (β=-0.084, t=-2.225, p value <0.05). This implies that a unit increase in performance evaluation is associated with 0.084 units decrease in performance evaluation in SMEs.

Secondly, the study showed a positive significant relationship between training and SMEs growth (β=0.183, t=3.946, p value <0.05). This implies that a unit increase in training is associated with 0.183 increments in SMEs growth in urban Kirinyaga County.

Thirdly, there was a positive significant relationship between use of information technology and SME growth (β=0.81t=2.269, p value <0.05). This implies that a unit increase in use of information technology increases SMEs growth by 0.81 units.

There was a negative significant relationship between firm size and SME growth. This implies that as the firm size increased the SME growth decreased. This can be attributed to increased inefficiency as well as poor growth strategies. Firm size expansion increases marginal costs which reduces expansion.

TABLE 15

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.985	0.491		8.123	0.0000
	Performance evaluation	-0.084	0.038	-0.166	-2.225	0.0280
	Training	0.183	0.046	0.292	3.946	0.0000
	Information technology	0.81	0.357	0.167	2.269	0.0250
	Firm size	-0.223	0.045	-0.374	-5.003	0.0000

a Dependent Variable: SME growth

Source: Author (2015)

4.4.3 Post Estimation Test for Model Adequacy

Further, the study carried out post estimation test for multicollinearity, normality and heteroskedasticity. Results of in Table 16 revealed that all the independent variables were uncorrelated since none of them had a tolerance of less than 0.1 while the variance inflation factors were less than 10. This confirms why there was a weak relationship between the study variables.

TABLE 16

Multicollinearity Test

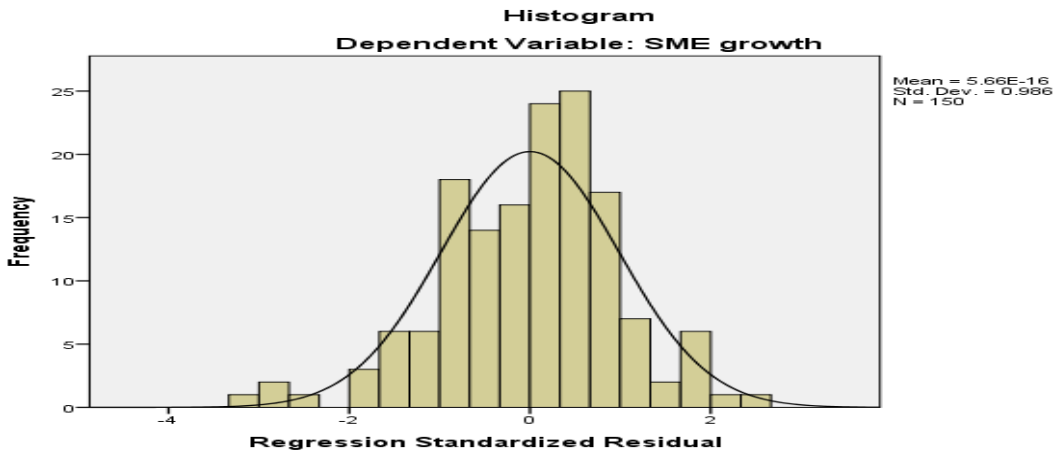
	Collinearity Statistics	
	Tolerance	VIF
Performance evaluation	0.942	1.061
Training	0.964	1.037
Information technology	0.971	1.030
Firm size	0.941	1.062

Source: Author (2015)

Figure 3 shows that the residuals were normally distributed.

FIGURE 3

Normality Test



Source: Author (2015)

Breusch Pagan/ Cook-Weisberg were used to test for heteroskedasticity. The test hypothesis that there is constant variance. Since the p value >0.05 there was no enough evidence to warrant the rejection of the null hypothesis therefore the data had uniform variance. .

TABLE 17

Test for Heteroskedasticity

	Heteroskedasticity	
	Chi-square test	**Sig.**
SME growth	19.82	0.089

Source: Author (2015)

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, conclusions and recommendations. It is organized as follows. First, it presents a summary of research findings according to categories and research objectives. This is followed by conclusions drawn and finally recommendations derived from the conclusions.

5.2 Summary

The general purpose of this study was to establish the role of microfinance on growth of small and medium enterprises in urban centers in Kirinyaga County. The study was inference that performance evaluation, training and use of information communication technology all influenced SMEs growth. The study found that enterprises were owned by almost equal gender since 48% were females. Majority of the respondents had attained formal education qualifications. Most of the businesses were in incubation phase since they have been in operation for a period of less than six years.

Both correlation and regression analysis were applied in the study. There was a negative significant relationship between performance evaluation and SME growth. Secondly, there was a positive significant relationship between training and SME growth. Finally, there was a positive significant relationship between use of information technology and SME growth. Firm size had a negative significant moderating effect on SME growth.

The overall analysis shows that SMEs growth through MFIs financing can be jointly influenced by performance evaluation, training and use of information technology. Even through,

both independents and control variables have an explanatory power of 23.6%; the remaining percentage can be explained by other factors excluded in the model. Since training had the highest t statistics it has the most significant influence on SME growth thus there is need for continued training among SME operators in Kirinyaga County. MFIs should intensify their training before and after recruiting SMEs as a borrower so as to increases the symbiotic benefits between the two parties.

5.2 Discussions

Results of the current were similar to Boohene, Ofori, Boateng and Boohene (2015) who found a positive significant relationship between use of information technology and SME growth inform of sales volume, profitability and market share in Accra Ghana. Bouzza, Adjouman and Abada (2015) argued that SME growth is influenced by both internal and external factors which are interrelated. An SME growth can be determined by the business environment in which it operates, the external influencers of SME growth includes legal environment, access to external financial resources and human resources capabilities.

The internal influencers of SME growth include entrepreneurial characteristics, management capacities, marketing and technology capacities. The study argued that employees in SME are faced with skills inefficiency due to poor training and low skills development since they consider in the job training. Bouzza *et al* argued that financial challenges hamper SME growth since most institutions demand collateral security from borrowers which majority cannot be in a position to raise.

Since only a small portion of SME small firms can reach a medium size, a portion of them have the potential to further develop into large firms depending upon the entrepreneur of

those firms (Sidika, 2012).One of the main differences between small and large companies is the dominant role that the entrepreneurs play in the development of SMEs. Based on owner's powerful and influential position in their firms, entrepreneurs' subjective worldviews greatly affect their firms' choice of strategic direction (Sidika, 2012) and therefore will affect the firm growth. Furthermore, the entrepreneur's characteristics such as age, gender, motivation, experience, educational background, and risk-taking propensity, preference for innovation, mindset, and personality can have a big influence on the firm's performance and success, and the growth of the SMEs can be hugely dependent on him. Therefore, the MFIs prior to lending ought to evaluate the owner's characteristics and develop their managerial and risk taking characteristics.

After evaluating the management and skills development in Algeria Bouza et al (2015) argued that the management skills of the owners and employees were characterized by weak managerial structure, lack of managerial training, lack of technological understanding and poor marketing strategies with all these in an SME then the level of growth and development will be negative. These findings were in disagreement with the current study which revealed a positive relationship between information technology and SME growth.

Mbugua et al (2014) argued that tailoring and dressing making enterprises in Kenya growth is influenced by lack of finances, poor management skills, poor marketing and entrepreneurial attributes. The study recommended that the government should provide support to SMEs through provision of cheap training, financial services. This study was similar to our study since training had a significant relationship with SME growth. It was important to note that the study revealed despite of the SME growth prospects they were various challenges which could allow them to be sustained for long.

5.3 Conclusion

Since, there was a negative significant relationship between performance evaluation and SME growth. This implies that though there may be increased performance evaluation by MFIs SMEs growth deteriorates. This can be attributed to the source of human resources skills within SMEs because it can be challenging to recruit professionally competent management teams owing to costs associated with it. More so the performance evaluation ought to be customized to a given SMEs characteristics.

Although, there was a positive significant relationship between use of information technology and SME growth, most of the SMEs had not a fully-fledged information technology system serving all the departments in an organization. This implies that use of information technology increases SMEs growth by 81% thus all departments should have an integrated systems which will minimize pilferage of goods and services offered in an institutions.

Since there was a negative significant relationship between firm size and SME growth, there is need to have controlled firm growth through increased branch networks. From the findings it can be concluded that increased branch network transferred inefficiencies which can be attributed to loss of control since most of the SMEs are family owned enterprises.

Use of information technology increases growth of SMEs at a higher rate of 81% implying that information technology is key in business development; it reduces chances of theft by employees and also controlling of daily business operations such as stock control, electronic sourcing and payments, reducing operation costs for the services rendered by the institution among others. There is need to improve on more trainings as the study suggests that it increases the SMEs growth by only 18.3% which is a low rate in Kirinyaga county.

5.4 Recommendations

There is need to continuously train SME management on prudent financial management marketing management and how to strategize with a primary purpose of attaining some competitive advantage. The training programs should instill management skills which can propel growth in a business enterprise.

There is need to harmonize performance evaluation with specific SME characteristics since it has impacted negatively on SME growth. Performance evaluation should be comprehensive and have specific metric which must be unique to a given enterprise since SMEs have heterogeneous characteristics.

There is need to customize and market use of information technology among SMEs as such to ensure that they fully benefits from use of ICT facilities. In addition, the systems should be available among all SMEs at customized prices. There is need to sensitize on the importance of installing procurement since this is an important department for those firms which are dealing with the sale of goods. Through, this system the management can monitor and ensure quality service delivery which will boost SME performance.

5.5 Suggestion for Further Studies

The present study was conducted on the role of MFIs on SME performance in Urban Kirinyaga County. This study only considered performance evaluation, training and use of information technology among urban SMEs. A comparative study should be carried out among the different types of micro finance institutions since some are customized to specific sector for example agriculture, other are faith based organization or formed to attain a specific purpose.

A comparative study should be carried out to compare the role of MFIs on SMEs growth in rural areas since the current findings cannot be generalized to reflect the findings of rural run enterprises. There is need to investigate the role of financial literacy on SMEs growth after procuring loan services from MFIs. Future studies should use alternative modeling approach such as logistic regression analysis to establish the odds for the specific variables influencing SMEs growth.

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APPENDICES

APPENDIX I

Sample Questionnaire

Dear Sir/Madam,

I am carrying out research on the role of microfinance on the growth of SME's in Kirinyaga County. This questionnaire is aimed at eliciting information from individual owners of SMEs, which will be useful in the above research as part of the course requirements. The information supplied and gathered will be strictly used for academic purposes only and I assure you that it will be treated with utmost confidentiality.

Tick where appropriate i.e [√]

PART A: GENERAL INFORMATION

1. Business name (optional)……
2. Gender

   Male ☐

   Female ☐

3. Age of the respondent: 18-27yrs [ ] 27-35yrs [ ] 36-47yrs [ ] 48-55yrs [ ] 56-67yrs [ ]
4. Title/designation of respondent…….
5. Number of years in business.

   1 – 3 years ☐

   4 – 6 years ☐

   7 – 9 years ☐

Over 10 years ☐

6. Your highest professional qualification

University or above ☐

Technical/vocational training ☐

Secondary school ☐

Primary school ☐

No formal school ☐

7. Do you have any knowledge on microfinance services?

Yes ☐

No ☐

8. Are you deeply involved in the activities microfinance?

Yes ☐

No ☐

9. Nature of business enterprise

Manufacturing ☐

Education ☐

Agriculture ☐

Trading ☐

Service ☐

PART B. EVALUATION OF BUSINESS PERFORMANCE

10. Do MFI's monitor the performance of your firm after getting financial assistance from them for example loans or advances?

Yes ☐

No ☐

11. How many times financial assistance in terms of evaluation of performance have you received from MFI's (use numerics) ……..

12. Is your firm assessed on the income level performance by MFI's?

Yes ☐

No ☐

13. Do MFI's conduct loan monitoring and usage advanced to your firms?

Yes ☐

No ☐

14. Do MFI's conduct evaluation of increase or decrease in sales volume of your firm?

Yes ☐

No ☐

PART C TRAINING

15. Have any training been conducted by MFI in your firm?

Yes ☐

No ☐

16. Indicate the number of times training has been conducted by MFI's in your firm.

(use numerics) ……..

17. Are the leaders of the firm management team trained in the line of business by MFI?

Yes ☐

No ☐

18. Rate the impact of training on business management in the following aspects

(Scale 1= Excellent 2= Very good 3= Good 4= Satisfactory 5= Poor.)

Statement	**1**	**2**	**3**	**4**	**5**
Training on financial management					
Training on record and group management					
Training on loan management					
Training on marketing of products					
Training on business lifecycle					

PART D. INFORMATION TECHNOLOGY

19. Has your firm introduced any new technology?

Yes ☐

No ☐

20. Which among the following technologies has your firm installed or currently in use?

Human resource system ☐

Accounting systems ☐

Salary systems ☐

Procurement systems ☐

21. Has MFI's contributed in installation of these software and hardware knowledge?

Yes ☐

No ☐

22. Rate the impact of installation and use of the following information technologies systems in your firm

(Scale 1= Very great impact 2= great impact 3= Moderate impact 4= little impact 5= No impact.)

Statement	**1**	**2**	**3**	**4**	**5**
Use of social media in your firm					
Use of networking of business activities in your firm					
Use of computerized records in your firm					
Use of integrated systems in your business					

PART E. GROWTH OF BUSINESS ENTERPRISE

23. Please indicate the number of employees currently employed in your firm?

(use numerics) ……..

24. How many number of shops/branches does your firm currently have?

(use numerics) ……..

25. In your opinion, what is the percentage growth of your firm in relation to the following?

(Scale: 1= 1%-20% 2= 21%-40% 3= 41%-60% 4= 61%-80% 5=81%-100%)

Statement	**1**	**2**	**3**	**4**	**5**
Sales of your business					
Market share					
Profits of your business					
Customer base					

-End-

Thank you for participating