

**AFFIRMATIVE ACTION FUNDS AND THE GROWTH OF SMALL AND MEDIUM
ENTERPRISES (SMES) IN NAIROBI COUNTY**

BY

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MASTER OF SCIENCE IN DEVELOPMENT FINANCE

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NOVEMBER 2025

DECLARATION

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

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ABSTRACT

Across the globe, small and medium-sized enterprises (SMEs) serve as vital engines for economic advancement and social development, particularly within emerging economies. However, despite their significance, these enterprises often face challenges such as limited access to capital, insufficient managerial capabilities, and restrictive policy environments. This study explores the impact of affirmative action funds on the growth of SMEs in Nairobi County, focusing on the roles of the uwezo fund, youth enterprise development fund, and women enterprise fund. This study was anchored on growth theory and complimented by human capital and social capital theory. This study employed a cross-sectional survey design. Using Yamane's formula, a sample of 376 SMEs was selected from a population of 6,176. Primary data was conducted through questionnaires. Data was coded and processed using SPSS. Descriptive statistics and inferential methods were adopted to analyze the data. Inferential statistics such as regression and correlation analysis were used to assess the influence of affirmative action funds on the growth of SMEs in Nairobi County. The study established that all three affirmative action funds, Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund, positively influenced SME growth in Nairobi County. Uwezo Fund enhanced financial discipline and credit access through group lending, while YEDF improved managerial capacity and strategic planning via training and support services. WEF emerged as the most impactful, enabling women-led enterprises to invest in inventory and expand operations through affordable, tailored financing. Based on these findings, the study recommends strengthening fund outreach, simplifying access procedures, and integrating post-financing support such as mentorship and market linkages. Policy reforms should institutionalize these funds within national SME frameworks, promote inter-agency coordination, and embed gender-responsive strategies to ensure inclusive, sustainable enterprise development across Kenya.

Key words: Financing, revolving funds, lending model, repayment terms, business development

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TABLE OF CONTENTS

DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
LIST OF FIGURES	viii
ACRONYMS AND ABBREVIATIONS	ix
DEFINITION OF TERMS	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	9
1.3 Objectives of the study.....	11
1.4 Research Questions	11
1.5 Scope of the Study	11
1.6 Significant of the study	12
1.7 Limitation of the Study	13
CHAPTER TWO: LITERATURE REVIEW	14
2.1 Introduction.....	14
2.2 Theoretical Review	14
2.3 Empirical Review.....	19
2.4 Conceptual Framework.....	26
2.5 Operationalization of Variables	27
2.5 Summary of Literature Review.....	28
2.6 Research Gap	29
CHAPTER THREE: RESEARCH METHODOLOGY	30
3.1 Introduction.....	30
3.2 Research Design.....	30
3.3 Target Population	31
3.4 Sampling Design and Sample Size.....	32
3.5 Data Collection Instruments	33
3.6 Data Collection Procedures	35
3.7 Pilot Testing of Research Instrument	36
3.8 Data Processing and Analysis.....	37

3.9 Diagnostic Tests.....	38
3.10 Ethical Consideration.....	40
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION	43
4.1 Introduction.....	43
4.2 Response rate	43
4.3 Pilot Study Result	44
4.4 Demographic Respondent Profile	45
4.5 Descriptive Statistics.....	50
4.6 Diagnostic Test	59
4.7 Correlation Analysis	63
4.8 Inferential Statistics	64
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	70
5.1 Introduction.....	70
5.2 Summary of Findings.....	70
5.3 Conclusions.....	72
5.4 Recommendations.....	73
5.5 Areas for Further Studies	74
REFERENCES.....	76
APPENDICES	85
Appendix I: Introduction letter	85
Appendix II: Questionnaire.....	86

LIST OF TABLES

Table 3.1 Distribution of Target Population	32
Table 3.2 Distribution of Sample Size	33
Table 3.3 Diagnostic Tests.....	40
Table 4.1 Response rate	43
Table 4.2 Reliability Results.....	44
Table 4.3 Validity of the Research Instrument	45
Table 4.4 Number of Employees in Business	46
Table 4.5 Age of Respondents	47
Table 4.6 Duration Working in SMEs	48
Table 4.7 Type of Business Ownership	49
Table 4.8 Sector of Operation.....	50
Table 4.9 Impact of Uwezo Fund on Growth of SMEs	53
Table 4.10 Impact of Youth Enterprise Development Fund on Growth of SMEs	55
Table 4.11 Women Enterprise Fund and Growth of SMEs	57
Table 4.12 Growth of SMEs	59
Table 4.13 Multicollinearity Test	60
Table 4.14 Autocorrelation Test	61
Table 4.15 Heteroskedasticity Test.....	62
Table 4.16 Normality Test	63
Table 4.17 Correlation Analysis	64
Table 4.18 Model Summary	65
Table 4.19 ANOVA	66
Table 4.20 Regression Coefficients	69

LIST OF FIGURES

Figure 2.1 Conceptual Framework	26
Figure 4.1 Level of Education	48

ACRONYMS AND ABBREVIATIONS

BDS	Business Development Services
BOI	Bank of Industry
ILO	Local Purchase Order
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KPSA	Kenya Private Sector Association
MSEA	Micro and Small Enterprises Authority
MSMEs	Micro, Small and Medium Enterprises (SMEs)
NBSSI	National Board for Small Scale Industries
SEFA	Small Enterprise Finance Agency
SMEs	Small and Medium Enterprises (SMEs)
UK	United Kingdom
WB	World Bank
WEE	Women's Economic Empowerment
YES	Youth Entrepreneurship Support

DEFINITION OF TERMS

Affirmative action funds	This is a grant that provides opportunities for groups and individuals who have been historically underrepresented or excluded from certain areas (Schotte et al., 2023).
Financing	borrowing money with a promise to repay that money and some additional fee, or interest, over a period (Lee, 2020).
Interest rate	is the amount lenders charge borrowers and is a percentage of the principal (Burger et al., 2022).
Lending	is a sum of money that an individual or company borrows from a lender (Nguyen & Tran, 2021).
Loan	is a sum of money that an individual or company borrows from a lender (Ejobowah, 2023).
Repayment	is the act of settling a debt according to a loan's terms (Adeyemi & Adeola, 2021).
Revolved fund	is a fund or account that remains available to finance an organization's continuing operations without any fiscal year limitation (Tran & Hoang, 2022).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

SMEs are known to contribute significantly to the creation of employment opportunities, economic growth, and innovation in industrialized and developing countries around the world (Lee, 2020). Such businesses are crucial in the economic activity stimulation, creative solutions, and job opportunities growth, developing a nation. Governments have responded to their effect by implementing affirmative action programs to boost the sector. Such measures involve financial inclusion, skill development initiatives, and favorable legal environments (Schildberg, et. al., 2023). The purpose of such interventions is to enhance the sustainability and competitiveness of SMEs and through them prosper and contribute to economic stability, inclusivity, and long-term growth.

The mechanisms of affirmative action funding have played a significant role in promoting SME development at the global level (Sawitri, 2023). In the USA, the Small Business Administration (SBA) manages special loan programs to minority-owned businesses, increasing diversity in the entrepreneurial environment (Schotte, et. al., 2023). The Diversity Fund of the United Kingdom funds projects run by underrepresented groups, enhancing accessibility when it comes to financing (Dogan & Yildiz, 2023). Portugal has the Compete 2020 initiative to enhance the competitiveness of SMEs through tax incentives and capacity-building. Such funding mechanisms not only alleviate funding pressures but also lead to a more inclusive economic engagement. They help vulnerable entrepreneurs break the systemic barriers to growth to foster innovation, increase jobs, and add value to national economic development (Khan, et. al., 2024).

In Africa, affirmative action financing has played a major role in SME growth, especially in countries like South Africa, Nigeria, and Ghana. The Small Enterprise Finance

Agency (SEFA) in South Africa has provided a targeted funding program to black-owned SMEs and encouraged economic inclusion (Burger, et. al., 2022). In Nigeria, the Bank of Industry has the Youth Entrepreneurship Support (YES) scheme, which aims at empowering youth in need (Ejobowah, 2023). The National Board Small Scale Industries (NBSSI) of Ghana has initiated programs to assist women and youth entrepreneurs. Such financing programs provide invaluable resources, education, and guidance, which foster entrepreneurship, self-reliance, and reduce unemployment among underserved communities, thereby contributing to increased economic empowerment (Avudufu, 2022).

In East Africa, affirmative action funding has been revolutionary in the growth of SMEs in the region, including nations like Uganda, Tanzania, Rwanda, Somalia, Ethiopia, and South Sudan (Okedele, 2021). The Youth Venture Capital Fund offers financial and advisory support to young innovators in Uganda (Kato & Tsoka, 2020). The Women Economic Empowerment (WEE) program in Tanzania has enabled women entrepreneurs in the country to enhance their economic presence (Malima, 2024). In Rwanda, the Business Development Fund is aimed at financing SMEs through innovation and sustainability (Rangwetsi & Van Der Walddt, 2021). Somalia and Ethiopia have established programs to empower marginalized groups through business start-ups and training (Abdullahi, 2021). Collectively, these actions boost employment, resilience, and inclusive growth in the region.

In Kenya, the affirmative action funding has been an SME development driver in both private and non-private organizations (Kiriti & Mogeni, 2020). Government-oriented programs like the Youth Enterprise Development Fund, Women Enterprise Fund, and Uwezo Fund have played a critical role in assisting youth, ladies, and local people-based enterprises (Agolla, 2024). The Micro and Small Enterprises Authority (MSEA) additionally eases financing and skill-building to SMEs. This money not only closes capital gaps on underserved populations but also enriches the entrepreneurial culture through mentorship and training. SMEs have

therefore become major drivers of economic growth, job creation and poverty alleviation in Kenya (Mutukaa, 2019).

1.1.1 Affirmative action funds

Affirmative action funds are strategic financial tools with the purpose of creating level access to groups historically locked out of mainstream economies (Mujtaba, 2023). These include mechanisms that provide essential assistance like grants and subsidized loans to vulnerable groups like women, ethnic minorities, and the disabled. By increasing financial assistance, beneficiaries would use the funds to start or expand businesses that would help in national growth (Schotte, et. al., 2023). Most of these programs also have skill-building programs to enhance managerial and operational skills (Agolla, 2024). Finally, affirmative action funds play a vital role in eliminating age-old inequality, promoting social justice and ensuring that the marginalized populations acquire skills and opportunities to excel in various fields.

Affirmative funding is crucial to the promotion of businesses owned by people of marginalized backgrounds. Such financial means assist in filling capital gaps so that a businessperson can start-up or expand his or her venture more comfortably (Lee, 2020). Access to startup or expansion capital is a significant obstacle to many underserved groups and these funds help address that barrier. Besides providing funds, most programs provide mentorship and de facto training, arming business owners with the know-how necessary to overcome entrepreneurial obstacles (Ejobowah, 2023). These funds promote diversity and innovation in the business environment by facilitating inclusion in the business environment (Sawitri, 2023). By allocating funds to affirmative action, equitable distribution of resources enables entrepreneurs facing underrepresentation to compete effectively, which leads to improvement in local economies and creation of jobs.

Affirmative action funds include several fundamental elements that increase their ability to serve disadvantaged entrepreneurs (Okedele, 2021). Grants constitute a cornerstone aspect- that is, they are non-repayable funds that can be used to start a business or grow a business without taking on debt. The other element is tailored loan products which are usually designed with smaller amounts and flexible repayment terms to fit the needs of that outside of conventional credit systems (Burger, et. al., 2022). These loans generally have interest rates that are below the market rates, which lowers the burden and can be reinvested into the business itself. One of the most important dimensions is technical assistance, which involves training, mentorship in subjects like financial literacy, marketing and enterprise management. These support services enhance the chances of business survival in competitive environments in a significant way (Dogan & Yildiz, 2023).

1.1.2 Growth of SMEs

In business terms, growth means increasing the size, profitability, market share, or earnings of a firm in a specified time (Parida, et. al., 2021). It is a major marker of organizational growth and prosperity. The following are some of the strategies that companies can use to achieve growth: expansion into new geographical locations, launching new products, increasing their customers, or improving their internal operations (Habersetzer et al., 2021). Growth to SMEs also involves the capacity to meet the transformation of the market and shifts in consumer demands (Bai et al., 2020). Continuous development is also important to SMEs because it assists them to create employment opportunities, enhance economic growth and realize strategic goals that are paramount to their long-term survival.

The growth of SMEs is vital to the notion of ensuring that they remain competitive, widen their customer base and consolidate their market base (Nizaeva & Coskun, 2021). The increase in the operations allows these operations to generate employment and enhance the economy and sustainability of the businesses. Growth empowers the SMEs to diversify their

products or services, has the capacity to explore new markets and to deal with emerging consumer needs. Also, the growth correlates with the increased profitability and financial strength (Yang & Tsou, 2020). As SMEs grow, they tend to have cost advantages, improved cash flow, and increased access to funds. Growth helps to enhance brand awareness, reputation in the industry, and the potential to attract strategic partners or investors who are essential in further development.

There are several indicators that are typically used to measure SME growth. The number of operational branches is one of the most noticeable indicators of the ability of a firm to expand to new markets and reach more clients (Goel & Nelson, 2021). Opening more outlets will allow SMEs to address a variety of consumer needs, cover increased areas, and increase brand visibility (Arkolakis, et. al., 2021). Sales volume is another important metric that measures revenue generation and market expansion of the enterprise. As SMEs expand, they seek to expand their sales by offering quality products that people can relate to. Increasing sales indicate a proper marketing and customer relations approach (Nizaeva & Coskun, 2021). By tracking these measurements, SMEs can determine the growth path and fine tune strategic choices.

The long-term success of SMEs depends on customer acquisition and retention. As such enterprises grow, they prioritize the expansion of their consumer base by engaging new consumers and retaining them as well (Goel & Nelson, 2022). With an increasing customer base, potential revenue increases, and more sales opportunities are created. It is also an indicator of market acceptance and satisfaction of what SME offers. Making customer experience a priority allows SMEs to foster loyalty and achieve sustained growth (Erdogan, 2023). Thus, customer numbers are an important performance metric of SMEs. This study has used three indicators to measure SME growth; number of branches, the number of sales and the size of customer base.

1.1.3 Affirmative action funds and growth of SMES

The effect of the affirmative action funding on SMEs is that it has a considerable impact on the growth of SMEs leading to economic growth and development, as well as social inclusivity (Avudufu, 2022). These funds are designed to fund ventures with long-term structural issues by providing them with access to necessary financial instruments that are otherwise unobtainable through mainstream channels. This financial assistance is critical in ensuring that SMEs grow their operations, create innovations and sustainability. These programs facilitate the inclusion of underrepresented entrepreneurs by allocating resources to support them (Agolla, 2024). Therefore, affirmative action does not only favor individual firms, but also the economy as it enhances diversity, competition, and enterprises.

Provision of affirmative action funds facilitates the elimination of institutional constraints affecting SME expansion. Many small businesses are burdened with insufficient funding, poor mentorship and lack of linkages to the market which restricts their expansion capabilities (Burger, et. al., 2022). Affirmative action programs are transformative in the sense that they offer custom-made support that can make these businesses capable of overcoming such constraints. This assistance is in the form of grants, subsidized loans and enterprise development services to aid the capacity of SME. Opening of these available provisions, affirmative action establishes a nurturing climate of innovation, market enlargement, and job creation (Malima, 2024). Consequently, these funds do not only act as a source of financial support but also as a strategic instrument to assemble dynamic and inclusive entrepreneurial ecosystems.

SMEs that enjoy the benefits of affirmative action funding are usually characterized by fast growth in terms of increased revenues and market penetration. This effect is boosted by investments in key areas like the adoption of technology, the workforce, and strategic marketing which enhance competitive positioning (Mujtaba, 2023). Moreover, effective use of

these funds may attract additional financing by private investors and venture companies, which will increase growth potential. The associations made by being involved in affirmative action schemes can be used to motivate other underrepresented business owners to seek the same opportunities (Schotte, 2023). The synergistic nature of affirmative action and SME development therefore does not only affect individual enterprises but also helps to build a more resilient and innovative economic environment.

This study examines key affirmative action initiatives, specifically the Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF), which are designed to support vulnerable groups through entrepreneurship. These funds are tailored to address the needs of demographics such as youth, women, and grassroots communities which forms the backbone of the informal small and medium enterprises (SMEs) in Nairobi County (Youth Enterprise Development Fund, 2025; Women Enterprise Fund, 2024). Unlike broader funding sources such as commercial loans or grants from the Micro and Small Enterprise Authority (MSEA), these programs offer specialized financial solutions, training opportunities, and market access benefits. Their objectives align with Kenya's Vision 2030 and the Bottom-Up Economic Transformation Agenda promoted by the current government, making them valuable indicators of how affirmative action contributes to SME development (Uwezo Fund, 2024). Additionally, their localized focus enhances their relevance and accessibility at the constituency level.

1.1.4 SMEs in Nairobi City County

Small and Medium Enterprises (SMEs) play a vital role in the economic growth of Nairobi City County. These businesses typically operate with limited capital and workforce, yet they are crucial for job creation, fostering innovation, and enhancing overall economic dynamism. The SME sector in Nairobi encompasses various industries, such as manufacturing, services, agriculture, and technology (Wachira & Mungai, 2023). They serve as the foundation for local

entrepreneurship, offering individuals opportunities to establish and expand their own ventures. Additionally, SMEs significantly contribute to the social and economic landscape by providing employment to a large segment of the population, thereby helping to reduce unemployment and poverty levels.

As Nairobi City County (2023) notes, the concentration of licensed SMEs in the region is quite high. There were 14,232 active SME businesses as of June 2023. According to data released by the Nairobi City County [NCC] (2023), SMEs are increasingly becoming popular and most of them are involved in clothing, household goods, and others. Although these businesses are becoming more common, many are still in the initial phases of development, primarily existing without progressing to subsequent stages such as survival, success, or take-off/maturity (ILO, 2023). The Kenya Private Sector Association (KPSA) (2023) observed that, despite the significant social and economic contributions of SMEs, their growth outcomes have generally fallen short of anticipated levels.

The results of the KNBS (2022) baseline survey indicate low rates of progress, stagnation, and failure among SMEs. According to the report, 38 percent of SMEs are growing, and 58 percent are stuck, with micro and small businesses especially at risk of shutting down during the first three years. This is also supported by KIPPRA (2021), which found that only 33 percent of SMEs survive past the three-year mark in the Nairobi metropolitan area. Equally, WB (2022) has found that 57 percent of small businesses are stagnated and only 33 percent of them show any measurable growth. These figures highlight the continuous struggle SMEs have in realizing sustainable growth, despite government initiatives in the form of affirmative action funds. They are limited financing, weak management, lack of mentorship, lack of innovation, technological constraints, and ineffective leadership.

This study focuses exclusively on micro and small enterprises within Nairobi County that have received direct funding through affirmative action programs such as the Youth Enterprise Development Fund (YEDF), the Women Enterprise Fund (WEF), and the Uwezo Fund. These enterprises are predominantly owned by youth, women, and persons with disabilities, and they operate across various sectors including retail trade, tailoring, agriculture, beauty and personal care services, and small-scale manufacturing. This emphasis can be explained by the policy purpose behind affirmative action funds: to drive inclusive economic development by empowering marginalized communities through specific financial assistance. Nevertheless, even with the expanded access to capital, a significant number of these businesses stagnate or fail to move past start-up stages, which casts doubts on the efficiency and sustainability of affirmative action financing schemes.

1.2 Statement of the Problem

Affirmative action funds are designed to address structural inequities by improving access to capital, mentorship, and capacity-building for marginalized groups such as women, youth, and underserved communities (Lee, 2020). These funds aim to stimulate inclusive entrepreneurship, enhance competitiveness, and promote equitable economic participation (Agolla, 2024). In Kenya, small and medium enterprises (SMEs) account for 98% of all businesses, contribute 30% to national employment, and generate approximately 20% of the GDP (Kenya Private Sector Alliance [KPSA], 2023). Despite this significance, SMEs continue to face persistent constraints, limited access to affordable financing, inadequate entrepreneurial skills, and complex regulatory environments. These challenges have been further exacerbated by external shocks such as the COVID-19 pandemic, which exposed the sector's fragility and led to widespread business closures and job losses (Wanambisi, 2022).

Although affirmative action funds were introduced to mitigate these barriers, their actual impact on SME growth remains inconclusive. For instance, Wanjohi (2021) found that fewer than 25% of youth-owned SMEs in Nairobi accessed formal financing, even under affirmative action schemes. Ndirangu and Muthoni (2022) reported that women-led enterprises benefiting from the Women Enterprise Fund often stalled due to inadequate mentorship and follow-up support. Similarly, Mwangi et al. (2023) observed that while such funds improved start-up rates in Nairobi's informal settlements, they had limited influence on long-term sustainability and profitability. These findings suggest a conceptual tension: affirmative action funds may catalyze SME formation but fall short in sustaining growth trajectories.

Existing studies such as Wanjohi, (2021); Ndirangu and Muthoni, (2022); Mwangi et al., (2023) have largely focused on fund disbursement patterns, beneficiary demographics, or generalized constraints facing SMEs. However, few studies such as Mango (2022); Agolla (2024) and Maina (2024) have empirically examined whether affirmative action financing leads to measurable improvements in business performance such as revenue growth, contract execution, and job creation particularly in urban contexts like Nairobi County, where informal entrepreneurship and public financing intersect. This leaves both conceptual and contextual gaps.

This study therefore aimed to evaluate the impact of affirmative action funds on the growth of SMEs in Nairobi County by examining the full pathway from access to funding, through capacity enhancement such as mentorship, equipment acquisition, to growth of SMEs through new customers, volume of sales and number of new branches opened. The conceptual map guiding this study is based on the access of funds to capacity development and growth of SMEs. By addressing this gap, the study contributes to evidence-based policymaking and the design of more effective support mechanisms for marginalized entrepreneurs in Kenya urban economy.

1.3 Objectives of the study

1.3.1 General objectives

The main objective of this study was to assess the effect of affirmative action funds on the growth of Small and Medium Enterprises (SMEs) in Nairobi County.

1.3.2 Specific objectives

The study was guided by the following specific objectives:

- i. To analyze the influence of the uwezo Fund on the growth of Small and Medium Enterprises (SMEs) in Nairobi County.
- ii. To assess the influence of the Youth Enterprise Development Fund on the growth of Small and Medium Enterprises (SMEs) in Nairobi County.
- iii. To examine the influence of the women enterprise fund on the growth of Small and Medium Enterprises (SMEs) in Nairobi County.

1.4 Research Questions

The study sought to answer the following research questions.

- i. What is the influence of uwezo funds on the growth of Small and Medium Enterprises (SMEs) in Nairobi City County?
- ii. How do youth enterprise development funds influence the growth of Small and Medium Enterprises (SMEs) in Nairobi City County?
- iii. What is the influence of women enterprise fund on the growth of Small and Medium Enterprises (SMEs) in Nairobi City County?

1.5 Scope of the Study

This study aimed to investigate the effect of affirmative action funds on the growth of Small and Medium Enterprises (SMEs) in Nairobi County. The study examined the relationship between Uwezo fund, youth enterprise development fund, women enterprise fund and growth

of SMEs. The study focused only on 376 respondents who formed the sample size of this study. The study was conducted within a period of two months from September to October 2025.

1.6 Significant of the study

1.6.1 Ministry of Cooperative and MSME Development

The study findings may be of great benefit to the Ministry of Co-operatives and MSME Development by offering insights into how affirmative action funds influence SME growth in Nairobi County. Evaluating fund effectiveness may help shape targeted policies that address small business challenges, ensuring more efficient resource allocation. These insights can guide the Ministry in refining support structures for MSMEs, leading to inclusive entrepreneurship and sustainable economic development. Ultimately, the study supports national development goals by informing practical interventions that promote equity and growth in the SME sector.

1.6.2 Entrepreneurs and SME operators

Entrepreneurs and SME operators may gain valuable understanding of how affirmative action funds affect business performance. Insights on funding outcomes and operational impact will help them make informed decisions in resource mobilization and strategic planning. The study's findings encourage active pursuit of available financial support and illuminate success factors in SME sustainability. This knowledge promotes resilience and innovation in enterprise management, contributing to a more competitive and vibrant business ecosystem that supports economic advancement and inclusive growth.

1.6.3 Policymakers

For policymakers, this research offers evidence that can improve funding mechanisms and economic development strategies. Identifying gaps and strengths in affirmative action programmes allows for better-targeted interventions that address equity in resource distribution. The findings help refine financial and regulatory frameworks to support SMEs more effectively. By enhancing the business environment through informed policies,

governments can stimulate job creation, economic stability, and poverty reduction in Nairobi County. The study serves as a practical tool for shaping impactful policy choices that drive inclusive and sustainable development.

1.6.4 Academicians and Researchers

Academicians and researchers may find the study useful for its contribution to literature on SME financing and affirmative action. The empirical data generated may support future research into entrepreneurship, development economics, and policy evaluation. Examining funding outcomes and business growth links theory to practice and strengthens analytical models. The research serves as a resource for academic discourse, curriculum development, and comparative studies across contexts. By advancing theoretical frameworks, it supports the evolution of knowledge in enterprise development and strengthens scholarly engagement with inclusive finance

1.7 Limitation of the Study

The researcher faced several constraints that could affect access to the information required for the study. A primary limitation is the restricted scope, as the research focused solely on selected SMEs within Nairobi County. While a broader analysis involving SMEs from various sectors and counties would have enhanced the study comprehensiveness, limitations in time and resources prevent such expansion.

Additional challenges were encountered from noncooperation among targeted staff, as persuading some respondents to complete questionnaires proved to be difficult, potentially impacting the achievement of the desired sample size. To mitigate this, the researcher emphasizes confidentiality and clarify that the data collected would be used exclusively for academic purposes.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive review and evaluation of theoretical foundations relevant to the study, alongside empirical literature addressing the key research variables. It also introduces a conceptual framework that acts as a structural guide for the investigation. Moreover, the chapter critically examines existing scholarly work to identify various interconnections among the study variables, incorporating interpretations and insights offered by previous researchers and academics to enrich the understanding of the topic under investigation.

2.2 Theoretical Review

A theory is a systematic collection of statements or claims, constructed to explain and predict a phenomenon which is not yet fully understood. In the case of theories according to Hawking (2011), the theories serve as analytical tools that help in interpreting, understanding, and project social events. Therefore, the theoretical framework has the capability of explaining such phenomena. Theories provide a researcher with a lens with which they view and interpret their world (Rocco & Plakhotnik, 2009).

This study is anchored on growth theory and complemented by social capital theory and human capital theory. Together, these three theories illuminate SME growth as a dynamic interplay between structural progression (Greiner), individual capability (Human Capital), and relational embeddedness (Social Capital). Affirmative action funds operate at the intersection of these dimensions: they provide financial tools to resolve structural crises, build entrepreneurial skills to enhance operational effectiveness, and foster networks that sustain long-term development.

This integrative framework explains why SMEs that receive targeted support through these funds are more likely to expand, formalize, and survive in competitive environments. In the context of Nairobi County, where informal entrepreneurship and financial exclusion are prevalent, the joint application of these theories highlights the importance of designing affirmative action programs that are not only financially inclusive but also capacity-building and network-oriented. Such programs should be embedded within broader policy frameworks that recognize SME growth as a staged, skill-dependent, and socially embedded process.

2.2.1 Growth theory

This theory was promoted by Greiner in 1994, which anchors this study. Singh (2022) expands on the model developed by Greiner who also conceptualizes the growth process of firms as a series of stages, each accompanied by a crisis, and states that the development of a firm to the next stage is, in part, the successful resolution of the problems of the previous one. Burt (2017) supports the theory of Greiner on growth by citing some of the most critical indicators of growth, such as increasing sales, profitability, returns on investment, market penetration, employee number, and innovation. Greiner suggests a five-stage model that can easily be influenced by the affirmative action funding.

The first stage focuses on innovation and creativity as the main impetuses of company growth. Small businesses and entrepreneurs use affirmative action funds to come up with new ideas that can be used to spur up business (Penrose, 2009). However, structuring these innovations can instill a crisis, especially in fund management because most of the small firms are informal. Phase two will be the implementation of formal financial systems (Coad, 2009). The framework developed by Greiner indicates that one can only solve the funding related problems by establishing formal procedures in management to facilitate the efficient utilization of the affirmative action funds (Levine, 2005). The adoption of such systems can result in autonomy issues as companies adapt to new working standards.

The third step involves the decentralization of activities, which improves performance and allows strategic allocation of affirmative action funds in different units (Galor, 2005). However, this decentralization can lead to control problems as firms struggle to regulate how well these units are performing. The fourth stage deals with the incorporation of decentralized functions. At this level, organizations can face bureaucratic inefficiencies, where the complexity of procedures starts to act as a barrier too, instead of a facilitator of optimal fund allocation.

Growth is attained in the fifth stage under the Greiner model as partnerships, alliances or joint ventures (Galor, 2011). Where firms are growing quickly or losing their resources, internal crises may emerge at this point. Affirmative investments may aid in the integration of businesses or entrepreneurial networks, which means greater growing opportunities. Nevertheless, the theory acknowledges that bureaucratic obstacles can impede the development of such essential partnerships.

Hassan, Mustafa, and Mete (2009) compare economic cycles of boom, depression, recession and recovery with growth phases ascribed to Greiner. They contend that planning must be done, at strategic levels at every step, to maximize utilization of affirmative action funds to grow. According to Nelima et al. (2016), growing enterprises at a rapid rate require more resources and information to be able to overcome such challenges that arise. Brand et al. (2018) used the growth model in evaluating the expansion of SMEs, which proves its usefulness.

Growth theory offers a structural roadmap for SME evolution, conceptualizing growth as a series of stages creativity, direction, delegation, coordination, and collaboration, each marked by internal crises that must be resolved for progression. Affirmative action funds such as the Uwezo Fund, YEDF, and WEF act as external interventions that help SMEs overcome

these crises. For instance, Uwezo Fund supports early-stage businesses in resolving financial instability through interest-free loans and group lending, enabling them to transition from informal operations to structured financial systems. WEF facilitates coordination and scaling by providing tailored credit and procurement support, helping women-led enterprises move into more formalized and competitive market positions. YEDF, through mentorship and training, equips youth-led SMEs to delegate and manage operations effectively, addressing managerial bottlenecks that often stall growth.

2.2.2 Social capital theory

Social Capital Theory which was proposed by Pierre Bourdieu in 1986. As per the theory, interpersonal relations, mutual trust and community-based networks can provide individuals and groups with access to necessary resources and opportunities to foster economic growth (Greenspan, 2014). According to it, individuals or businesses that have high social capital will stand better chances seeking support, exchanging knowledge, and forming strategic alliances, which will consequently enable them to grow and become successful (Eloire, 2018). It is through this theoretical lens that affirmative action financing can be used to create social capital that in turn can be used to create networks amongst disadvantaged entrepreneurs so that they can become competitive.

Among the proponents of Social Capital Theory, it is possible to note such scholars as Lin et al. (2001) who believe in the essential role of social networks as the key to economic success. Similarly, Robert Putnam (2000) indicates that social capital facilitates civic engagement and economic growth. However, the theory has been criticized for its universal application. Other researchers, such as Woolcock (1998), point out that not everyone can enjoy the benefits of social capital in the same way since some barriers in the structure may delay accessibility to social capital among some groups of people. Granovetter (1992) also discourages such a theory of ignoring the importance of weak ties as a means of exploring

business opportunities. Such diverging perceptions point to the complexity of social capital and its mixed effects on the economy.

Social Capital Theory adds a relational dimension to the growth process. It emphasizes the role of trust, networks, and community engagement in accessing resources and opportunities. Uwezo Fund's group lending model and community-based financing mechanisms exemplify this theory in action. By fostering peer accountability and collaborative borrowing, the fund builds social capital that enhances creditworthiness and business stability. WEF also contributes to social capital by enabling women entrepreneurs to form procurement alliances and participate in supply chains, thereby expanding their market reach and resilience. These relational networks not only facilitate access to financial and informational resources but also create a supportive ecosystem that sustains growth beyond the initial funding cycle.

2.2.3 Human capital theory

The Human Capital Theory was presented by Theodore Schultz in 1961 and subsequently improved by Gary Becker in 1964 and offers the argument that human investment in education, skills development, and health will increase individual productivity and economic performance (Schultz, 1961; Becker, 1964). It cites human capital as a key driver of growth especially in industries dependent on labour. In the SME environment, the Youth Enterprise Development Fund (YEDF) aims to support entrepreneurship potential by financing training and mentorship activities. This theory holds that the provision of young people with pertinent skills and knowledge enhances business performance and sustainability in the long term (Becker, 1964).

Proponents of the Human Capital Theory are Mincer (1974) who identified a relationship between educational level and productivity and improved earnings. According to Sachsacharopoulos (1994), the benefits of vocational education in emerging economies are very high. Acemoglu and Autor (2011) supported the theory by showing how innovation is

developed through skill improvement. Others, including Bowles and Gintis (1975), argue that the education system reinforces class differences. Pence (1973) criticized this theory on the grounds that it assumes perfect working conditions in the labor market, whereas Collins (1979) disputed the fact that academic credentials are often a measure of prestige and not necessarily talent. Nevertheless, Human Capital Theory persists in impacting the development and entrepreneurship policies (Psacharopoulos, 1994; Bowles & Gintis, 1975).

Human Capital Theory complements this structural view by focusing on the internal capabilities of entrepreneurs. It posits that investments in education, skills, and training enhance productivity and business performance. YEDF is particularly aligned with this theory, as it provides financial literacy, mentorship, and strategic planning support to youth entrepreneurs. These interventions build the cognitive and managerial competencies necessary for navigating Greiner's growth stages. Without such human capital development, SMEs may receive funding but lack the capacity to deploy it effectively, leading to stagnation or failure. Thus, human capital serves as the engine that powers each stage of structural growth.

2.3 Empirical Review

This section summarizes the research conducted on how strategic leadership practices and their corresponding measures of sustainability. The review is based on research published in journals, articles, and books.

2.3.1 Uwezo fund and growth of SMEs

Interest free loans have now become a feasible way of financing SMEs particularly in regions where bank financing services are unacceptable. Ahmed et al. (2022) examined the effect of interest-free loans on SME growth. This study adopted a quantitative approach and the research dealt with SMEs in rural Pakistan done on 150 SMEs. The questionnaires used were structured questionnaires to collect data. It was revealed that SMEs which used interest-free loans had increased revenues with 35 percent and workforce with 20 percent in two years. By using a

mixed-methods approach (based on surveys and interviews), Zhao and Liu (2023) evaluated the usefulness of interest-free loans to SMEs in China. Their results revealed that these loans increased financial freedom, as well as decreased dependence on the expensive debt thus establishing long-term growth.

There has been increased use of community-driven financing as an important mechanism for promoting the development of SMEs, especially in disadvantaged areas. Translating the results of the research, in the article by Moyo and Nkosi (2021), a study on the role of community-based financing in supporting SMEs in South Africa was carried out based on qualitative research methods. The research was conducted with 50 entrepreneurs of SMEs. It was found that these financing mechanisms increased local investment and collaboration and led to 30 percent increase in business activity among those involved.

Indika et al. (2021) investigated the impact of loan programs on the performance of small and medium enterprises (SMEs), with specific attention to the SMILE III Revolving Fund Loan Scheme in Sri Lanka. The study focused on SME loans disbursed under this scheme during the 2014 fiscal year, identifying 122 loans issued within the Western Province as the research sample. Data was gathered through both primary sources—directly from SME records—and secondary sources, including local government databases. Using multiple regression analysis, the researchers examined how various financial and operational factors influenced profitability. The findings indicated that most loans were concentrated in the Gampaha District. Moreover, the analysis revealed a positive correlation between increased profits and variables such as loan size, total project cost, and employment generation. Additionally, investments in equipment and plant upgrades were also found to contribute positively to profit growth. The study underscores the role of targeted financial support in enhancing SME performance.

Tran and Hoang (2022) examined the significance of revolving funds in the development of Vietnamese businesses in a research survey of 120 companies. Their analyses revealed that the revolving fund system did not only provide immediate financial help but also implied the formation of disciplined financial management that eventually led to sustainable business development. These works altogether point out the central role of revolving fund mechanisms in improving SME financial stability and growth potential.

2.3.2 Youth enterprise development fund and growth of SMEs

Group lending has proven useful in advancing SME growth by alleviating credit accessibility and enhancing the responsibility of the borrowers to one another. Nguyen and Tran (2021) conducted a survey of how group lending impacts SME performance in Vietnam. The study adopted a quantitative approach and analyzed 200 SMEs in urban settings. The survey was used to obtain information on financial parameters such as revenue growth and loan repayment performance. Conversely, the findings revealed that group lending SMEs enjoyed 40-percent increase in revenue compared to the non-participants. Research conducted by Houdhury et al. (2023) examined the correlation between social capital and the effectiveness of group lending in Bangladesh. According to the 150 SME responses achieved through structured questionnaires, the human connections created through group lending were said to have assisted in bettering repayment patterns and providing the needed business support resources that aided in SME development and sustainability in the long term.

Business Development Services (BDS) play an important role in assisting SME to expand since the BDS offers specialized services related to financial planning, marketing, and operational management. Mwangi and Muriuki (2022) explored the impacts of BDS on SMEs growth in Kenya using mixed-design research. With a sample of 250 small and medium-sized enterprises, the research utilized surveys and interviews to gather both numerical and descriptive data. Findings revealed that SMEs receiving tailored Business Development

Services (BDS) showed improvements in revenue and operational efficiency, which were reflected in increased employment levels. Owusu et al. (2023) ascertained the importance of BDS in SME development in Ghana through a quantitative survey on 180 SMEs. Their findings indicated that market penetration and innovation were hugely augmented with the availability of BDS, and this underpins the importance of such services to the success of SME.

The flexible repayment conditions have emerged as a key element in the growth of the financial sustainability and development of SMEs so that these organizations can be able to deal with liquidity pressures. Adeyemi and Adeola (2021) conducted a longitudinal study to determine the relationship between the elements of flexible repayment conditions and SME development in Nigeria. This study analyzed the data of 120 SMEs within a three-year period and utilized the financial performance indicators of profit margin and liquidity ratios to determine the impact. This study findings demonstrated that SMEs that had flexible repayment activities were in better cash flow and profitability. Similarly, Ali and Khan (2023) investigate the relationship between flexible repayment and the sustainability of SMEs in Bangladesh based on a quantitative study in which 200 SMEs were surveyed. They found that SMEs under flexible repayment schemes could re-invest more in their business operations better which leads to sustainable growth and resilience in the business operations of SMEs.

Mango (2022) conducted a study examining the impact of the Youth Enterprise Development Fund (YEDF) on the performance of small-scale improved indigenous chicken (IIC) enterprises in Siaya County. The research employed a systematic sampling technique to select participants from all wards within Gem Sub-County. Primary data were collected using semi-structured questionnaires, and descriptive statistics were used to evaluate the extent of management practice adoption among IIC enterprises. To analyze the determinants of YEDF credit utilization, the study applied a probit regression model, while the impact of YEDF credit on enterprise income was assessed using Propensity Score Matching (PSM). The findings

revealed that YEDF programs significantly enhanced access to institutional support services including training, extension services, loans, and veterinary care for participating farmers. Furthermore, the study highlighted that YEDF initiatives contributed to competence-based skills development, thereby increasing the uptake of sound management practices among young agribusiness entrepreneurs.

2.3.3 Women enterprise fund and growth of SMEs

A diverse portfolio of loan products is essential in facilitating the growth of SMEs through their consideration of their specific financial needs and operations. Adeoye and Fadeyi (2021) explored the effects of different loan products on the performance of SMEs in Nigeria. Their research employed quantitative study design, where they reached 300 SMEs in various industries. Information regarding loan utilization and business performance was gathered through structured questionnaires. The results showed that small and medium enterprises (SMEs) with access to a diverse range of financing options, including microloans and equipment funding, experienced higher revenue growth compared to those with limited financing choices. Muriithi and Muli (2022) examined the role of varied financial tools in SME development based on mixed-methods study design on 150 SMEs in Kenya. Their results demonstrated that companies that accessed diverse loan products enjoyed better liquidity, innovation ability, and market access, and this demonstrated that diverse financial products enhance the overall success of SMEs.

Access to affordable credit is also one of major factors in the growth of SMEs which facilitates the availability of funds to firms and allows them to expand quite well. Okeke and Eze (2023) conducted a quantitative study examining the effect of low-cost credit on SMEs development in Nigeria using 250 SMEs. The data collected comprised of such measures as the growth of revenue and employment. Their data indicated that SMEs that could easily access affordable credit realized significant growth in revenue as well as employee number over two

years. Ngugi and Karanja (2022) also studied the credit availability and its impact on the growth of SMEs in Kenya, surveying 200 SMEs and adopting a mixed-methods approach. Their research confirmed that cheaper borrowing facilities had enhanced the ability of SMEs to increase their operations and invest in the technological advancement of their businesses, and lending policies should focus on the minimization of borrowing costs to provide a favorable environment that fosters SME development.

Local Purchase Order (LPO) financing has emerged as an important source of funding to SMEs, which makes them obtain the financial resources that they require to implement government contracts or corporate contracts. Karanja and Mwangi (2021) examined the impact of LPO financing on the growth of SMEs in Kenya through quantitative research design. They analyzed 180 SMEs that had used LPO financing, and their data was obtained through surveys. The results showed that these SMEs have been able to improve the execution of contracts by 55 percent and increased overall revenues by 30 percent. In a similar study, Ibrahim and Othman (2023) investigated LPO financing as a SME growth factor in Nigeria using a mixed methodology of 150 SMEs. They found that LPO financing positively affected liquidity and allowed SMEs to develop strategic ties with bigger companies, gaining more market exposure and unleash significant growth potentials.

2.2.4 Growth of SMEs

Expanding branch networks serves as a significant measure of growth for small and medium-sized enterprises (SMEs), reflecting enhanced market presence and operational scale. Opening multiple branches allows these businesses to reach a broader customer base and boosts brand recognition. As has been noted by Eijdenberg et al. (2016) an increase in branches may result in economies of scale, which in turn will reduce the cost of production per unit and make the process overall more efficient. In addition, Kauffman and Alesandrini (2018) claim that the development of local economies can be triggered by expanding branches, which create job

positions. Calabrese and Corbari (2015) also believe that more outlets enhance customer satisfaction and service delivery, which leads to loyalty. A branch expansion SME is not only able to boost business potential but also enhances the economic growth by provision of employment and accessibility to services.

Sales volume is an important indicator of the growth of SMEs because it indicates how well the business can earn money and continue being present in the market. An increase in the sales figures usually shows effective penetration of the market and good promotion strategies. According to Agolla (2024) the use of affirmative action funding is significant in helping the SMEs to improve their sales by availing finance to the SMEs to invest in product development and marketing activities. Ayyagari et al. (2011) also note that when sales are increased, it improves the cash flow so that the company can reinvest in growth opportunities. According to Zins and Weill (2016), an increase in sales volumes increases the bargaining power of the SMEs in their relationships with suppliers, resulting in favorable terms and prices. Therefore, a long-term competitive and viable business is indicated not only by a sustained increase in the volume of sales, but also by an increase in the volume of sales in the long term.

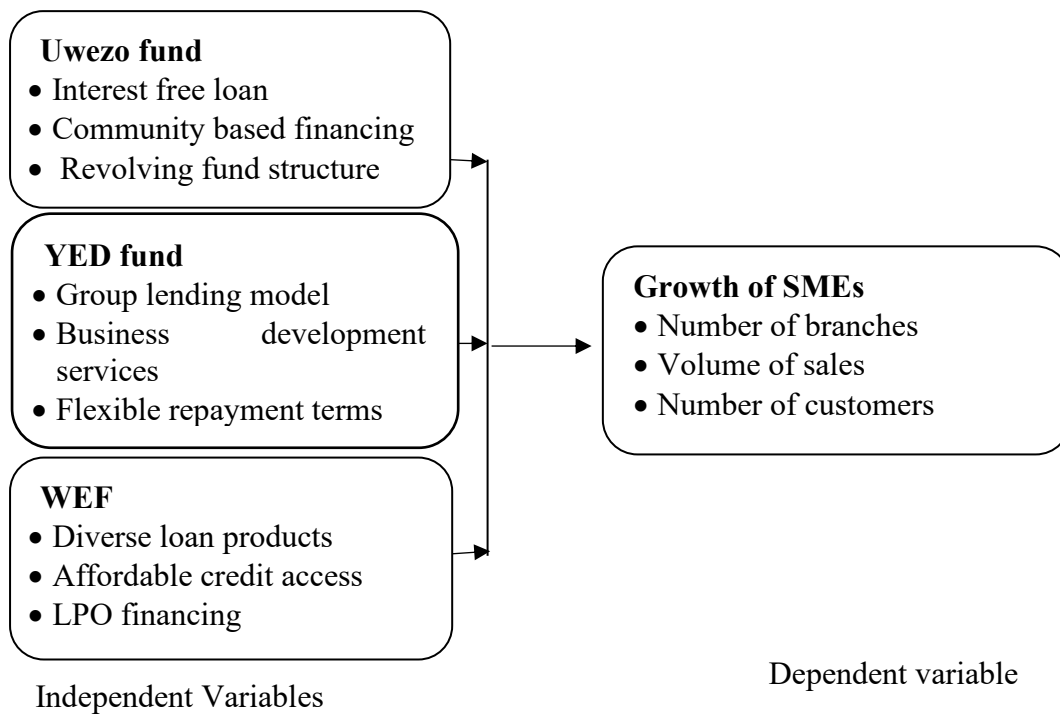
The size of the customer base is also a critical element of SME expansion since it determines revenue increase and market penetration. A growing customer base demonstrates the capacity of an SME to satisfy the consumer, and to instill brand loyalty. Maina (2024) observes that customer acquisition is facilitated by the funding of affirmative action that enables SMEs to make investment in marketing and relationship management tools. Macdonald (2024) contends that access to funding is a critical driver of SME growth, enabling them to broaden their market reach by opening new branches and diversifying the range of products and services they offer.

Kauffman and Alesandrini (2018) state that a diversified customer profile prevents exposure to the fluctuations of the market, thereby keeping SMEs stable when the economy is not performing well. Hsu et al. (2014) indicate that as the customer base increases, word-of-mouth promotion is further boosted, leading to an increased growth. By attracting more customers, SMEs become financially sound and help in a healthy and competitive business environment.

2.4 Conceptual Framework

A conceptual framework, as defined by Mugenda and Mugenda (2009), visually represents the relationship between independent and dependent variables in research. This study framework includes Uwezo fund, YED fund and WEF as independent variables and growth of SMEs as the dependent variable. Figure 2.1 illustrates the hypothesized relationships for exploration and analysis by the researchers.

Figure 1
Conceptual Framework



2.5 Operationalization of Variables

Operationalization is clearly defining variables in quantifiable terms and putting them into operation so that they can be analyzed quantitatively in research endeavors. Within the scope of this study, operationalization entails outlining the methods by which each variable is assessed and determining the scale that is employed for measurement.

Table 1
Operationalization of Variables

Category	Variable	Operationalization	Measurement	Scale
Independent Variables	Uwezo fund	Interest free loan	Structured Questionnaires	Ordinal
		Community based financing	Structured Questionnaires	Ordinal
		Revolving fund structure	Structured Questionnaires	Ordinal
	YED fund	Group lending model	Structured Questionnaires	Ordinal
		Business development services	Structured Questionnaires	Ordinal
		Flexible repayment terms	Structured Questionnaires	Ordinal
	WEF	Diverse loan products	Structured Questionnaires	Ordinal
		Affordable credit access	Structured Questionnaires	Ordinal
		LPO finance	Structured Questionnaires	Ordinal
	Dependent Variable	Growth of SMEs	Number of branches	Structured Questionnaires
Volume of sales			Structured Questionnaires	Ordinal
Number of customers			Structured Questionnaires	Ordinal

2.5 Summary of Literature Review

The study is informed by the social capital theory, according to which, the social relationships and associations allow the individuals and businesses to engage with sources and opportunities that contribute to economic developments. The theory brings out the fact that individuals who have strong social networks can leverage their support and create strategic partnerships, hence, helping the business to grow and thrive. Furthermore, the growth theory developed by Greiner outlines the stages of organizational evolution indicating that the affirmative action funding can be instrumental in overcoming the crises that occur on each of these stages. A synthesis of these theoretical perspectives presents a comprehensive perspective through which to analyze how affirmative action initiatives can facilitate the development of SMEs by enhancing social networks and offering some form of institutionalized and regulated funding.

The existing literature highlights the significant contribution of affirmative action funding programs such as the Uwezo Fund, Youth Enterprise Development Fund (YED), and Women Enterprise Fund (WEF) in addressing financial barriers and promoting inclusivity among small and medium-sized enterprises (SMEs). The interest-free loans provided by the Uwezo Fund allow entrepreneurs to invest in various critical aspects of their businesses. Meanwhile, the group lending approach of the Youth Enterprise Development Fund fosters shared responsibility and resource pooling among members. The conceptual framework illustrates the relationship between these funding initiatives and their impact on the growth of SMEs. This framework will provide an in-depth investigation into how these funding models improve social capital and promote long-term growth, hence improving inclusive economic development.

2.6 Research Gap

Table 2
Summary of Knowledge Gaps

Author	Focus of the study	Methodology used	Findings	Knowledge gap	Focus of Current Study
Zhao and Liu (2023)	Effectiveness of interest-free loans among Chinese SMEs	Mixed-methods approach that included surveys and interviews	Loans facilitated greater financial autonomy and reduced dependency on high-interest debt, thus promoting sustainable growth	This study was carried out in China which may present different situation as compared to Kenya	The current study has been carried out in Kenya
Keragia, (2020)	Strategic revolving fund practices and performance of micro and small businesses in Wajir County, Kenya	Quantitative data Qualitative data	Revolving fund structure allows for reinvestment of profits	The study focused on strategic revolving fund practices	The current study focuses on specific affirmative action funds
Adeoye and Fadeyi (2021)	Impact of diverse loan products on SME Performance in Nigeria	Quantitative research design	SMEs with access to a variety of loan products exhibit increase in revenue	The study was carried outside Kenya which may have favorable condition to SMEs as compared to Kenya	The current study focuses on component of Youth development funds on growth of SMEs
Ngugi and Karanja (2022)	Credit accessibility and its impact on SMEs in Kenya	Mixed-methods approach	Affordable credit significantly enhances SMEs' ability to scale operations	The study focused on general access to credits	The current study focuses on access to YEDF, which is one of the affirmative funds.
Moyo and Nkosi (2021)	effects of community-based financing on SMEs in South Africa	Qualitative research design	Community financing initiatives increased local investment and collaboration among SMEs	The study employed qualitative research design	The current study adopts quantitative research design. Additionally, the study is carried out in Kenya.
Choudhury et al. (2023)	social capital and group lending effectiveness in Bangladesh among SMEs	structured questionnaires	Support business networks among SMEs	The study was carried in Bangladesh	The current study is carried in Kenya

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the fundamental methodological approaches employed to address the research question. It focuses on the underlying philosophical assumptions and the overall research framework that directed the study. Additionally, it details the process of selecting the target population, the sampling methods used, the techniques for gathering data, the procedures for pilot testing, and the systematic steps taken to analyze the data collected. Finally, the ethical standards that were applied to the research process to promote integrity and accountability during the research process are also incorporated into the chapter in conclusion.

3.2 Research Design

This research employed a cross-sectional descriptive survey approach to assess how affirmative action funding influences the development of small and medium-sized enterprises in Nairobi County. This method is suitable for gathering data at a specific point in time and is effective for exploring the relationships between different variables without altering the natural research setting. Despite the implication of the term impact, cross-sectional designs are relevant in establishing associations and tendencies that can be used to infer directional effects. Punch and Oancea (2014) observe that these designs are useful in measuring the strength of associations between the variables due to statistical analysis in accordance with the goals of the study.

Blumberg et al. (2014) explain that a research design constitutes a skeleton of data collection and analysis. The choice of an appropriate design entails informed decisions regarding different elements of research process, including its scope, timing and the data that was collected. The cross-sectional approach achieves several research objectives: it makes it possible to describe the characteristics of certain phenomena, profile the population, estimate proportions, and study people, materials, documents, and events (Ghauri, Rohnaug, & Strange,

2020). In this regard, the design of the research allows a detailed analysis of how various affirmative action funding sources are related to SME growth in terms of diverse demographic and operational aspects.

3.3 Target Population

Stokes (2013) describes a population as the entire group from which a researcher intends to draw conclusions. In contrast, the study population refers to a specific subset of individuals or organizations from whom data is collected directly for analysis. Distinguishing between these two concepts is important for structuring the research and accurately interpreting results (Blumberg, Cooper, & Schindler, 2014). For this study, the focus was on 6,176 small and medium-sized enterprises (SMEs) operating within Nairobi City County that received support through affirmative action funds such as the Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (WEF), and Uwezo Fund during the years 2022 to 2024 (NGAAF, 2024). Given that Nairobi County hosts the largest concentration of SMEs in Kenya, it serves as an ideal location for evaluating the accessibility and impact of these financial support programs. Its economically mixed culture also forms a good background through which to examine the impact of funding on different areas and categories of people. The emphasis on SMEs is occasioned by the fact that they are susceptible to socio-economic demands, especially when it comes to competing with other established firms.

Table 3
Distribution of Target Population

Sector	Population	Percentage
Financial services	556	9
Agriculture	432	7
Construction	679	11
Energy	618	10
Education	803	13
E-commerce	371	6
Transport	432	7
Telecommunications	556	9
Insurance	371	6
Healthcare	494	8
Food and Beverage	865	14
Total	6176	100

Source: National Government Affirmative Action Fund (NGAAF) (2023)

3.4 Sampling Design and Sample Size

Sampling design is a systematic process of defining a target population and the process followed by the researcher to pick the specific elements in the sample (Blumberg, Cooper & Schindler, 2014). In this study research, stratified sampling method was adopted. This approach allows a researcher to concentrate on a particular subgroup, thereby reducing the volume of data required for collection without compromising the integrity of the research outcomes (Patten & Newhart, 2017). The selection of respondents was guided by the Yamane formula, which provides a method for accurately calculating the appropriate sample size based on the total population size.

where n is sample size, N the total population and e the level of precision.

Thus, n =

$$n = \frac{N}{1 + N(e)^2}$$

6176

$$1+6176 (0.05 \times 0.05)$$

$$n= 6176/ [1+(6176*0.05*0.05)]$$

$$=376$$

The sample size was calculated based on the strata in which the SMEs were classified in the population. Each stratum frequency was calculated in proportion to the percentage of SMEs in that category. The study focused on SMEs in the following sectors. Table 3.2 shows the distribution of the sample size.

Table 4
Distribution of Sample Size

Sector	Population	Percentage
Financial services	34	9
Agriculture	26	7
Construction	41	11
Energy	38	10
Education	49	13
E-commerce	23	6
Transport	26	7
Telecommunications	34	9
Insurance	23	6
Healthcare	30	8
Food and Beverage	53	14
Total	376	100

The population of interest in this research was the owner/manager of SMEs. The choice of the respondents was since they possess the information which this study sought since they are involved in daily activity and operation of the targeted SMEs.

3.5 Data Collection Instruments

This study utilized a structured questionnaire as the primary data collection instrument. The questionnaire was designed to gather information on participants' viewpoints, behaviors, achievements, and personal experiences relevant to the study objectives (Mellenbergh, 2008). It featured closed-ended items to ensure consistency and minimize response bias, while safeguarding respondents from any form of influence or coercion (Franker, 2006). The choice

of a questionnaire was informed by its affordability, ease of administration, and time efficiency, as emphasized by Franker (2006). Responses were measured using a 5-point Likert scale ranging from 1 (Not at all) to 5 (To a very great extent), following the approach described by Kiess and Bloomquist (2008).

The questionnaire was carefully designed to capture both demographic characteristics and responses aligned with the study's core constructs. It was divided into two main sections. The first section, Section A, focused on gathering demographic data from respondents, including age, level of education, business sector, number of employees, type of ownership, and sub-county location. These variables provided contextual background and allowed for comparative analysis across different SME profiles.

Section B of the questionnaire was designed to assess the influence of affirmative action funds on the growth of SMEs. Responses in this section were measured using a 5-point Likert scale, ranging from 1 (Not at all) to 5 (To a very great extent). This section was organized into four subscales, each corresponding to the study's independent and dependent variables.

The first subscale focused on the Uwezo Fund and included six items that measured aspects such as financial relief, long-term sustainability, community-based trust, localized funding networks, access to revolving funds, and strategic planning capacity. The second subscale addressed the Youth Enterprise Development Fund (YEDF), comprising six items that evaluated group lending mechanisms, collective borrowing, training and mentorship programs, support services, flexible repayment terms, and adjusted loan structures.

The third subscale examined the Women Enterprise Fund (WEF) through six items that assessed tailored loan options, sector-specific financing, access to low-cost credit, competitiveness enhancement, Local Purchase Order (LPO) financing, and supply chain participation. Finally, the fourth subscale measured SME growth using six indicators: branch

expansion, sales volume, product positioning, customer base growth, brand visibility, and revenue stability. These subscales were developed to align with the study's objectives and theoretical framework, ensuring construct validity and facilitating replicable analysis. The full questionnaire, including all items, is provided in Appendix II.

3.6 Data Collection Procedures

The researcher employed the drop-off and pick-up technique to distribute the questionnaires. This approach involves personally delivering the questionnaires to respondents at their chosen locations and collecting them once completed. Researchers have noted that this method serves as an effective alternative to surveys conducted via mail or phone (Ghauri, Ronhaug, & Strange, 2020). To support data collection, three research assistants were briefed on the study's goals and ethical considerations, and they assisted in distributing the questionnaires to selected participants. To achieve a representative sample across the region, approximately 23 respondents were chosen from various areas within each of the 17 sub-counties.

A targeted distribution strategy was also adopted, whereby an average of two questionnaires were allocated to each of 10 sub-sectors, except for the food and beverage sub-sector, which received three questionnaires due to its higher concentration of SMEs. This allocation was applied uniformly across all 17 sub-counties to prevent bias toward any sub-sector. The method ensures equitable representation and enables the researcher to gather insights from a wide range of SME categories, thereby achieving the required sample size. In instances where respondents delay in completing the questionnaire, reminder phone calls were made. In instances where clarification was needed, the researcher or the trained research assistants provide the necessary guidance to the participants

3.7 Pilot Testing of Research Instrument

Incorporating pilot testing into the research process was essential to confirm that the chosen instrument is suitable for achieving the study's objectives (Stokes, 2017). To assess the accuracy and consistency of the data collection instrument, a preliminary trial was conducted involving a subset of the target population. This subset represented 10% of the overall sample, amounting to 37 participants. This population was not involved in the final study to avoid biasness. This pilot study sample size was considered appropriate for thoroughly evaluating how effectively the instrument performs in capturing the intended data and aligning with the research goals.

3.7.1 Validity test of research instrument

Punch and Oancea (2014) describe validity as the extent to which the data gathered accurately reflects the true characteristics or phenomena being studied, highlighting the importance of precise and trustworthy information from the selected data collection techniques. To enhance validity, it was important to employ the most appropriate and precise research instrument available. In addition, the research supervisor played a pivotal role in supporting content validity by offering oversight and guidance during the instrument's development. This involvement helped to ensure that the research tool effectively captures all relevant aspects of the study and aligns with its stated objectives

3.7.2 Reliability test of research instrument

Reliability refers to the consistency of a measurement and involve assessing the extent to which the measurement is free from random or fluctuating errors (Blumberg, Cooper, & Schindler, 2014). It reflects the level of objectivity in the measurement process and ensure that the instrument yields stable results over repeated applications (Punch & Oancea, 2014). To determine the reliability of the instrument used in this study, the Cronbach Alpha method was applied. This technique assessed the internal consistency of the items based on a standardized

scoring framework. Golafshani (2003) provides the following benchmarks: scores above 0.9 indicate excellent reliability, those above 0.8 are considered good, those above 0.7 are acceptable, and scores below 0.59 are deemed unacceptable. Therefore, for this study, an alpha value greater than 0.7 was regarded as satisfactory.

3.8 Data Processing and Analysis

The data obtained was processed using Statistical Package for Social Sciences (SPSS) Version 24. The analysis incorporated both descriptive and inferential analysis. Descriptive statistics involve calculating percentages, means, and standard deviations for items related to the study variables, thereby revealing general patterns within the dataset. Inferential analysis includes correlation and regression methods (Kothari, 2004). Correlation analysis assisted in determining the strength and significance of associations between independent and dependent variables. Spearman correlation, a non-parametric approach, was employed to assess relationships without assuming normal data distribution, making it suitable for variables measured on ordinal or higher-level scales. The regression equation used in the analysis is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y is the dependent variable growth of SMEs

α is the model intercept

β_{1-3} is the coefficient of independent variables

X is the independent variable

X_1 – Uwezo fund,

X_2 – YEDF,

X_3 – WEF,

ε represents the error term in the model

Although Likert-scale data is ordinal, it is widely accepted in social science research to treat aggregated Likert responses as interval-level data when composite scores are derived from multiple items. This approximation allows for parametric analysis using linear regression, which offers interpretable coefficients, supports hypothesis testing, and enables diagnostic checks such as multicollinearity, heteroskedasticity, and residual normality. Linear regression was therefore deemed appropriate for modeling the relationship between affirmative action funds and SME growth. This choice is further justified by the study's objective to estimate the magnitude and direction of influence of each fund on SME performance outcomes. Linear regression provides interpretable coefficients, allows for hypothesis testing, and supports model diagnostics such as multicollinearity, heteroskedasticity, and normality of residual features that are essential for validating the robustness of the findings.

3.9 Diagnostic Tests

Prior to conducting regression analysis, it is essential to verify the underlying statistical assumptions through a series of diagnostic evaluations. These tests serve to confirm the validity and reliability of the regression model by ensuring that its foundational assumptions are adequately met. In this study, the diagnostic procedures encompassed assessments for multicollinearity, heteroskedasticity, autocorrelation, and normality to determine model appropriateness (Kosack, Page, & Klatser, 2017).

3.9.1 Multicollinearity Test

Failure to address multicollinearity poses a significant threat to the stability of parameter estimates, thereby complicating the interpretation of the influence exerted by independent variables on the dependent outcome. If not properly identified and corrected, multicollinearity can undermine the reliability of regression coefficients. To detect this issue, Perez-Melo and Kibria (2020) employed the Variance Inflation Factor (VIF) within statistical software to evaluate the extent of multicollinearity among predictor variables. A VIF value exceeding 10

is commonly interpreted as indicative of problematic multicollinearity, necessitating remedial action. One frequent cause of this phenomenon is the inclusion of an excessive number of explanatory variables relative to the dependent construct. In response, the variable exhibiting the highest VIF were excluded from the model, thereby recalibrating the significance of remaining predictors that may have previously appeared statistically insignificant.

3.9.2 Autocorrelation Test

To ensure the robustness of the regression model, it is imperative to eliminate both serial and autocorrelation. The presence of autocorrelation inflates the variance of estimated coefficients and adversely affects the accuracy of standard errors, thereby compromising the reliability of statistical inference (Chen, 2016). In this study, the Wooldridge test was employed to detect autocorrelation within panel data. A probability value exceeding the 5% threshold indicated the absence of a statistically significant relationship between the residuals and the dependent variable. To mitigate the effects of first-order serial correlation, a fixed effects regression incorporating AR (1) disturbances was implemented. This approach stabilizes coefficient variance and enhances model precision. Additionally, the model was assessed for potential omitted variable bias to ensure that all relevant explanatory factors are adequately captured.

3.9.3 Heteroskedasticity Test

Homoscedasticity refers to a condition in which the error terms across all observations exhibit constant variance, thereby satisfying one of the key assumptions of classical linear regression. Conversely, when this condition is violated, heteroskedasticity is present, indicating that the variance of the residuals varies across observations. A common source of heteroskedasticity arises from model misspecification, particularly the exclusion of relevant explanatory variables. In such cases, the omitted variable's influence is inadvertently absorbed by the error term, leading to distorted inference and unreliable conclusions. To assess the constancy of error variance, this study employed both the Breusch-Pagan and Cook-Weisberg tests. The presence

of heteroskedasticity inflates standard errors and undermines the precision of coefficient estimates. To address this issue, robust standard errors were computed, thereby correcting for heteroskedasticity and enhancing the reliability of statistical inference.

3.9.4 Normality Test

To assess the normality of the data distribution, the Jarque-Bera test was employed. This test evaluates whether the skewness and kurtosis of the residuals align with those expected under a normal distribution. A p-value (Asymp. Sig. > χ^2) greater than 0.05 suggests that the null hypothesis of normality cannot be rejected, indicating that the data are approximately normally distributed. Conversely, a p-value below 0.05 implies a deviation from normality, warranting further diagnostic attention. The Jarque-Bera test is widely utilized in empirical research due to its reliability and ability to yield definitive conclusions regarding distributional assumptions.

Table 5
Diagnostic Tests

Key Diagnostic Test	Sample Statistics	Interpretation
Normality Tests	Jarque Berra Test	P<0.05 is an indication that data is normally distributed. P>0.05 Data is not normally disturbed.
Multicollinearity Test	Variance Inflation Factor (VIF) test	Range for VIF values of 1-10, indicates no multicollinearity. VIF values less than 1 or greater than 10, indicates multicollinearity
Autocorrelation Test	Wooldridge F Test	P<0.05 is an indication that auto correlation exists. P>0.05 is an indication that autocorrelation doesn't exist.
Heteroscedasticity Test	Breusch-Pagan Cook- Weisberg Test	&P<0.05 is an indication that heteroscedasticity exist P>0.05 is an indication that doesn't heteroscedasticity exist

3.10 Ethical Consideration

This study prioritized the safety, dignity, and well-being of all participants. SME owners were engaged respectfully, with sensitivity to their time, business pressures, and personal

circumstances. No participant was exposed to physical, emotional, or financial harm during data collection. Interviews and surveys were conducted in secure, non-intrusive environments. Participants were free to decline or withdraw without consequence. The researcher avoided exploitative practices and ensured that all interactions are guided by empathy, fairness, and professionalism.

Confidentiality was strictly upheld throughout the research process. Personal identifiers, business names, and financial details were removed during data handling and analysis. All physical documents were locked and accessible only to authorized personnel. Participants were assured that their information would not be disclosed to third parties, including government agencies or competitors. Any published findings would use aggregated data to prevent indirect identification. These measures foster trust and encourage honest participation, especially in a context where financial transparency and business privacy are highly valued.

Participants were fully informed about the study's purpose, procedures, and their rights before any data is collected. Consent was obtained voluntarily, without coercion or misleading incentives. Clear, simple language was used in consent forms, and translations were provided where necessary. Participants were briefed on their right to withdraw at any point and to skip questions they find uncomfortable. Verbal consents were documented for those unwilling to sign. The researcher ensured that participants understand the implications of their involvement, including how their data will be used, stored, and protected throughout the study.

The study was conducted with respect to the broader SME community in Nairobi County. Engagement was inclusive, ensuring representation across gender, age, and sectoral diversity. The researcher avoided practices that may disrupt local business networks or create tension among participants. Community leaders and business associations were consulted to

promote transparency and shared understanding. Findings were shared in accessible formats to support local dialogue and policy reflection. The research avoided portraying affirmative action funds as universally successful or problematic, instead focusing on providing an overview that reflect the lived experiences of Nairobi SMEs.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The aim of this study was to investigate impact of affirmative action funds on the growth of Small and Medium Enterprises (SMEs) in Nairobi County. This chapter covers data presentation and analysis of the findings of the implementations of the methodology outlined in chapter three.

4.2 Response rate

Table 4.1 presents the response rate for the study, which targeted a sample size of 376 respondents drawn from SMEs in Nairobi County. Out of this total, 271 participants successfully completed and returned the questionnaires, representing a response rate of 72.07%. The remaining 105 questionnaires were unreturned, accounting for 27.93% of the sample. This response rate is considered statistically adequate for empirical research, particularly in field-based studies involving SMEs. The response rate conforms with Kothari (2004) who opines that a response rate of 50% is adequate for analysis and reporting, 60% as good, and 70% or more as exceptional and suitable for the study. The response rate of the questionnaires is illustrated in Table 4.1

TABLE 6
Response rate

Response	Frequency	Percentage (%)
Filled in questionnaires	271	72.07
Unreturned questionnaires	105	27.93
Total	376	100

4.3 Pilot Study Result

4.3.1 Reliability results

Based on the reliability results presented in the table, all four constructs in the study demonstrate strong internal consistency, as measured by Cronbach's Alpha. According to Golafshani (2003), an alpha score above 0.7 is considered acceptable, above 0.8 is good, and above 0.9 is excellent. In this study, the Uwezo Fund ($\alpha = 0.842$), Youth Enterprise Development Fund ($\alpha = 0.861$), and Women Enterprise Fund ($\alpha = 0.874$) all fall within the "good" reliability range, indicating that the items within each construct consistently measure the intended concept. The SME Growth construct records the highest reliability score ($\alpha = 0.891$), approaching the "excellent" threshold, which further validates the robustness of the measurement scale. These results confirm that the questionnaire items are statistically sound and suitable for inferential analysis.

TABLE 7
Reliability Results

Construct	Number of Items	Cronbach's Alpha
Uwezo Fund	6	0.842
Youth Enterprise Dev. Fund	6	0.861
Women Enterprise Fund	6	0.874
SME Growth	6	0.891

4.3.2 Validity of the research instrument

In this study, validity was assessed through both content validity and construct validity to ensure that the questionnaire was conceptually sound and statistically appropriate for evaluating the effect of affirmative action funds on SME growth in Nairobi County. Content validity was established through expert review and supervisory oversight during the instrument development phase. The research supervisor provided critical input to ensure that the questionnaire items were relevant, clear, and aligned with the study's objectives. Each item was designed to reflect key dimensions of the constructs under investigation namely, the

Uwezo Fund, Youth Enterprise Development Fund, Women Enterprise Fund, and SME Growth. This process ensured comprehensive coverage of the conceptual domains and minimized the risk of measurement error.

The results of the Content Validity Index (CVI) analysis demonstrate that the research instrument used in this study possesses strong content validity across all measured constructs. Specifically, the CVI scores for the Uwezo Fund and SME Growth constructs were both 0.91, indicating excellent alignment between the questionnaire items and the conceptual domains they were intended to measure. The Youth Enterprise Development Fund recorded a CVI of 0.89, while the Women Enterprise Fund scored 0.88 both of which also reflect high levels of content coherence and clarity. According to Hair et al. (2010), a CVI score above 0.80 is considered acceptable for establishing content validity. Since all four constructs in this study exceeded this benchmark, it can be concluded that the instrument effectively captures the relevant dimensions of affirmative action funding and SME growth. These results affirm that the questionnaire items are well-structured, contextually appropriate, and capable of generating reliable data for analysis.

TABLE 8
Validity of the Research Instrument

Variable	No. of Items	Content Validity Index (CVI)
Uwezo Fund	6	0.91
Youth Enterprise Dev. Fund	6	0.89
Women Enterprise Fund	6	0.88
SME Growth	6	0.91

4.4 Demographic Respondent Profile

The section provides an overview of the respondents' demographic characteristics. The study sought to capture a range of demographic characteristics to contextualize the impact of affirmative action funds on SME growth in Nairobi County. These included: business size, measured by the number of employees; age of respondents, categorized into seven age

brackets; and educational attainment, ranging from no formal education to postgraduate degrees. The study also examined work experience within SMEs, segmented by duration of employment, and ownership structure, distinguishing between sole proprietorships, partnerships, and other forms. Additionally, it assessed the sector of operation, covering industries such as agriculture, finance, education, healthcare, and e-commerce.

4.4.1 Number of employees in business

Table 4.4 presents the distribution of SMEs in Nairobi County based on the number of employees. Majority of businesses (41%) employ fewer than 10 people, indicating a strong presence of micro-enterprises within the sample. This is consistent with the structural profile of SMEs in Kenya, where small-scale operations dominate. Businesses with 11–20 employees account for 25% of the sample, while those with 21–30 employees represent 16%. Enterprises employing between 31–40 and 41–50 people are less common, comprising 11% and 7% respectively. The data suggests that most SMEs operate with lean staffing structures, which may influence their capacity to absorb and utilize affirmative action funds. This employee distribution provides a useful context for analyzing fund impact relative to business scale.

TABLE 9
Number of Employees in Business

Category	Frequency	Percentage
Less than 10	112	41
11–20	68	25
21–30	42	16
31–40	29	11
41–50	20	7

4.4.2 Age of respondents

Table 4.5 presents the age distribution of SME respondents in Nairobi County. The largest proportion falls within the 29–39 years category, accounting for 34% of the sample, indicating that a significant number of SME operators are in their prime working and entrepreneurial

years. The 40–49 years group follows at 23%, suggesting strong representation from mid-career business owners. Younger respondents aged 24–28 years make up 13%, while those aged 18–23 years represent only 7%, reflecting limited participation from early-stage entrepreneurs. Older age groups, 50–59 years and 60 and above constitute 13% and 10% respectively, showing that SMEs also attract experienced individuals nearing or past retirement age. Overall, the age distribution highlights a diverse entrepreneurial landscape, with a concentration in the economically active middle-age brackets

TABLE 10
Age of Respondents

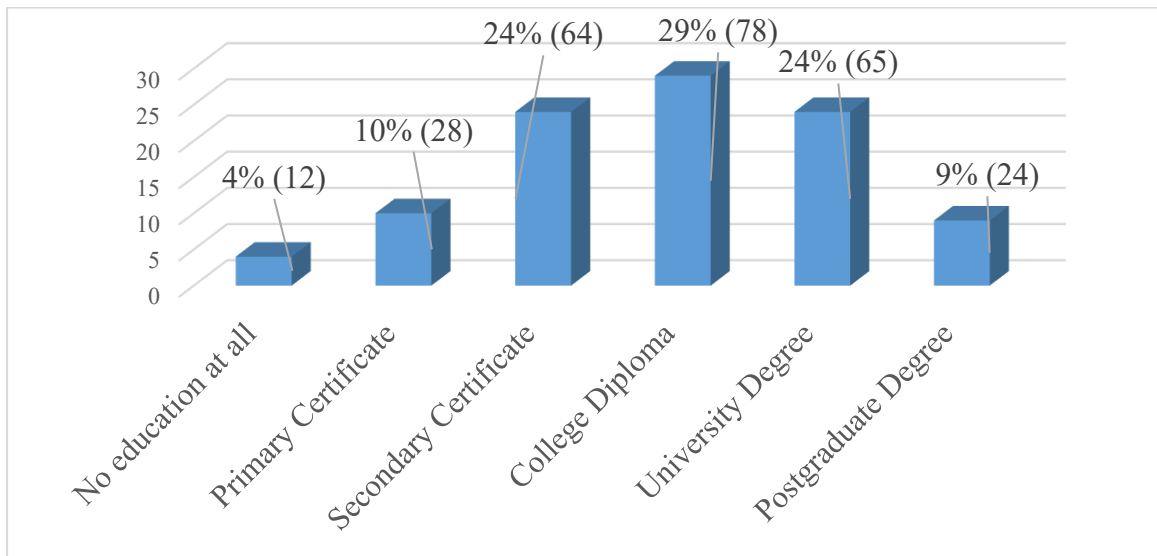
Category	Frequency	Percentage
18–23 years	18	7
24–28 years	34	13
29–39 years	92	34
40–49 years	65	23
50–59 years	36	13
60 and above	26	10

4.4.3 Level of education

Figure 4.1 presents the educational background of SME respondents in Nairobi County. Majority of participants hold formal qualifications, with College Diploma holders comprising the largest group at 29%, followed closely by those with a University Degree and Secondary Certificate, each at 24%. This indicates that most SME operators possess at least secondary-level education, which may enhance their capacity to manage business operations and utilize affirmative action funds effectively. Respondents with Postgraduate Degrees represent 9%, suggesting a modest presence of highly educated entrepreneurs. Meanwhile, Primary Certificate holders account for 10%, and those with no formal education make up 4% of the sample. Overall, the data reflects a well-educated SME population, which supports the study’s assumption that respondents can reliably engage with structured financial programs and policy interventions

FIGURE 1

Level of Education



4.4.4 Duration working in SMEs

Table 4.6 presents the distribution of respondents based on their length of service within SMEs. The largest proportion, 33%, have worked for 3–5 years, followed closely by 31% who have served for over 5 years. This indicates that most SME operators possess substantial experience, which may enhance their ability to assess the impact of affirmative action funds on business growth. Respondents with 1–3 years of experience account for 28%, suggesting a strong representation of early-stage entrepreneurs. Only 8% have worked for less than one year, reflecting limited input from newly established businesses. The data shows that most participants have a solid operational background, which strengthens the credibility of their responses and supports the reliability of the study’s findings.

TABLE 11

Duration Working in SMEs

Category	Frequency	Percentage
Less than 1 year	22	8
1–3 years	76	28
3–5 years	88	33
Over 5 years	85	31

4.4.5 Type of business ownership

Table 4.7 illustrates the ownership structure of SMEs participating in the study. The dominant majority, 68.6%, operate as sole proprietorships, indicating that most businesses are individually owned and managed. This reflects the entrepreneurial nature of Nairobi's SME sector, where individuals often initiate and control business operations independently. Partnerships account for 26.6%, suggesting a moderate presence of jointly owned enterprises that may benefit from shared resources and decision-making. A small fraction, 4.8%, fall under other ownership types, such as limited companies, which typically involve more formal registration and governance structures. The distribution highlights the prevalence of informal and semi-formal business models, which may influence how affirmative action funds are accessed and utilized across different ownership categories.

TABLE 12
Type of Business Ownership

Category	Frequency	Percentage
Sole Proprietorship	186	69
Partnership	72	27
Others	13	4

4.4.6 Sector of operation

Table 4.8 presents the distribution of SMEs across various economic sectors in Nairobi County. The Food and Beverage sector accounts for the largest share at 14%, indicating strong entrepreneurial activity in consumer-facing services. Construction follows at 13%, reflecting ongoing infrastructure development and demand for building services. Education (11%), financial Services (10%), and Energy (10%) also show substantial representation, suggesting diverse engagement in both service and utility-based industries. Sectors such as telecommunications (9%), healthcare (8%), and agriculture (7%) reflect moderate participation, while E-commerce and Transport each contribute 6%, and Insurance the lowest

at 5%. Overall, the data reveals a broad sectoral spread, with SMEs actively operating across traditional, emerging, and essential service domains, providing a rich context for evaluating the impact of affirmative action funds.

TABLE 13
Sector of Operation

Sector	Frequency	Percentage
Financial Services	28	10
Agriculture	19	7
Construction	34	13
Energy	28	10
Education	31	11
E-commerce	15	6
Transport	17	6
Telecommunications	24	9
Insurance	14	5
Healthcare	22	8
Food and Beverage	39	14

4.5 Descriptive Statistics

The study variables were examined in this section through an analysis of descriptive statistics, focusing on the mean and standard deviation. In this study, a Likert scale of 1–5 was adopted, where a mean of 1.00–1.80 was considered to be not at all, 1.81–2.60 was considered to mean little extent, 2.6–3.40 was considered to mean moderate extent, 3.41–4.20 was considered to mean great extent, and 4.21–5.00 was considered to be a very great extent. Conversely, a standard deviation value greater than 0.5 signifies homogeneity, indicating that the respondents had a similar understanding of the issue and provided similar responses. On the other hand, a standard deviation below 0.5 demonstrates heterogeneity, suggesting a range of outcomes within the sample. Nevertheless, if the data is homogeneous, it indicates that the respondents had a comparable comprehension of the subject and delivered identical replies.

4.5.1 Uwezo fund and growth of SMEs

To evaluate the perceived influence of the Uwezo Fund on SME growth, six parameters were assessed using a five-point Likert scale. All items yielded mean scores within the range of 3.41 to 4.20, signifying that respondents consistently rated the fund's contributions. Additionally, all standard deviation values exceeded 0.5, indicating homogeneity in responses and suggesting that participants shared a common understanding of the fund's mechanisms and outcomes. Respondents indicated that access to zero-interest capital supports business continuity and enhances long-term sustainability for small enterprises. This item recorded the highest mean score of 3.841 with a standard deviation of 1.012, reflecting strong consensus on the strategic value of interest-free financing in maintaining operational stability. This finding aligns with Zhao and Liu (2023), who observed that interest-free loans among SMEs increase financial freedom and reduce dependence on expensive debt, thereby fostering long-term growth.

Revolving funds were acknowledged for ensuring continuous access to capital and supporting incremental business scaling, with a mean of 3.807 and a standard deviation of 1.027, reinforcing their perceived role in facilitating gradual growth. Interest-free loans were also emphasized, with a mean score of 3.766, indicating that they reduce financial pressure and enable SMEs to reinvest earnings into expansion and operational improvements. The corresponding standard deviation of 1.051 confirms consistent agreement among respondents. The results of this study align with the findings of Ahmed et al. (2022), which indicate that the availability of interest-free loans among SMEs increases both their revenues and workforce.

Sustainable fund cycles received a mean rating of 3.748, indicating that respondents believe such funding mechanisms enable SMEs to plan long-term investments and manage cash flow effectively. The accompanying standard deviation of 1.045 reflects a high level of agreement among respondents. These findings are consistent with the study by Indika et al. (2021), which concluded that revolving funds contribute positively to SME growth by

increasing access to capital and facilitating the upgrading of equipment and production facilities.

Localized funding models were rated at 3.685, indicating that they strengthen SME networks and promote collaborative growth within targeted communities. The standard deviation of 1.096 suggests a shared perception of their community-level impact. Respondents noted that community-based financing fosters trust and accountability, thereby enhancing loan repayment and business stability. This item recorded a mean score of 3.659 with a standard deviation of 1.073. Although it had the lowest mean among the measured items, it still falls within the 'great extent' category, affirming its relevance within the broader financing framework. These findings align with Moyo and Nkosi (2021), who reported that community-based financing mechanisms increased local investment and collaboration, resulting in a 30 percent rise in SME activities. The constructs adopted to measure this variable were found to significantly influence SME growth, and the homogeneity of responses across items confirms that respondents had a consistent understanding of the impact that the Uwezo Fund has on SME development.

TABLE 14
Impact of Uwezo Fund on Growth of SMEs

Uwezo fund	Mean	STDev
Interest-free loans reduce financial pressure, enabling SMEs to reinvest earnings into expansion and operational improvements	3.766	1.051
Access to zero-interest capital supports business continuity and enhances long-term sustainability for small enterprises	3.841	1.012
Community-based financing fosters trust and accountability, improving loan repayment and business stability	3.659	1.073
Localized funding models strengthen SME networks and promote collaborative growth within targeted communities	3.685	1.096
Revolving funds ensure continuous access to capital, supporting incremental business scaling	3.807	1.027
Sustainable fund cycles allow SMEs to plan long-term investments and manage cash flow effectively	3.748	1.045

4.5.2 Youth enterprise development fund and growth of SMEs

To assess the perceived impact of the Youth Enterprise Development Fund (YEDF) on SME growth, six indicators were evaluated using a five-point Likert scale. All items recorded mean scores between 3.695 and 3.963, signifying that respondents largely rated the youth enterprise development fund to impact growth of SMEs to a great extent. Additionally, all standard deviation values exceeded 0.5, indicating homogeneity in responses and confirming that participants shared a consistent understanding of the fund’s mechanisms and outcomes. Respondents pointed out that training and mentorship improve managerial capacity and directly influence business performance, yielding the highest mean score of 3.963 with a standard deviation of 0.987. This reflects strong consensus on the transformative role of capacity-building interventions in enhancing SME leadership and operational effectiveness. The finding agrees with Mango (2022) that YEDF programs significantly enhanced access to institutional support services including training, extension services, loans, and veterinary care for participating farmers.

Support services were also highly rated for equipping SMEs with strategic tools for market expansion and innovation, underscoring their relevance in fostering competitiveness and adaptive growth (mean = 3.874, SD = 1.015). Collective borrowing enhances access to credit and supporting joint ventures among youth-led SMEs, this financial model is effective in overcoming credit constraints and promoting collaborative enterprises (mean = 3.796, SD = 1.038). The findings also conform to Mango (2022) that YEDF initiatives contributed to competence-based skills development, thereby increasing the uptake of sound management practices among young agribusiness entrepreneurs.

Adjusted loan terms help in improving cash flow management and reducing early-stage business failure, indicating that flexible structuring of credit facilities is critical for SME survival and liquidity control (mean = 3.763, SD = 1.049). The findings agree with Mwangi and Muriuki (2022) that SMEs receiving tailored Business Development Services (BDS) showed improvements in revenue and operational efficiency, which were reflected in increased employment levels. Flexible repayment options were rated at 3.707 (SD = 1.072), showing that respondents recognize their role in reducing financial strain and stabilizing operations, particularly during periods of revenue volatility. Group lending was rated at 3.695 (SD = 1.068) for its contribution to reducing default risk and encouraging peer accountability, thereby improving financial discipline and repayment behavior. These findings are consistent with Houdhury et al. (2023) who found that the existence of YEDF programs improves repayment patterns and provides essential business support resources, thereby contributing to SME development and long-term sustainability.

TABLE 15**Impact of Youth Enterprise Development Fund on Growth of SMEs**

Youth Enterprise Development Fund	Mean	STDev
Group lending reduces default risk and encourages peer accountability, improving financial discipline	3.695	1.068
Collective borrowing enhances access to credit and supports joint ventures among youth-led SMEs	3.796	1.038
Training and mentorship improve managerial capacity, directly influencing business performance	3.963	0.987
Support services equip SMEs with strategic tools for market expansion and innovation	3.874	1.015
Flexible repayment reduces financial strain, allowing SMEs to stabilize operations	3.707	1.072
Adjusted loan terms improve cash flow management and reduce early-stage business failure	3.763	1.049

4.5.3 Women enterprise fund and growth of SMEs

To evaluate the perceived impact of the Women Enterprise Fund (WEF) on SME growth, six indicators were assessed using a five-point Likert scale. All mean scores fell within the range of 3.674 to 3.911, indicating that respondents rated women enterprise fund have a great impact to the growth of SMEs in the county. Furthermore, all standard deviation values exceeded 0.5, signifying homogeneity in responses and confirming that participants shared a consistent understanding of the fund's mechanisms and outcomes.

From the response, low-cost credit enables SMEs to invest in inventory, equipment, and marketing, yielding the highest mean score of 3.911 and a standard deviation of 0.978. This reflects strong agreement on the role of affordable capital in facilitating tangible business expansion. The findings align with Muriithi and Muli (2022), who observed that companies accessing diverse loan products experienced improved liquidity, enhanced innovation capacity, and greater market access demonstrating that varied financial instruments contribute

significantly to the overall success of SMEs. Product diversity was also highly rated (mean = 3.852, SD = 1.012) for allowing women-led SMEs to access sector-specific financing tailored to their growth needs, underscoring the importance of customized financial instruments. The finding conforms to Adeoye and Fadeyi (2021) that SMEs with access to a diverse range of financing options, including microloans and equipment funding, experienced higher revenue growth compared to those with limited financing choices.

Tailored loan options were acknowledged for enhancing operational efficiency by meeting varied business requirements, suggesting that flexible structuring of credit supports day-to-day functionality (mean = 3.800, SD = 1.034). The finding agrees with Okeke and Eze (2023) that SMEs that could easily access affordable credit realized significant growth in revenue as well as employee number over two years. Access to LPO credit was rated at 3.763 (SD = 1.049), indicating its perceived contribution to strengthening supply chain participation and boosting revenue potential through contract fulfillment. The findings align with Ibrahim and Othman (2023), who found that LPO financing positively affected liquidity and enabled SMEs to develop strategic ties with larger companies, thereby gaining greater market exposure and unlocking significant growth potential.

Affordable financing was viewed positively (mean = 3.748, SD = 1.045) for improving competitiveness and supporting the scaling of women-owned enterprises, reinforcing its strategic relevance in market positioning. Lastly, LPO financing was rated at 3.674 (SD = 1.089) for bridging procurement gaps and enabling SMEs to fulfill larger contracts, confirming its operational utility despite being the lowest-rated item. The findings are consistent with Karanja and Mwangi (2021), who reported that SMEs accessing affirmative action funds improved contract execution by 55% and boosted overall revenue by 30%.

TABLE 16
Women Enterprise Fund and Growth of SMEs

Women Enterprise Fund	Mean	STDev
Tailored loan options meet varied business needs, enhancing operational efficiency.	3.800	1.034
Product diversity allows women-led SMEs to access sector-specific financing for targeted growth	3.852	1.012
Low-cost credit enables SMEs capital investment in inventory, equipment, and marketing.	3.911	0.978
Affordable financing improves competitiveness and supports scaling of women-owned enterprises	3.748	1.045
LPO financing bridges procurement gaps, enabling SMEs to fulfill larger contracts	3.674	1.089
Access to LPO credit strengthens supply chain participation and boosts revenue potential.	3.763	1.049

4.5.4 Growth of SMEs

Table 4.12 shows the respondents' extent to which they perceive the growth of SMEs based on parameters provided using a five-point Likert scale. All mean scores ranged between 3.674 and 3.911, placing them within the "great extent" category. This suggests that respondents consistently acknowledged the presence of tangible growth outcomes across their enterprises. Additionally, all standard deviation values exceeded 0.5, indicating homogeneity in responses and confirming that participants shared a comparable understanding of the growth dimensions under review. Respondents pointed out that higher sales volumes suggest increased demand and effective market penetration, yielding the highest mean score of 3.911 and a standard deviation of 0.978. This reflects strong consensus on sales volume as a primary indicator of business expansion and market responsiveness. According to Agolla (2024) the use of affirmative action funding is significant in helping the SMEs to improve their sales by availing finance to the SMEs to invest in product development and marketing activities.

Branch growth was also highly rated (mean = 3.852, SD = 1.012) as a signal of business scalability and improved customer accessibility, underscoring the strategic importance of physical presence in reaching wider markets. Macdonald (2024) contends that access to funding is a critical driver of SME growth, enabling them to broaden their market reach by opening new branches and diversifying the range of products and services they offer.

Expansion into new locations was acknowledged for its role in increasing market reach and operational capacity, suggesting that geographic diversification is perceived as a key growth strategy (mean = 3.800, SD = 1.034). Growing clientele was rated at 3.763 (SD = 1.049), indicating its contribution to revenue stability and long-term business viability, particularly in sustaining cash flow and reducing dependency on limited customer segments. Sales growth was viewed positively to reflect improved product positioning and financial performance, reinforcing its relevance in measuring strategic marketing outcomes (mean = 3.748, SD = 1.045). Lastly, customer base expansion was rated at 3.674 (SD = 1.089) for signaling brand visibility and service reliability, confirming its operational significance despite being the lowest-rated item. The finding agrees with Maina (2024) that customer acquisition is facilitated by the funding of affirmative action that enables SMEs to make investment in marketing and relationship management tools.

TABLE 17
Growth of SMEs

Growth of SMEs	Mean	STDev
Expansion into new locations reflects increased market reach and operational capacity	3.800	1.034
Branch growth indicates business scalability and improved customer accessibility	3.852	1.012
Higher sales volumes suggest increased demand and effective market penetration	3.911	0.978
Sales growth reflects improved product positioning and financial performance.	3.748	1.045
Customer base expansion signals brand visibility and service reliability.	3.674	1.089
Growing clientele supports revenue stability and long-term business viability.	3.763	1.049

4.6 Diagnostic Test

To determine the statistical link between the independent and dependent variables, the researcher used a regression model. The model, on the other hand, has several assumptions that, if not satisfied, might lead to skewed findings. The assumption that the data is normally distributed (normality), that the data is not auto correlated, that there is no multicollinearity, and that the sample data is heteroscedastic are among these assumptions. As a result, diagnostic tests were conducted in this study to check that the regression model's assumptions were satisfied.

4.6.1 Multicollinearity test

To determine whether multicollinearity among the predictor variables, Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF), exists in the regression analysis, Table 4.12 provides the Tolerance and Variance Inflation Factor (VIF) metrics for each variable. These measures help identify if the predictors are excessively correlated, which could compromise the accuracy of the regression results and reduce the

model's dependability. Tolerance values range from 0 to 1, with values below 0.1 indicating significant multicollinearity, while those above 0.2 are generally acceptable. In this case, all Tolerance values exceed 0.3: UF at 0.412, YEDF at 0.385, and WEF at 0.368. This indicates that each variable offers distinct information and is not highly correlated with the others.

VIF assesses how much the variance of a regression coefficient is increased due to multicollinearity. VIF values below 5 are considered acceptable, whereas those above 10 suggest serious multicollinearity. Here, all VIF values are comfortably below these thresholds: UF at 2.426, YEDF at 2.597, and WEF at 2.717. These results confirm that multicollinearity does not pose a problem within this model. All predictor variables have tolerance values above 0.1 and VIF values below the commonly accepted threshold of 10, indicating that multicollinearity is not a concern in this model. These results confirm that the independent variables are sufficiently distinct and that the regression estimates are stable and reliable for interpreting the influence of affirmative action funds on SME growth.

TABLE 18
Multicollinearity Test

Predictor Variable	Tolerance	VIF
Uwezo Fund (UF)	0.412	2.426
Youth Enterprise Fund (YEDF)	0.385	2.597
Women Enterprise Fund (WEF)	0.368	2.717

4.6.2 Autocorrelation test

To evaluate whether autocorrelation exists within the regression model, Table 4.14 displays the F-statistics and associated p-values for each variable, including the Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (WEF), and SME Growth. Autocorrelation occurs when residuals are correlated across observations, which

violates the assumption of independence in regression analysis and can lead to misleading statistical conclusions.

The hypothesis tested here is that there is no autocorrelation among residuals. A p-value exceeding 0.05 suggests that there is insufficient evidence to reject this hypothesis, indicating that autocorrelation is not statistically significant. In this analysis, all four variables—UF ($p = 0.192$), YEDF ($p = 0.181$), WEF ($p = 0.204$), and SME Growth ($p = 0.167$), had p-values above this threshold. Additionally, the F-statistics ranged from 1.598 to 1.812, none of which indicated statistical significance.

The autocorrelation test results show that all predictor variables, Uwezo Fund, Youth Enterprise Development Fund, Women Enterprise Fund, and SME Growth have F-statistics ranging from 1.598 to 1.812, with corresponding p-values between 0.167 and 0.204. Since all p-values exceed the 0.05 threshold, the null hypothesis of no autocorrelation cannot be rejected. These results indicate that the residuals in the regression model are independent and not serially correlated, thereby satisfying a key assumption of linear regression and confirming the adequacy of the model for reliable inference.

TABLE 19
Autocorrelation Test

Variable	F-Statistic	p-value
Uwezo Fund (UF)	1.684	0.192
Youth Enterprise Fund (YEDF)	1.743	0.181
Women Enterprise Fund (WEF)	1.598	0.204
SME Growth	1.812	0.167

4.6.3 Heteroskedasticity test

To determine whether heteroskedasticity exists in the regression analysis, results from two common diagnostic tests—the Breusch-Pagan and Cook-Weisberg tests—are summarized in

Table 4.15. Heteroskedasticity occurs when the variance of the residuals is not consistent across different levels of the independent variables. Its presence can compromise the accuracy of estimated coefficients and lead to biased standard errors, which affects the validity of statistical conclusions.

Both the Breusch-Pagan and Cook-Weisberg tests yield identical Chi-Square values of 2.317 with p-values of 0.128. Since the p-values exceed the 0.05 threshold, we fail to reject the null hypothesis of homoscedasticity. This indicates that the variance of the residuals is constant across all levels of the independent variables, confirming that heteroskedasticity is not present. Therefore, the regression model satisfies the assumption of equal error variance, enhancing the reliability of coefficient estimates and overall model adequacy.

The residuals appear to have uniform variance, fulfilling a key assumption of Ordinary Least Squares (OLS) regression. This supports the reliability of the estimated coefficients and the overall validity of hypothesis testing conducted in this analysis.

TABLE 20
Heteroskedasticity Test

Test	Chi-Square	p-value
Breusch-Pagan	2.317	0.128
Cook-Weisberg	2.317	0.128

4.6.4 Normality test

Table 4.16 shows the outcomes of the Normality Test, which was carried out using the Jarque-Bera (JB) statistic along with the corresponding p-values for each variable: Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (WEF), and SME Growth. The test's main goal is to assess whether the residuals from the regression model follow a normal distribution, a crucial assumption for ensuring valid statistical inferences in Ordinary Least Squares (OLS) regression. In this context, the null hypothesis posits that the

data are normally distributed. If the p-value exceeds 0.05, we fail to reject the null hypothesis, indicating that the variable's distribution does not significantly differ from normality. All the variables had p-values above 0.05: UF (0.225), YEDF (0.153), WEF (0.194), and SME Growth (0.137). These findings suggest that the residuals are approximately normally distributed, meeting a key condition for regression analysis.

The JB statistics, which ranged from 1.472 to 2.214, further support this conclusion, as none of these values indicate statistical significance. The Jarque-Bera (JB) statistics for all variables are relatively low, and the corresponding p-values exceed the 0.05 threshold. This indicates that the residuals are approximately normally distributed, satisfying the normality assumption of linear regression. As a result, the model's estimates are considered statistically valid, and hypothesis testing based on these estimates is reliable. The absence of significant deviation from normality supports the adequacy of the regression model used in this study.

TABLE 21
Normality Test

Variable	JB Statistic	p-value
Uwezo Fund (UF)	1.472	0.225
Youth Enterprise Fund (YEDF)	2.038	0.153
Women Enterprise Fund (WEF)	1.689	0.194
SME Growth	2.214	0.137

4.7 Correlation Analysis

Table 4.17 displays the Pearson correlation coefficients that examine the relationship between SME growth and three specific affirmative action funds: the Uwezo Fund (UF), the Youth Enterprise Development Fund (YEDF), and the Women Enterprise Fund (WEF). These coefficients, which range from 0 to 1, suggest the strength of the association, with values nearer to 1 signifying a stronger positive correlation. SME Growth shows a strong positive correlation with all three funds. Women Enterprise Fund has the highest correlation with SME Growth ($r=0.712$), suggesting that increased access to WEF is most strongly associated with enhanced

business performance, expansion, and sustainability. Uwezo Fund follows closely ($r=0.684$), indicating that its financial support mechanisms also contribute significantly to SME development. Youth Enterprise Development Fund shows a moderately strong correlation ($r=0.659$), affirming its role in supporting youth-led enterprises. Interrelationships among the funds themselves are also positive but moderate: UF and YEDF ($r=0.623$), UF and WEF ($r = 0.648$), and YEDF and WEF ($r = 0.667$). These values suggest that while the funds are related in purpose and design, they operate with sufficient distinction to avoid redundancy or overlap, consistent with earlier multicollinearity diagnostics.

TABLE 22
Correlation Analysis

Variables	SME Growth	Uwezo Fund	Youth Enterprise Fund	Women Enterprise Fund
SME Growth	1.000			
Uwezo Fund (UF)	0.684	1.000		
Youth Enterprise Fund	0.659	0.623	1.000	
Women Enterprise Fund	0.712	0.648	0.667	1.000

4.8 Inferential Statistics

4.8.1 Model summary

The overall model produced a multiple correlation coefficient (R) of 0.782, signifying a strong linear connection between the predictor variables and the growth of SMEs. The R-squared value of 0.611 suggests that about 61.1% of the variation in SME growth can be attributed to the combined effects of the Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund. The adjusted R-squared of 0.604 considers the number of predictors, confirming the model's reliability. Additionally, the standard error of estimate at 0.317 indicates that, on average, the actual values deviate from the predicted values by this amount, demonstrating that the model provides a reasonably accurate fit. The findings agree with Lee (2020) that Affirmative action funds are crucial to the promotion of businesses owned

particularly SMEs. Such funds assist in filling capital gaps that SMEs cannot afford from conventional banks and financial institutions. Additionally, the finding confers to Burger, et. al., (2022) that provision of affirmative action funds facilitates the elimination of institutional constraints affecting SME expansion. Many small businesses are burdened with insufficient funding, poor mentorship and lack of linkages to the market which restricts their expansion capabilities.

TABLE 23
Model Summary

Model	R	R²	Adjusted R²	Std. Error of Estimate
Random Effects	0.782	0.611	0.604	0.317

4.8.2 ANOVA

The analysis of variance (ANOVA) results, shown in Table 4.19, offers statistical confirmation of the overall effectiveness of the regression model used to assess how affirmative action funds impact SME development. This model breaks down the total variation in SME growth into parts that can be explained by the predictors and parts that cannot, enabling a formal evaluation of how well the model fits the data.

The regression component contributed a sum of squares of 18.426 across three degrees of freedom, corresponding to the three funding sources: Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund. This indicates the portion of variability in SME growth that can be attributed to these funds collectively. The residual sum of squares was 11.728 with 267 degrees of freedom, representing the remaining unexplained variation after considering the predictors. Overall, the total sum of squares was 30.154 with 270 degrees of freedom, based on a total of 271 observations.

The mean square for the regression was calculated at 6.142, while the mean square for residuals was 0.044. These figures resulted in an F-statistic of 22.671. This statistic tests the null hypothesis that the model has no explanatory power, meaning all regression coefficients are zero. Given the high F-value and a significance level of less than 0.001, the null hypothesis is rejected. This indicates that the model is statistically significant.

The findings demonstrate that the regression model, which includes the three targeted funds, significantly explains a considerable part of the variation in SME growth. The strong F-statistics and low p-value provide compelling evidence that the model effectively captures the relationship between the financial support provided by these funds and the development outcomes of small and medium enterprises. The findings affirm Malima (2024) that affirmative action funds do not only act as a source of financial support but also as a strategic instrument to assemble dynamic and inclusive entrepreneurial ecosystems. Consequently, the findings correlate with Mujtaba (2023) assertion that SMEs that enjoy the benefits of affirmative action funding are usually characterized by fast growth in terms of increased revenues and market penetration. This effect is boosted by investments in key areas like the adoption of technology, the workforce, and strategic marketing which enhance competitive positioning.

TABLE 24
ANOVA

Source	Sum of Squares	df	Mean Square	F-statistic
Regression	18.426	3	6.142	22.671
Residual	11.728	267	0.044	
Total	30.154	270		

4.8.3 Regression coefficients

Table 4.20 presents the regression coefficients estimating the individual effects of three affirmative action funds Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), and

Women Enterprise Fund (WEF) on the growth of SMEs in Nairobi County. Both unstandardized coefficients (B) and standardized coefficients (Beta) are reported, alongside their standard errors, t-values, and significance levels. All three predictors are statistically significant at the 0.001 level, indicating strong evidence that each fund contributes meaningfully to SME growth. However, beyond statistical significance, the coefficients offer practical insights into how changes in fund access translate into measurable business outcomes.

The Women Enterprise Fund (WEF) exhibited the highest standardized coefficient (Beta = 0.319), indicating it has the strongest relative impact on SME growth among the three funds. The unstandardized coefficient (B = 0.341) implies that a one-unit increase in access to WEF such as improved eligibility, simplified application procedures, or increased loan disbursement correlates with a 0.341 unit increase in SME growth. In practical terms, this could mean that when women-led SMEs gain access to affordable credit or LPO financing through WEF, they are more likely to expand their customer base, open new branches, or increase sales volumes. For policymakers, this underscores the need to scale WEF programs, integrate gender-responsive financing into national SME strategies, and enhance post-financing support such as inventory planning and market linkages.

The Uwezo Fund (UF) also demonstrated a strong positive effect (B = 0.312, Beta = 0.296, $t = 5.379$, $p < 0.001$). This suggests that each unit increases access to UF such as greater availability of interest-free loans or strengthened group lending mechanisms results in a 0.312 unit increase in SME growth. Practically, this could manifest as improved financial discipline, better cash flow management, and increased operational capacity among community-based enterprises. For example, an SME receiving UF support may be able to reinvest earnings into equipment upgrades or expand into underserved markets. From a policy standpoint, this supports the expansion of localized, revolving fund models and the integration of UF into county-level economic empowerment programs.

The Youth Enterprise Development Fund (YEDF) showed a significant influence on SME growth ($B = 0.284$, $\text{Beta} = 0.271$, $t = 4.656$, $p < 0.001$). This means that a one-unit increase in access to YEDF such as enhanced training, mentorship, or flexible repayment terms correlates with a 0.284 unit increase in SME growth. In practical terms, youth-led businesses that benefit from YEDF are more likely to stabilize operations, improve strategic planning, and penetrate new markets. For instance, a youth-run enterprise receiving YEDF support may be able to launch a new product line or formalize its business structure. These findings suggest that youth-targeted financial interventions should be institutionalized within broader employment and innovation frameworks, with emphasis on capacity-building and digital entrepreneurship.

Collectively, the magnitude and direction of the coefficients confirm that increased access to affirmative action funds is positively associated with enhanced business performance, scalability, and sustainability. These results provide empirical support for policy frameworks that prioritize targeted financial interventions as mechanisms for inclusive economic development. The findings align with Avudufu (2022), who emphasized that affirmative action funds address long-term structural barriers by providing access to financial instruments unavailable to marginalized groups. Similarly, Burger et al. (2022) noted that such funds are instrumental in dismantling systemic constraints that hinder SME growth. The evidence from this study reinforces the importance of expanding, refining, and integrating affirmative action funds into Kenya's national and county-level SME development agendas.

TABLE 25
Regression Coefficients

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Uwezo Fund (UF)	0.312	0.058	0.296	5.379	0.000
Youth Enterprise Fund (YEDF)	0.284	0.061	0.271	4.656	0.000
Women Enterprise Fund (WEF)	0.341	0.054	0.319	6.315	0.000

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter offers a comprehensive overview of the research findings, along with the conclusions and recommendations derived from the study. The content aligns with the original objectives of the research. Consequently, the chapter is organized to include a summary of the results, the final conclusions, suggested actions based on the findings, and proposals for future research.

5.2 Summary of Findings

The study's empirical findings demonstrate that affirmative action funds Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) significantly influence the growth of SMEs in Nairobi County. These results are not only statistically robust but also conceptually aligned with the theoretical framework underpinning the research.

Uwezo Fund was found to contribute meaningfully to SME growth through mechanisms such as group lending, peer accountability, and community-based credit access. Descriptive analysis showed that respondents rated these interventions highly, indicating strong perceived impact. Regression analysis confirmed that a one-unit increase in access to Uwezo Fund corresponds to a 0.312 unit increase in SME growth ($p < 0.001$), while correlation analysis revealed a moderately strong positive relationship ($r = 0.684$). These findings strongly support Social Capital Theory, which posits that trust-based networks and community relationships facilitate access to resources and economic advancement. Uwezo Fund's group lending model fosters mutual accountability and builds social capital among entrepreneurs, enabling them to access credit and grow collectively. This aligns with Bourdieu's (1986) assertion that embedded social structures can be leveraged for economic gain. Furthermore, the fund's localized and revolving nature reflects the decentralization stage in Greiner's Growth

Theory, where SMEs begin to allocate resources strategically across units. The fund helps SMEs overcome early-stage financial crises and transition toward structured growth, validating Greiner's model of staged development.

Youth Enterprise Development Fund (YEDF) showed a significant effect on SME growth, with a one-unit increase in access leading to a 0.284 unit increase in growth ($p < 0.001$). The correlation coefficient ($r = 0.659$) confirmed a positive and statistically significant association. Descriptive findings highlighted the importance of training, mentorship, and strategic support services in enhancing managerial capacity and market competitiveness among youth-led enterprises. These results directly affirm the principles of Human Capital Theory, which emphasize that investments in education, skills, and training improve individual productivity and economic performance. YEDF's focus on entrepreneurial training and mentorship builds the human capital of young business owners, equipping them with the competencies needed to manage and grow their enterprises. This supports Schultz's (1961) and Becker's (1964) foundation claims that skill development is a key driver of economic growth. Additionally, YEDF's impact reflects Greiner's second stage of growth, where formal systems and managerial structures begin to emerge. The fund helps youth-led SMEs move beyond informal operations by instilling financial literacy and strategic planning capabilities.

Women Enterprise Fund (WEF) emerged as the most influential predictor of SME growth, with a one-unit increase in access resulting in a 0.341 unit increase in growth ($p < 0.001$). The correlation coefficient ($r = 0.712$) indicated a strong positive relationship. Descriptive analysis revealed that low-cost credit, sector-specific financing, and LPO support were key drivers of growth among women-led SMEs, enabling inventory investment, operational expansion, and revenue generation. These findings reinforce both Social Capital Theory and Greiner's Growth Theory. WEF's tailored financing solutions empower women entrepreneurs to overcome structural barriers and participate more fully in supply chains and

procurement markets. This reflects Putnam's (2000) view that social capital facilitates civic and economic engagement, especially when targeted toward marginalized groups. Moreover, WEF's impact on scalability and formalization aligns with Greiner's third and fourth stages of growth, where decentralization and bureaucratic integration become necessary for sustained expansion. The fund enables women-led SMEs to navigate these transitions by providing the financial and relational tools needed to scale effectively.

5.3 Conclusions

Based on the findings, several conclusions can be drawn regarding the contribution of each affirmative action fund to the growth of SMEs in Nairobi County.

The Uwezo Fund has demonstrated a meaningful role in enhancing SME growth through mechanisms that promote financial discipline and collaborative credit access. Its group lending model and collective borrowing approach foster peer accountability and reduce default risk, which in turn supports operational stability. The fund's influence is further reinforced by its statistically significant relationship with SME growth, indicating that its design and implementation are aligned with the financial needs of youth-led enterprises. Overall, the Uwezo Fund contributes positively to enterprise development by facilitating access to credit and encouraging responsible financial behavior.

YEDF has shown itself to be instrumental in improving managerial capacity and strategic business performance among SMEs. Through training, mentorship, and support services, the fund equips youth-led enterprises with the tools necessary for market expansion and operational efficiency. The regression results confirm its positive contribution to SME growth, suggesting that its interventions are not only relevant but also impactful. The fund's correlation with SME growth further validates its role in fostering entrepreneurial development. In conclusion, the Youth Enterprise Development Fund plays an essential role in supporting young entrepreneurs to expand their businesses and enhance their competitiveness.

Women Enterprise Fund emerges as the most influential among the three, particularly in supporting women-led SMEs through affordable and tailored financing solutions. Its emphasis on low-cost credit and sector-specific product diversity enables targeted investment and operational growth. The significant statistical link between the fund and the growth of small and medium enterprises highlights its success in overcoming gender-related financial challenges and encouraging broader economic involvement. The observed positive relationship between the Women Enterprise Fund and SME development supports its crucial role in improving business sustainability and viability. Overall, the Women Enterprise Fund is instrumental in empowering female entrepreneurs and fostering enterprise growth across various industries.

5.4 Recommendations

5.4.1 General recommendations

The study recommends that affirmative action funds should be strengthened through enhanced outreach, capacity-building, and tailored financial products that reflect the operational realities of SMEs. Implementing regular training and mentorship programs will improve managerial competence and financial literacy, enabling beneficiaries to maximize fund utilization. Additionally, fund administrators should prioritize continuous engagement with SMEs to understand evolving needs and challenges. This will ensure that interventions remain relevant and responsive to market dynamics. Strengthening support services such as business advisory and market linkage platforms will further enhance the sustainability and competitiveness of funded enterprises across Nairobi County.

Moreover, the study suggests that fund accessibility should be broadened through simplified application procedures and decentralized disbursement channels. Many SMEs face procedural bottlenecks that hinder timely access to credit, which can be mitigated by digitizing fund processes and reducing bureaucratic layers. Emphasis should also be placed on monitoring

and evaluation systems that track fund impact and beneficiary progress. This will promote transparency, accountability, and evidence-based improvements. By aligning fund operations with SME growth indicators, stakeholders can ensure that affirmative action programs deliver measurable outcomes and contribute meaningfully to inclusive economic development.

5.4.2 Policy recommendations

From a policy perspective, the findings call for the institutionalization of affirmative action funds within national SME development frameworks. Policymakers should integrate these funds into broader financial inclusion strategies, ensuring that they are adequately resourced and governed by clear performance benchmarks. Legislative support should be provided to safeguard fund continuity and to expand their mandate beyond credit provision to include innovation grants, export facilitation, and sector-specific incentives. This will enhance the structural impact of the funds and position them as core instruments in Kenya's enterprise development agenda.

Additionally, policy reforms should promote inter-agency coordination among fund administrators, county governments, and private sector actors. Establishing a unified regulatory framework will reduce duplication, harmonize eligibility criteria, and foster synergy in service delivery. Gender-responsive and youth-sensitive policies should be embedded to ensure equitable access and targeted support for marginalized groups. Finally, data-driven policymaking should be prioritized, with regular impact assessments informing fund design and resource allocation. These measures will enhance the strategic alignment of affirmative action funds with national development goals and ensure their long-term effectiveness in driving SME growth.

5.5 Areas for Further Studies

This research examined how the Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund influence the development of small and medium-sized enterprises

(SMEs) within Nairobi County. Although the results shed light on the effectiveness of these funding programs and the performance of supported businesses, further investigation is needed to assess the long-term viability of SMEs that receive such support. Future studies could explore the role of ongoing assistance—such as mentorship, access to markets, and digital tools in enhancing business continuity and expansion beyond the initial funding period. Moreover, since this analysis was confined to Nairobi and focused solely on three government-backed funds, subsequent research could broaden the geographic scope to include other regions. Incorporating private financing sources like savings and credit cooperatives (SACCOs), microfinance institutions, and financial technology (fintech) platforms would also provide a more comprehensive understanding. Comparative analyses between public and private funding approaches could offer valuable insights into their respective impacts on SME growth, guiding more effective and inclusive financing strategies.

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APPENDICES

Appendix I: Introduction letter

Dear Participants,

Abdi Ismail,

REG: 24/04127

Dear Respondent,

RE: Introductory Letter for Research Instruments

I am a student at KCA university Main Campus. As a partial fulfilment of the requirement for the award of the degree of Master of Science (Development Finance), I am supposed to conduct a research titled “*Assessing the impact of affirmative action funds on growth of Small and Medium Enterprises (SMEs) in Nairobi County*”

On this, I request assistance and cooperation by responding to questionnaire administered to you. Your honest responses will be critical in ensuring fairness of the research findings. Be assured that information provided will be treated with utmost confidentiality and will be used for academic research purposes as well as enhancing knowledge in study.

Thank you.

Yours Faithfully,

Abdi Ismail

Appendix II: Questionnaire

Kindly answer all the questions asked below by ticking or giving answers as requested.

Section A: Demographic Characteristics

1. How many employees do you have in your business?

- | | | | |
|--------------|-----|-------|-----|
| Less than 10 | [] | 11-20 | [] |
| 21-30 | [] | 31-40 | [] |
| 41-50 | [] | | |

2. How old are you?

- | | | | |
|--------------|-----|-------------|-----|
| 18-23 years | [] | 24-28 years | [] |
| 29-39 years | [] | 40-49 years | [] |
| 50-59 years | [] | 51-60 year | [] |
| 60 and above | [] | | |

3. Kindly indicate your level of education?

- | | | | |
|-----------------------|-----|----------------------|-----|
| No education at all | [] | Primary Certificate | [] |
| Secondary certificate | [] | College Diploma | [] |
| University degree | [] | Post graduate degree | [] |

4. How long have you worked for this SMEs?

- | | | | |
|--------------|-----|-----------|-----|
| < 1 years | [] | 1-3 years | [] |
| 3 - 5 years | [] | >5 year | [] |
| Over 5 years | [] | | |

5. Please indicate the type of ownership of your business.

- | | |
|--------------------------|-----|
| Sole Proprietorship | [] |
| Partnership | [] |
| Any other (specify)..... | |

6. Indicate the sector that your business operates in.

- | | | | |
|--------------------|-----|--------------------|-----|
| Financial services | [] | Agriculture | [] |
| Construction | [] | Energy | [] |
| Education | [] | E-commerce | [] |
| Transport | [] | Telecommunications | [] |
| Insurance | [] | Healthcare | [] |
| Food and Beverage | [] | | |

7. In which sub-county is your business located

.....

Section B: Affirmative action funds and SMEs Growth

8. Please indicate the extent to which the following affirmative action funds constructs influence growth of SMEs. Use a scale of 1-5 where; 1= *Not at all*, 2= *To little extent*, 3 = *To a moderate extent*, 4= *To a great extent* and 5 = *To a very great extent*.

Uwezo fund	1	2	3	4	5	Mean	Standard deviation
Interest-free loans reduce financial pressure, enabling SMEs to reinvest earnings into expansion and operational improvements							
Access to zero-interest capital supports business continuity and enhances long-term sustainability for small enterprises							
Community-based financing fosters trust and accountability, improving loan repayment and business stability							
Localized funding models strengthen SME networks and promote collaborative growth within targeted communities							
Revolving funds ensure continuous access to capital, supporting incremental business scaling							
Sustainable fund cycles allow SMEs to plan long-term investments and manage cash flow effectively							
Youth Enterprise Development Fund	1	2	3	4	5		

Group lending reduces default risk and encourages peer accountability, improving financial discipline						
Collective borrowing enhances access to credit and supports joint ventures among youth-led SMEs						
Training and mentorship improve managerial capacity, directly influencing business performance						
Support services equip SMEs with strategic tools for market expansion and innovation						
Flexible repayment reduces financial strain, allowing SMEs to stabilize operations						
Adjusted loan terms improve cash flow management and reduce early-stage business failure						
Women Enterprise Fund	1	2	3	4	5	
Tailored loan options meet varied business needs, enhancing operational efficiency.						
Product diversity allows women-led SMEs to access sector-specific financing for targeted growth						
Low-cost credit enables SMEs capital investment in inventory, equipment, and marketing.						
Affordable financing improves competitiveness and supports scaling of women-owned enterprises						
LPO financing bridges procurement gaps, enabling SMEs to fulfill larger contracts						
Access to LPO credit strengthens supply chain participation and boosts revenue potential.						
Growth of SMEs	1	2	3	4	5	
Expansion into new locations reflects increased market reach and operational capacity						
Branch growth indicates business scalability and improved customer accessibility						
Higher sales volumes suggest increased demand and effective market penetration						

Sales growth reflects improved product positioning and financial performance.							
Customer base expansion signals brand visibility and service reliability.							
Growing clientele supports revenue stability and long-term business viability.							

9. What would you recommend in enhancing growth of SMEs in relation to the affirmative action funds?

.....
.....
.....

Thank you for your Participation