American Journal of
**Finance**
*(AJF)*

# THE IMPACT ASSESMENT OF THE MICRO FINANCE TO FINANCIAL INCLUSION AND BISUNESS GROWTH: A STUDY OF THE MICRO, SMALL AND MEDIUM ENTERPRISES IN IGEMBE SOUTH (KENYA)

**Kanake Martin Guantai and Dr. R. Mahesh**

AJPO

American Journal of Finance
ISSN 2520-0445 (Online)
Vol.3, Issue 1 No.1, pp 1 - 30, 2018
www.ajpojournals.org

# THE IMPACT ASSESMENT OF THE MICRO FINANCE TO FINANCIAL INCLUSION AND BISUNESS GROWTH: A STUDY OF THE MICRO, SMALL AND MEDIUM ENTERPRISES IN IGEMBE SOUTH (KENYA)

**[1]Kanake Martin Guantai**

**[1]Post Graduate Student University of Mysore (Karnataka State, India)**

**Corresponding Author's email martin.kanake@yahoo.com**

**[2]Dr. R. Mahesh**

**[2]Associate Professor, Department of Business Administration**

**University of Mysore (Karnataka State, India)**

## ABSTRACT

**Purpose:** The purpose of this study was to assess the impact of microfinance on financial inclusion and business growth in Igembe South District Kenya.

**Methodology:** Descriptive research was used in discovering the research objectives. The research targeted the micro, small and medium sized businesses operating in Maua town (Igembe south District), 2181 of which were registered and licensed. A sample of 280 businesses (12.84% of the population) participated in the study.

**Results:** This study revealed that microfinance institutions played a major role in improving financial inclusion among the small business owners who previous research has shown that they have been traditionally excluded from the formal banking systems. 78% of the respondents had access to the micro finance services while 60% had active microcredit in the preceding 12 months. It was clear that the microfinance institutions were cultivating the culture of saving among the micro entrepreneurs. However, most of the new businesses specifically those less than one year of age minimally benefitted from the micro finance services. It was also noted that default risk among the small businesses remains to be a challenge that micro credit lenders have to overcome for continued services provision. Working capital requirement was the leading reason for borrowing from micro finance institutions by the businesses.

***Unique contribution to theory, practice and policy***: The study found that there was a good complementation between the existing micro finance institutions and the public entrepreneurial programs initiated by the government of Kenya such as Youth Entrepreneurs Development Fund, Women Enterprise Fund, Uwezo Fund and other County governments initiatives. The study recommended that the microfinance institutions should also be included in the distribution channel of these public funds for stronger linkage with the target groups. The MFIs should also utilize Credit Reference Bureau services to reduce the problem of default.

***Key words:*** *Financial Inclusion, Access, Quality, Usage, Microcredit*

# 1.0 INTRODUCTION

## 1.1Background of the Study

MSME is an abbreviation that is used to refer to Micro, Small or Medium sized Enterprises in many countries in the world. MSMEs debate has been a persistently important discussion by many counties and international bodies/organizations such as the European union (EU), the World Trade Organization (WTO), the World Bank, the United Nations (UN) and the African Development Bank (AfDB) among others. Although there exists no uniform definition of the MSME, there is a convergence in the parameters used in the definitions such as the number of employees, the business annual turnover, the value of fixed assets, capital requirements and the age of the business. The criterion used varies from one country to another. For instance in India, the capital requirements is used while in South Africa a three point criterion is considered; total number of full time employees, total turnover and the value of fixed assets. In the United States, United Kingdom, Australia, Ethiopia, Jordan, Kenya e.t.c. the number of employees is the criteria of classification while in Nigeria both employees and turnover are put into consideration. It is noteworthy that the capital requirements of MSMEs are quite low compared to what can be referred to as large businesses. The small businesses have been realized to be playing a pivotal role in the economy of any nation.

The dream and vision of every developing nation is to achieve growth in terms of their Gross Domestic Product (GDP) by raising the level of business activities within and without their boarders. This objective can only be achieved if there is inclusive participation in the economy that in turn is made possible by creating environment for growth of entrepreneurial spirit whether in the formal or informal sector. Today world-over, the MSMEs are being viewed as an important ingredient in the economic growth.

The World Bank has continued to support the MSMEs with approximately $3billion spent on SMEs annually (World Bank Group Report 2016). The report farther highlighted that there exists a persistent huge financing gap for the MSMEs that are rapidly growing in almost all countries globally estimated at over $1 trillion for formal MSMEs and as much as $2.6 trillion for formal and informal MSMEs

### 1.2 MSMEs in Kenya

The official definition of the MSMEs adopted in Kenya is one on the basis of the employment size with businesses employing up to 9 people categorized as micro, those with between 10 and 49 as small and the ones having 50 to 99 employees as medium.

Wanjala (2001) opined that most small scale businesses in Kenya are started at very low cost and on part-time basis by the owners. As of 2016, micro units formed 92.2% of the licensed establishments and were employing between 1 and 9 employees in Kenya. Small and medium units accounted for 7.1 % and 0.7 % respectively. The type of SMEs in the country are very similar to those that are found in other developing countries. According to Kenya National Bureau of Statistics (2017) these businesses have continued to cope with inability to borrow from commercial banks because they are unable to provide collateral.

The government of Kenya has over the years been demonstrated very remarkable initiatives that are meant to promote the SMEs. Significant policy changes were introduced in the year 1999 through the Kenya Local Government Reform Program (KLGRP) that saw the introduction of single business permit as well as Local Authority Transfer Fund Another recent major milestone was the enactment of the Micro Finance Act of 2006 that became fully operational in 2008. MSME sector in Kenya has over the years been recognized for its role in provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, alleviation of poverty (KNBS-Economic Survey, 2017). The sector continues to be a key contributor towards the realization of the Kenya Vision 2030. This survey conducted in the country in 2016 revealed that there were 1.56 million registered MSMEs and 5.85 million unregistered ones (KNBS). The evidence of the very large number of unregistered businesses indicates the presence of barriers or obstacles in registration of the businesses.
Most of the MSMEs do not have access to the formal banking systems due to lack of stable cash flows as well as established credit worthiness.

## 1.3 Micro Finance

### 1.3.1 Invention and evolution of Micro Finance.

The history of micro financing can be traced back as long to the mid-nineteenth century when the theorist Lysander Spooner developed the theory of extending small credits (micro credits) to entrepreneurs and farmers as a way getting the people out of poverty in America. Lysander was a well-known entrepreneur of his time. In Germany, Friedrich Wilhelm Raiffeisen´s village bank movement was started in 1864 and by the year 1901 the bank had reached 2million rural farmers. Raiffeisen held a 3s philosophy of self-reliance, self-governance and self-responsibility. Many co-operative movements were founded in his name. The world summit on microcredit (1997) adopted a definition of microcredit *as* all the programs providing for the granting of credits for self-employment and provision of other financial and business services to people living in extreme poverty.

### 1.3.2 Modern Micro Finance

The modern micro financing can be traced back to the 1970's from the early efforts and initiatives of Mohammed Yunus. He invented a way of financing some women group in a village in Bangladesh who could then repay the microcredits after their successful business activities. This later developed to be the famous Grameen Bank of Bangladesh which has been referred globally as the micro finance model. Yunus was convinced that microcredit would be a viable business model. Yunus lent US$27 of his money to 42 women in the village, who made a profit of BDT 0.50 (US$0.02) each on the loan. Thus, Yunus is credited with the idea of modern microcredit as part of micro financing. Another contributor to this knowledge was Dr. Akhitar Hammed Khan, founder of the Pakistan Academy for Rural Development. He emphasized on the bottom up approach in community development. Khan formed a highly referenced model of participatory development initiatives. During the past two decades, there has been tremendous growth of initiatives into microfinance; the delivery of loans, savings, and other financial services to poor and near-poor clients. An estimated that about 500 million families benefit from micro credits making new businesses possible (CGAP). A Microcredit Summit in Washington DC (USA) in 2005 recognized that there was a need to increase financial inclusion and particularly through micro financing and microcredit. (UN report on micro financing in Africa-2013). The year 2005 was proclaimed as the International year of Microcredit by The Economic and Social Council of the United Nations in a call for the financial and building sector to "fuel" the strong entrepreneurial spirit of the poor people around the world. The following were set as the goals to be achieved during that year;

i. The promotion should be inclusive in the financial sector

ii. Make a supporting system for sustainable access to financial services

iii. Support strategic partnerships by encouraging new partnerships and innovation to build and expand the outreach and success of microfinance for all.

**1.3.3 Microfinance in Kenya**

Micro finance is a business in which the person conducting the business holds himself out as accepting deposits on a day to day basis and any other activity of the business which is financed, wholly or to a material extent, by lending or extending credit for the account and at the risk of the person accepting the deposit, including the provision of short term loans to small or micro enterprises or low income households and characterized by the use of collateral substitutes (Micro Finance Act 2006).

A nationwide microfinance institution is an institution licensed to carry out deposit-taking microfinance business in any part of Kenya while a community microfinance institution is restricted to carrying-out deposit-taking microfinance business within one Government Administrative District, Division or any other specified region as the Central Bank may deem appropriate (Central Bank of Kenya).

The MFIs range from informal organizations such as the Rotating Savings and Credit Associations (ROSCAs), Financial Services Associations (FSAs), savings and Credit Cooperative (SACCOs), NGOs, to commercial banks that are down saving (Aleke, 2003).

Abdi (2015) mentions that the earliest forms of microfinance and microcredit in Kenya were church-based lending programs that arose in the 1980s. The Structural Adjustment Program that was implemented by the government of Kenya in between 1992-1994 resulted into liberalization of the economy. In the late 90's there the government solicited for external funding with an objective was to promote the MSME sector as a means of accelerating economic growth and generating employment opportunities. The sector registered a growth of 22.1 per cent in total assets from Ksh. 56.9 billion in December 2014 to Ksh. 69.5 billion in December 2015. (CBK bank supervision report 2016).

**1.3.3.1 Micro finance Act 2006.**

The Legislation was passed in 2006 with the Micro Finance Act which became active in 2008. The Act categorizes the micro finance institutions into two; Deposit Taking Micro Finance (DTM) institutions and Non Deposit Taking Micro Finance Institutions.

**1.3.3.2Association of Micro Finance institutions in Kenya (AMFI**-K)

This is an umbrella body of the microfinance institutions in Kenya. It has its own leadership drawn from the member institutions to look after the affairs pertaining micro financing sector. AMFI-K has 53 microfinance institutions serving over 6.5 million poor Kenyans. These include banking institutions, NGOs, Christian Organizations and Non-banking Financial Institutions (NBFIs). The organization works closely with other players in the financial sector such as Banks, FSD, AKCP, KCISI, etc. Provision of quality financial services to the low-income earners in the country remains to be a major focus of the organization.

## 1.4 Statement of the Problem

Abdi (2015) in his research on micro financing observed that Kenyan banks serve no more than 4 million people, leaving the rest of the rest of the population to depend on informal and semi-formal sources. These unregulated sources are very expensive and risky meaning that the users are overexploited and this renders them unfit for the business owners. Robinson (1998) reiterates that accessing products from large and developed financial institutions in the developing economies by SMEs is not easy. World Bank (2000) acknowledged the fact that SMEs are more likely to be denied new loans for their businesses than larger firms when in need. Hallberg (1994) opined that the lenders consideration of the SMEs owners to lack the skills to manage risk couple with the high transaction costs in lending to them compared to the amount that is borrowed lead to disqualification of their requests. Kusi et.al (2015) noted that in Africa, the potential role that small businesses can play in terms of poverty reduction, job creation, and fostering entrepreneurship is unprecedented. There various issues that evidenced by the research to be adversely affecting MSMEs. They ranged from lack of legal and regulatory frame work as there exists in the case of large business units to poor infrastructure, localized markets and low purchasing power due to inadequate working capital.

Microfinance institutions are therefore expected to fill this gap and provide financial and other business support to small and medium scale businesses (MSMEs). The study therefore seeks to find out whether SMEs in Kenya, specifically Igembe South District, derive significant benefits from the MFIs for their sustainable growth.

### 1.5 Objectives of the Study

The general objective of this study was to assess the impact of micro finance to financial inclusion with reference to MSMEs performance.

Specifically the study aimed:

1. To determine the performance of MSME in Igembe South.
2. To determine the challenges MSMEs face when assessing micro-credit.
3. To identify the alternative sources of funding that MSMEs use and their viability.
4. To compare the rate at which MSMEs borrow from MFIs as against other sources of capital.
5. To determine the regularity of use of the financial services from MFIs by the SMEs.

# 2.0 LITERATURE REVIEW

## 2.1 Introduction

Machado (2013) expounded business growth as the product of an internal process in the development of an enterprise and an increase in quality and/or expansion; Penrose (2006). The success in the operations of any business largely depends on the serenity of both the micro and macro-economic environments. Gerosik (1995), the growth and survival of any firm depends on its ability to understand and adapt to the changing environments.

Wagner (1992), the whole idea of growth of businesses is of great significance to the policy makers. It is on this backdrop that several researches have conducted to determine the reasons for success or failure of businesses. Although businesses may exist in similar environments, they may continue to face different levels of challenge due to their stages of development, micro environmental conditions such as size of the business; micro, small, medium or large. A study on business growth processes is important in understanding the specific factors that are into play.

## 2.2 Theoretical perspective on firm growth

Farouk and Saleh (2011) did a paper on explanatory framework for the growth of small and medium enterprises (SMEs). They observed that the issue of growth of the SMEs deserves a lot of attention since their contribution to the economy is greater than the large scale businesses. It is important to note that SMEs outnumber the large scale businesses by multiples.

Most of the existing literature however is about large companies (Machado, 2013). Gupta et al (2013) studied the path followed by small and medium enterprises in their growth. They remarked that there in need for a development of a proper framework that can be used to determine a firm's growth under given conditions. A few theories may be used investigate small business growth.

### 2.2.1 Gibrat's law

This is also known as the law of proportionate effect proposed by Robert Gibrat in 1931. He stated that the proportional rate of growth of a firm is independent of its size. In this he argued that the chance for growth is random and can be determined by varied economic factors as well as others such as exchange rates and successive launch of new products (Collins Dictionary of Economics, 4th ed., 2005). It was perhaps the first attempt made to explain in stochastic terms the systematically skewed pattern of the distributions of firms' size within an industry, Aitchison and Brown (1957).This argument is a departure from the classical economic theory that postulates that there exist an optimal firm size; Hart and Prais (1956), Simon and Bonini (1958) supported this law. Santarelli and Thurik (2002) investigated the validity of the law in the newly established firms in the service industry in Netherlands. However, there has exists literature that explain that small firms tend to grow faster than larger firms due to their flexibility in adopting to changing business environment and economic variables (Franicevic and Bartlett, 2001, Sak and Taymaz, 2004). It has been consistently said that the SMEs are the engine for economic growth (Holcombe, 1995; Khandker, 1998). William (1965) research presented differing evidence to Gibrat's law. Similarly, Besnik (2007) empirical work in Kosova revealed contrasting results. Stam (2010) opines that the determination of growth of a firm should go beyond just the age and size of the firm.

### 2.2.2 Stages Models

A general assumption is made that the firm progresses through different stages and the complete process is termed as the life cycle. The proponents of this approach opine that a firm growth is affected by various determinants that are both part of its internal and external environment. There are contrasting views of researchers with some suggesting that the growth follows a linear or is predictable and others feel that it is unpredictable (opportunistic) (Gupta et al , 2013) . They farther remarked that Enterprise growth can be identified in four theoretical perspectives: the resource-based perspective, the motivation perspective, the strategic adaptation perspective and the configuration perspective. Churchill and Lewis (1982) developed the famous model five stages of development of a business.

a) **Stage I : Existence.** The period during which the business gathers its customers and strives to deliver the products.
b) **Stage II: Survival.** The firm having have been able to successively pass through stage I will be able to remain in business if it will have enough resources to break even. Otherwise it may be forced to exit.
c) **Stage III: Success**. The owners here have to make decisions pertaining stability and profitability of the firm.
d) **Stage IV : Take-off.** The may concern is the growth of the business. The big question to be addressed is how to finance the growth anticipated.
e) **Stage V:** Resource maturity. This will refer to the firm ability to take advantage of their increasing size, managerial talents and financial health.

### 2.2.3 The noisy selection theory

Jovanovic (1982) proposed a somewhat different view to explain the firm growth. He categorized firms as either efficient or inefficient. Efficient firms grow and survive while inefficient ones decline and fail. He referred to this phenomenon as the theory of noisy selection. Jovanovic farther argued that the size of the firms do not necessarily differ because of the levels of capital but because others operate more efficiently than others. There is an assumption of atomistic participation in the infinite number of firms in the industry hence no firm has ability to affect the prices. Economists refer to the new entrants into the industry as Jovanovic and they face costs that are not uniform but random and differ across firms. A firm may not know their actual costs on entry but learn these from post entry performance. If an entrepreneur learns from post entry performance that he surpasses the expectations, he will expand the output and survive if otherwise he would contract and exit.

### 2.2.4 Pecking Order Theory.

Donaldson (1961) suggested that firm managers have a constituent order of preference in financing the activities of the firm with the first option as the internal source. The theory was farther expounded by Myers and Majluf (1984). They opined that despite the existence of optimal structure that may offer tax benefits, firms maintain internal financing over other source. This was a complete departure from the trade-off theory. If the firm's activities cannot be adequately internally financed (through retained earnings), only then would a firm go for a debt which is generally cheaper than the third and last option to the financing of a corporation, equity. The general argument is that the cost of financing increase with information asymmetry. Although most of the SMEs are privately owned firms, it also of great interest to find out the preferences in financing by their managers or owners and whether they have any correlations or consistencies in various business. Domichelli (2007) argues that the Pecking Order Theory is applicable to SMEs.

## 2.3 Empirical review of the literature

The availability of external sources of financing for SMEs has become an important area of research for policy makers around the globe (Allen & Gregory, 2006)**.** Otto, Muli and Milcah (2002) did a research in Kenya to evaluate micro finance projects funded through Dutch Co-financing program. They realized that micro finance has become a useful tool in poverty allievation. Olando et al (2013) did a research on the SACCOs in Kenya and found out that they had registered a very slow growth over the years. This inability of the SACCOs to what the researchers called weak financial stewardship. This study that was conducted in Meru County (Kenya) recommended that the government should come up with a legal framework to ensure that the capital generated is used to grow these institutions inorder to realize their contributions in the realization of Kenya Vision where the MSMEs development is underpinned. Bouazza et al (2015) studied factors affecting the growth of small and micro enterprises in Algeria. The major factor they cited was the lack of adequate financing was the most pronounced. (Lumpkin and Dess,1996). Rocha et al (2010) opined that all factors affecting the SMEs growth matter less when compared to financing constraint. They ranked it the most important.

Machona (2006) studied the impact of microfinance in Addis Ababa Ethiopia by assessing the impact of microfinance on women microenterprises that were clients of Gasha MFI. The findings for this study indicated that only a few of the women clients of Gasha microfinance institution reported increased incomes from their microenterprise activities.

Quayo et.al (2014) in their empirical study in Ghana entitled *Bridging the SME financing gap in Ghana*, sought to find out the role played by the MFIs in the financing of the SMEs. They did note that there existed a financing gap for the SMEs at time of study since most of the small businesses were neglected by the commercial banks. Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. Challenges specifically noted to be facing the SMEs were, lack of collateral, perceived default risk by the lenders (which is not necessarily the actual risk), information asymmetries between the lenders and borrowers (SMEs in this case), and reputational issues. A joint survey of the Central Bank of Kenya and the World Bank outlined the policy recommendations on the government of Kenya’s support to the MSMEs. Shah et al (2013) noted that the lenders are usually more cautious when lending to the MSMEs.

Acha (2012) indicated that there were numerous opportunities that strategically positioned micro finance institutions in the economic growth in Nigeria. These were such factors as increased government interest, large unbanked population, increased entrepreneurial awareness among others. Ayodede and Arogundade (2014) in their work they recommended that the government should create more enabling environment for the micro finance institutions whose role cannot be overemphasized in the growth of the economy. Some issues that were noted to be affecting the

MFI in the provision of servces to the businesses included high operating costs, inexperienced credit staff, repayment problem and the illiteracy levels among the business owners who have inadequacy of skills to keep their relevant records. Aruna (2015) study on selected MSMEs in Andhra Paradesh state in India revealed that most of them realized about 50 % of their capacity due to challenges such as power inadequacies and marketing challenges. However, it was appreciably notable that the government had provided some mechanisms of dealing with the problem of marketing among the MSMEs. Some prescribed products (or given percentages) were specifically reserved for the small businesses in order to save them from the huge competitive acts of the large scale counterparts. One of the major revelations by this study was that most of the MSMEs owners did not understand even the existing framework of the government policies that were meant for good of their business. There exists need generally for governments or government authorities to enlighten the business owners on the existing policies as well as develop more of the policies that promote an enabling environment for these businesses to thrive. Moshi (2011) noted that in Tanzania most of the small and medium sized businesses used self-financing (through retained earnings) to meet ends in their investments. 95 SMEs from Daresaalem were involved in the study. He recommended that MFIs should do more to reach the unreached businesses. Olutunla (2008), reiterated that SMEs play an important role in the process of industrialization and economic growth by significantly contributing to employment creation, income generation and catalyzing development in urban and rural areas (a study done in Tanzania).

Matu and Kilonzo (of the CBK-Kenya 2017) in their paper on financial inclusion noted that approximately 2 billion people across the globe do not use formal financial services and more than 50% of adults in the poorest households are unbanked .

Gacicio and Gabriel (2015) found that the access to information has an impact on the loan access to the SMEs. In other words the information asymmetry in the sector affects the access. Stokes and Wilson (2006) did comment that financial difficulties of SMEs arise, either because of an inability to raise sufficient funds to properly capitalize the business, or a mismanagement of the funds that do exist or a combination of both. It is noteworthy that this problem is intense for relatively new units that at times has even led to their closure after a very short period of being in operation. The financial difficulties of the MSMEs is the root cause of all other problems (Aruna 2016).

These findings concur with those of Waseem (2017) in a research on growth and challenges of MSMEs in Jammu and Kashmir (India) where he noted that lack of proper entrepreneurial training, poor infrastructure and lack of marketing support as some of the challenges. In this study he concluded that with the removal of these stumbling blocks, the MSMEs have a capacity of supporting thousands of people especially the unemployed educated youths. Similar comments were raised by Wanjohi (2010) that most of the SMEs in their formative stages avoid even the prescribed procedures such as registration and certification because of lack of the necessary funds to finance these procedures.

Economic survey of Kenya (2012) estimated that contribution to the GDP by the SMEs sector stood at over 25%. Cooper (2012) found existence of a strong positive relationship between micro finance services and growth of SMEs. Mbithe (2013) carried out a study the impact of the MFIs on the small and medium businesses in Machakos County-Kenya and established that micro credit and training of the business owners had significant impact on the growth of the businesses i.e. a positive relationship was established. Koech (2011) identified capital access, cost, capital market collateral requirements information access, capital management and cost of registration. Wamela (2015) noted that there was a clear positive relationship between the growth of small businesses and the availability of micro credit. This research conducted in Kitale township, Tranzoia County- Kenya recommended that MFIs should improve on their trainings offered to the small business entrepreneurs by making them more timely in order to optimize the benefits. This is supported by the Economic Survey Report whereby 52 % of the MSMEs owner were found to be sponsoring their own trainings whenever on business skill acquisition. Further, loan reconstructions were recommended as need may arise for the same to enable the entrepreneurs a friendly pace in payment in line with their level of businesses.

### 2.3.1 The Government's Initiatives in Promoting MSMEs growth and Financial inclusion.

The initiatives of the Kenya government have also been impressive in support the development and growth of new and existing MSMEs. As mentioned by Kenya National Bureau of Statistics (KNBS), this sector is employing over 52% of the working population across the industries. There have been structural adjustments and constitutions changes that have placed Kenya in a higher position in terms of cultivating entrepreneurial spirit and growth of small businesses. The Barclays Africa Group Financial Markets Index that was launched in January 2018 ranked Kenya on the fifth position in terms of attracting investment but ranked Kenya first in terms of well-developed capital markets sophisticated frameworks. East African Business council (EABC) (2018) made a similar announcement about the prospects in Kenya and East Africa of enhanced trade through reduction of Non-Tariff Barriers (NTBs). Kenya has made specific strides that are meant to boost her efforts in the achievements of stable and efficient financial systems that would ensure inclusion of all sections of the economy as envisaged in the 'Kenya Vision 2030'.

.

#### 2.3.1.1 Devolution of government functions and resources -County Governments

The implementation of the new Kenya constitution in 2013 has ensured more distribution of resources to all levels of citizens towards achieving inclusive development of the country as envisioned in the Kenya Vision 2030.

The devolved functions expected to offer more vibrancy to investments and businesses, particularly the MSMEs. Very positive steps have been taken so far by some of the counties in terms of creating conducive environment for doing business, subsidizing inputs for farmers, e.t.c. One main initiative of County government with relevance to this study is the establishment institutions that support the development and growth of the SMEs. For example, Meru County Government Microfinance Corporation is a government held microfinance institution established to provide financial services to micro and medium enterprises in order to;

i. Promote local business and investment growth;
ii. Enhance access to capital and credit and financial services to small and medium enterprises;
iii. Reduce poverty and unemployment;
iv. Promote local economic growth.

#### 2.3.1.2 Youth Enterprise Development Fund (YEDF)

The government founded this in 2006 with an objective of spurring entrepreneurial spirit among the youth in all parts of the country. Among the objectives of YDEF were to;

- Facilitating easy access to credit for youth entrepreneurs;
- Equipping the youth with business development and entrepreneurship skills to enable them actively participate in enterprise development in the country;
- Linking youth enterprises with large well established enterprises;
- Facilitating the youth to access employment opportunities abroad;
- Enabling youth enterprises to access markets for their goods and services;
- Providing youth oriented Commercial Infrastructure for youth enterprises.

(Extract from YEDF 2013-2017 strategic plan)

The scheme intended to accord the youth access to low cost capital from the government as a measure of job creation and individual development. The youth qualifying for the funding are of ages 18-35years.

#### 2.3.1.3 Women Enterprise Fund (WEF)

It was established in the year 2007 as a SAGA in the ministry of public survive, youth and gender affairs with an aim of empowering women to nurture the entrepreneurial skills. In 2011, this Fund was awarded winner in Sustainable Development Goals for it outstanding achievements in promoting Gender Equality and women Empowerment. Through the Constituency Women Enterprise Scheme, the Agency offers a number of facilities to women through training on business skills and basic ICT, marketing support and linkages, LPO financing and distribution of the loans to the women. The loan advances to the women are interest free and are led on trust with no collateral requirement. According to the Chairperson of the WEF advisory board, the repayment of these loans are over 90 %. As at 2016, 6104 SHGs including 1, 250 000 individuals had benefited from the Fund with a total portfolio of Kshs 8.79 billion (CEO-WEF 2016). AfDB (2013) underscores the importance of development of the enabling financial framework in which women and women-owned enterprises are not left out of the financial space. Taylor and Boubakri (2013) found out that women are less likely to use formal financial services since they general have less educational status compared to male counterparts, low-income levels and more likely to operate in the informal sectors. This special intervention by the government of Kenya to improve women's access to finances through micro financing has been a big step in the right direction towards closing up these existing gaps.

#### 2.3.1.4 Uwezo Fund

This is yet another government flagship project designed for the realization of the Kenya Vision 2030 in the spirit of Milleniun Development Goal (MDGs). It was unveiled in 2013 to increase access to credit of youth and women. A total of Kshs 6 billion was set aside for the start off of the project. The fund was created in the presidency under the Ministry of Devolution and Planning. With a clear aim of providing alternative financing of the community driven projects the beneficiaries of the scheme are required to be in formal groups of 9 to 15 members that are registered with the ministry of social services and holding regular meetings in which they run table banking. The youth groups should comprise of those in ages between 18 and 35 years while there is no age limits for women.

American Journal of Finance
ISSN 2520-0445 (Online)
Vol.3, Issue 1 No.1, pp 1 - 30, 2018


## 3.0 METHODOLOGY.

The research used was exploratory and descriptive in nature. Survey research design was adopted in this study to assess the effect of MFIs on the growth of SMEs in Igembe South. A muilt-stage and simple random sampling technique was used to select a total of about 280 respondents from MSMEs and 11 from the MFIs.

| CATEGORY/LEVEL OF BUSINESS ACTIVITY | FREQUENCY | PERCENTAGE |
|---|---|---|
| TRADING | 1147 | 52.59 |
| INFORMAL | 170 | 7.79 |
| HOTEL, BAR & LODGING | 321 | 14.72 |
| AGRICULTURE | 29 | 1.33 |
| OTHER PROFESSIONAL SERVICES | 350 | 16.05 |
| FINANCIAL SERVICES | 22 | 1.01 |
| EDUCATION (PRIVATE) | 25 | 1.15 |
| HEALTH CLINICS | 21 | 0.96 |
| PETROL FILLING | 15 | 0.69 |
| WORKSHOPS & MANUFACTURING | 61 | 2.80 |
| OTHER SERVICES | 20 | 0.92 |
| TOTAL | **2181** | **100.00** |

***Table 3.1 : Summary of business activity in Maua. (Source: Meru County Government data)***

Both primary and secondary data was collected. Primary was collected by using techniques like interviews, questionnaires and direct observation direct from respondents. The tools the researcher used to questionnaires to collect the primary data.

Secondary data was obtained from sources like published journal articles about the subject, books, official government organizations reports (especially Kenya National Bureau of Statistics), International Organizations' publications (UN, World Bank, CGAP, IFC)

## 4.0 DATA PRESENTATION AND ANALYSIS

## 4.1 Demographics of the respondents

### 4.1.1 Age of the respondents

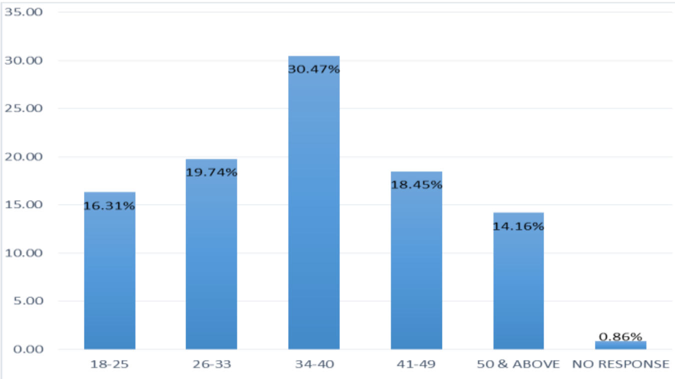



Figure 4.1 shows a summary of the respondents' ages as at the date of the study. There was a fair (normal) distribution across the ages of the people who were in basis in Igembe South district and particularly Maua township where most of the sample was obtained. This implies that most of those in the business, 30.47% were in the ages 34-40 and the least group was above 50 years at 14.16%.

*Figure 4.1: SMEs owners' by age*

### 4.1.2 Gender of the Respondents.

The sample was random and data was collected across the sectors and it presented equal to fair distribution amongst the two gender. 117 of the respondents accounting for 50.21 % were males while 44.21 % were female respondents (103 out of 233 total respondents). 5.58 % (13 out of the total of 233) did not respond to the question of gender. Therefore any analysis based on gender from this study would be within 95 % degree of accuracy, i.e approx. 5% whose data is used to make the analysis didn't report their gender.

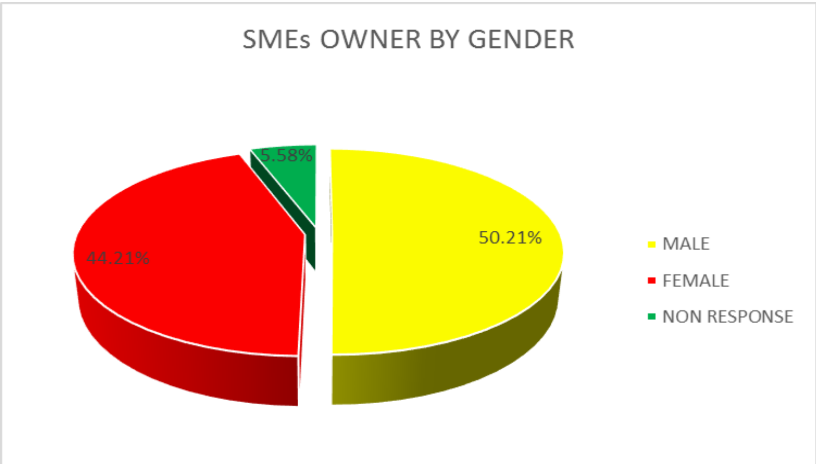



*Figure 4.2: The respondents' gender*

### 4.1.3 Position held by the respondent in business

The largest portion of the respondents in this survey were the owners who doubled as managers to their businesses; 60.94 % (142 out of 233). As indicated on table 4.2, less than 9% of the businesses had employed a manager to run the business. However, 27 % of the businesses had salespersons who were in significant position in running the affairs of the firm. Others, included drivers who were working for transportation services firms

| POSITION | FREQUENCY | PERCENTAGE |
|---|---|---|
| ***MANAGER*** | 20 | 8.58 |
| ***OWNER AND MANAGER*** | 142 | 60.94 |
| ***SALES PERSON*** | 64 | 27.47 |
| ***OTHERS*** | 6 | 2.58 |
| ***NON RESPONSE*** | 1 | 0.43 |
| ***TOTAL*** | **233** | **100.00** |

*Table 4.1: The position held by the respondent in business.*

### 4.1.4 Time period for which the respondent has held the position

The researchers asked the respondents to state the period for which they had held the positions at the business. 1-5 years was the mode of this data with a total of 45.49%.
10.73% had less than one year in their positions.

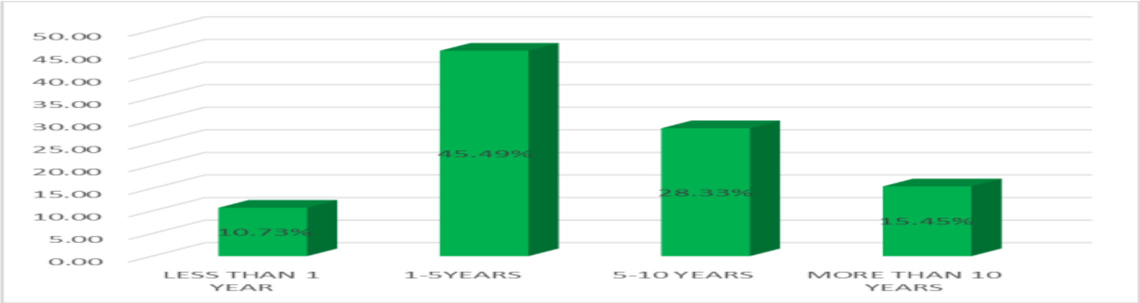



*Figure 4.3 : The experience by the respondents in their positions.*

## 4.2. Business Characteristics

### 4.2.1 The types of business activities

Those included in trading business were wholesale and retail shops that dealt with consumer goods and cosmetics, clothing shops and boutiques some of which dealt with second hand clothes, electrical, electronics and accessories shops, auto spares shops, booksellers and fresh produce trading. Services businesses that contributed to 22.75% of the sample had similarly a wide range such as transport; mostly short distance transport by small passenger cars and motorcycles, electronics repairs shops, electricians, printing and photocopying, house rent agency, money transfer services mostly Mpesa and commercial banks agencies, hotels and restaurants, boarding and lodging, tailoring and textile technologies, motor vehicle repairs, clinical or health services, professional services like accountancy and those who operated private schools.

| TYPE OF BUSINESS ACTIVITY | | |
|---|---|---|
| **TYPE** | **FRQY** | **%** |
| **MANUFACTURING** | 9 | 3.86 |
| **TRADE** | 132 | 56.65 |
| **AGRICULTURE** | 29 | 12.45 |
| **SERVICES** | 53 | 22.75 |
| **CONSTRUCTION** | 9 | 3.86 |
| **NO RESPONSE** | 1 | 0.43 |
| **TOTAL** | **233** | **100.00** |

***Table 4.2: The category of business activity***

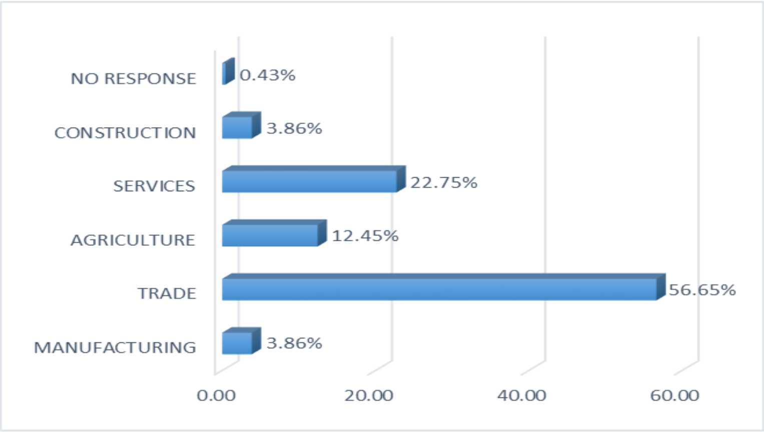



***Figure 4.4: The category of business activity.***

American Journal of Finance
ISSN 2520-0445 (Online)
Vol.3, Issue 1 No.1, pp 1 - 30, 2018
www.ajpojournals.org

### 4.2.2 The form of business

More than two-thirds (67.81 %) of the businesses included in the sample were owned by a single individual while partnerships and Private companies contributed 21.46% (50 out of 233) and 10.3% (24 out 233) respectively. This study was just limited into determining the form of business and therefore inquiries were not made into whether the businesses were registered

| *FORM* | FREQUENCY | PERCENTAGE | CUMULATIVE |
|---|---|---|---|
| *SOLE PROPRIETORSHIP* | 158 | 67.81 | 67.81 |
| *PARTNERSHIP* | 50 | 21.46 | 89.27 |
| *PRIVATE COMPANY* | 24 | 10.30 | 99.57 |
| *NON RESPONSE* | 1 | 0.43 | 100.00 |
| ***TOTAL*** | **233** | **100.00** | |

***Table 4.3: The forms of business surveyed.***

### 4.2.3 The length of time the businesses have been in existence

Appproximately 92% of the sample had existed for at least one year. About 20 % of the businesses (47 out of 233) had endured for more than 10 years while 26.61% operated for time period between 5 and 10 years. Cumulatively, 46.77% (109 out 233) did business for not less than 5 years; indicating that almost half had gone successively their stages of growth or development cycle as explained in the Churchill and Lewis model.

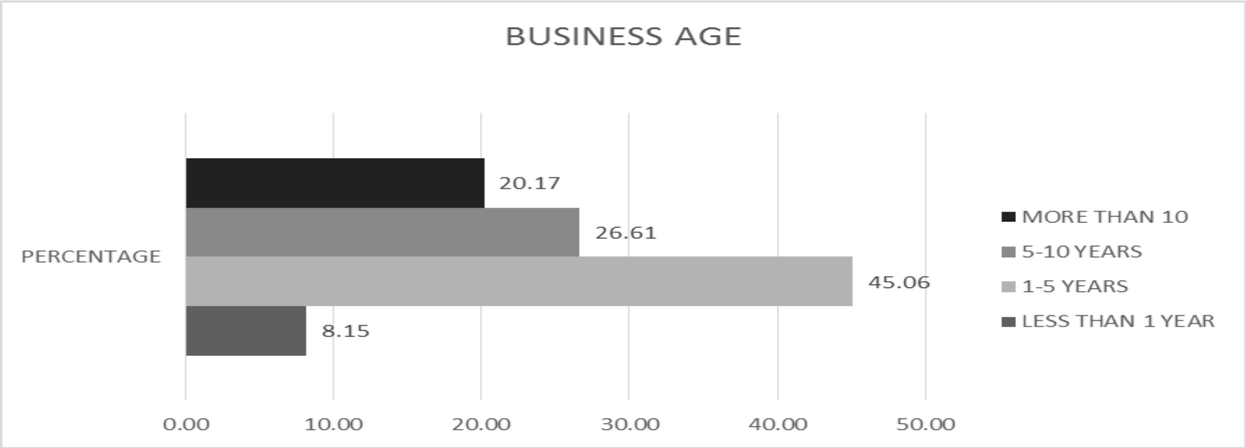



***Figure 4.6: The age of businesses run by the respondents.***

### 4.2.4 Number of employees working in the business units

Based on the sample, 72.53 % were employing 9 or less people, most of them having the family members as assistants. Only 6.44 % were employing more than 20 employees and these were mainly the privately owned schools and the supermarkets. No business was found to be employing more than 50 employees which meaning that over 99% of these businesses were micro and small enterprises; 72.53% micro, 27.04 small and 0% medium. A national survey by

American Journal of Finance
ISSN 2520-0445 (Online)
Vol.3, Issue 1 No.1, pp 1 - 30, 2018
www.ajpojournals.org

Kenya National Bureau of Statistics in 2016 found that micro enterprises contributed 92.2% while small and medium had 7.1% and 0.7% respectively in the MSMEs sector.

### 4.2.5 Level of competition for the business

The major characteristic of the SMEs is the homogeneity of the product they offer. Very little or no differentiation is done by the business owners. As a result, they are usually faced by very high competition and very low turnovers and profit in turn. The businesses in Maua town are not an exception in this. The results here indicate that only less than two percent (1.72%) of the respondents reported to be facing no competition in their business activity; perhaps the level of competition involved was less than moderate. 142 respondents (60.94%) said that they faced strong competition while very strong(severe) competition) was reported by 11%.

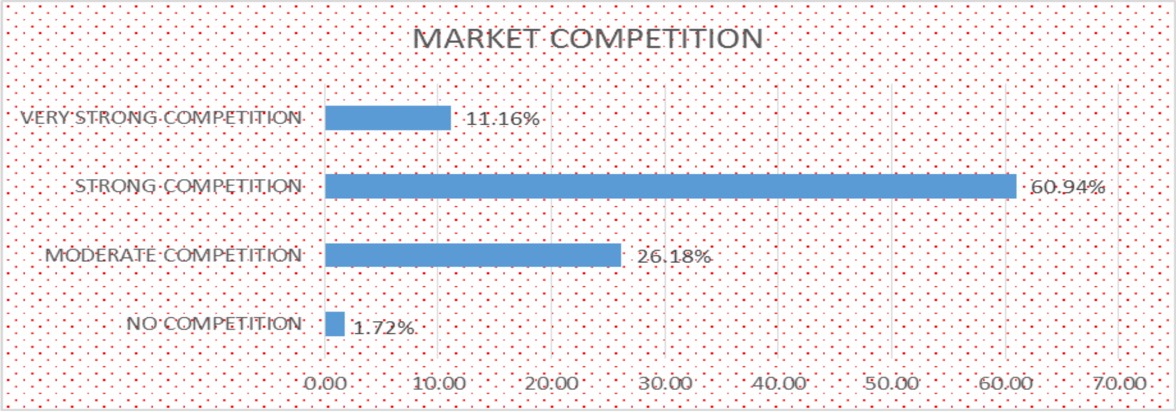



***Figure 4.7: Level of competition faced by SMEs.***

### 4.2.6 Business turnover

In this case, the businesses were asked to state their average annual sales in the previous 12 months in a given range in Kenya Shillings. The lowest bracket was up to KES 1 00 000 (approx. USD 1 000 ). 15 % of these businesses would barely make USD 100 a month. Moreever, it was noted that most of these were new, under one year of age and those above one year operated in the non formal sector like motorcycle business popularly known as ***Boda boda***.

On the upper extreme only 23.60 % made sales of up to and over USD 10 000. Out of these,29 % (16 out of 55) reported that they had not benefited from micro finance loans. 84% had utilised

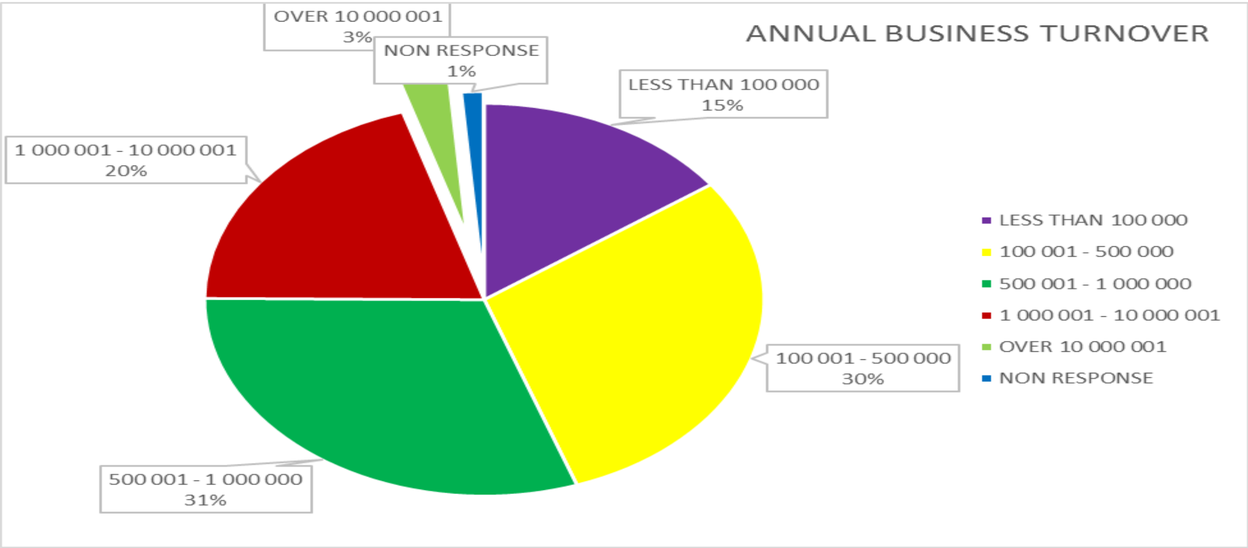



***Figure 4.8 : The average annual sales by the businesses***

the MFIs services in the past or they were servicing a loan in the preceding 12 months. Notable also was that none of the businesses in the upper range of over KES10 000 000 (USD 100 000) had an active loan with the MFIs. More utility of MFIs loans was by the businesses with turnovers between KES 100 000 and 1 000 000 (USD 1000 – 10 000). Figure 4.10 summarizes the distribution of businesses in turnover size. This range constitute 60% of all the businesses under study with a fairly normal distribution.

### 4.2.7 The levels of operating profit margins

| PROFIT MARGIN(%OF SALES) | FREQUENCY | PERCENTAGE |
|---|---|---|
| **0-10** | 60 | 25.75 |
| **11-20** | 74 | 31.76 |
| **21-50** | 34 | 14.59 |
| **UNKNOWN** | 62 | 21.69 |
| **NO RESPONSE** | 3 | 1.69 |
| **TOTAL** | 233 | 100.00 |

***Table 4.4: The operating profit margin***

It was clear that in this research, a substantial number of businesses (26.61%) had no proper documentation of the transactions and therefore they could not precisely quantify certain their levels of profit. Of those who reported, approximately 57 % of the businesses were realizing 20% or less in profits.

## 4.3 ROLE OF THE MICRO FINANCE TO THE MSMEs

### 4.3.1 Access to micro finance services

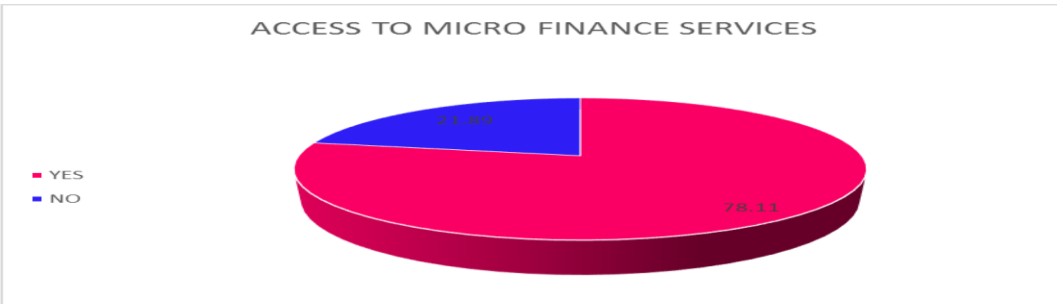



*Fig. 4.9:The access to micro finance services*

78.11% (182) of the respondents reported having access to the micro finance services while the remaining 21.89% (51) reported having no access in the area of research.

### 4.3.2 Reasons for inaccessibility to micro credit

Research by Wangechi and Waweru (2015) found that information asymmetries make a significant contribution in inaccessibility of credits. Respondents were asked to cite their reasons for innaccesibilty of MFIs services.

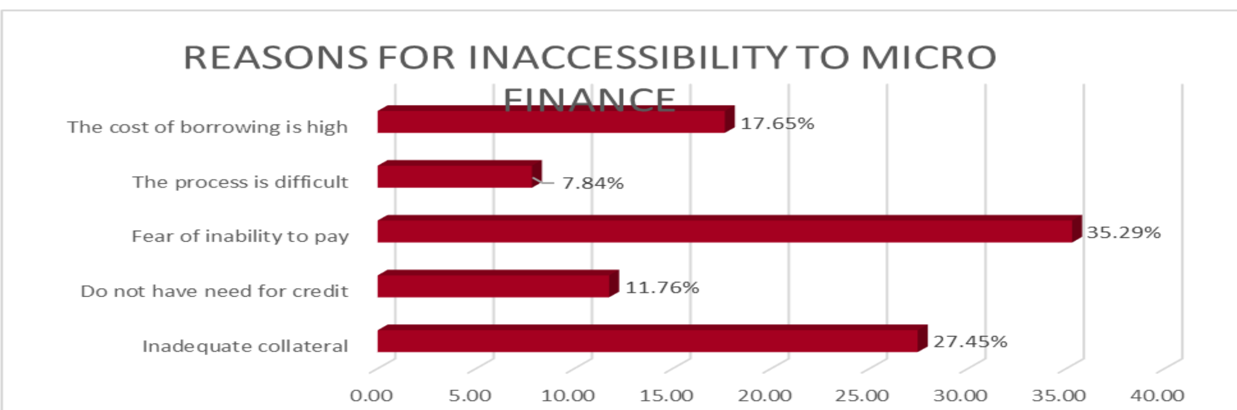
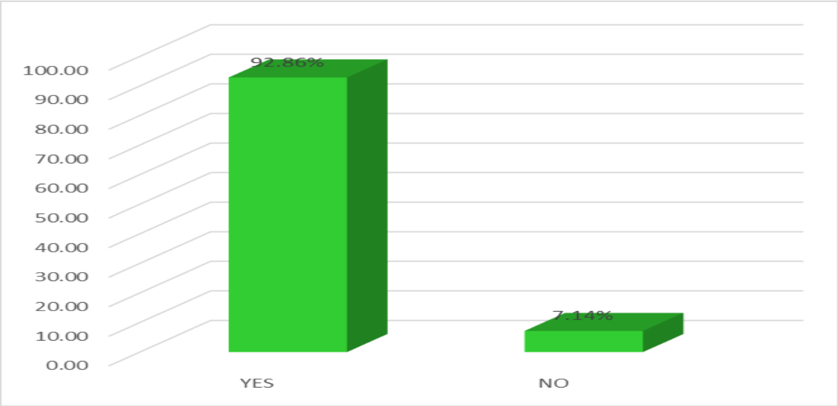



***Figure 4.10: Reasons for inaccessibility to micro credits (MFI loans).***

### 4.3.3 If borrowed from micro finance (only if accessible)




This question was considered for 182 respondents who had reported that they had access to MFIs, 169 respondents had a positive response contributing 92.86 %. As a percentage of the whole sample, this was 75.25% (169 out of 233).

*Figure 4.11: Percentage of borrowing of SMEs from MFIs.*

### 4.3.4 The maturity of loans taken from MFIs

Table 4.5 and figure 4.12 contain a summary of the repayment loan behavior of the SMEs**.**

| PERIOD | FREQUENCY | PERCENTAGE |
|---|---|---|
| UP TO 1 YEAR | 31 | 18.34 |
| 1 -5 YEARS | 120 | 71.01 |
| 5 - 10 YEARS | 18 | 10.65 |
| **TOTAL** | **169** | **100.00** |

*Table 4.5 Loan maturities*

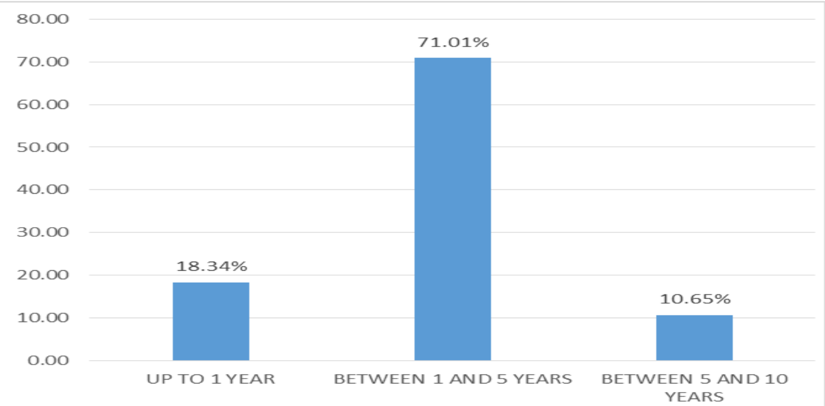



*Figure 4.12: The maturity of loans taken from MFIs*

The question of the average period that the SMEs used to repay the loans was based on their most recent loans at the micro finance institutions. It was evident that most MFIs allowed a period of at least one year to repay the loan with 71.01% (120 out 233) as depicted in the table 4.5. The study did not determine the proportions for individual years such as 1-2years, 2-3years etcetera. 18.34% repaid their loans within one year while 10.65% were allowed over 5 years for repayment.

American Journal of Finance
ISSN 2520-0445 (Online)
Vol.3, Issue 1 No.1, pp 1 - 30, 2018


### 4.3.5 Requirements for loan acquisition from the MFIs

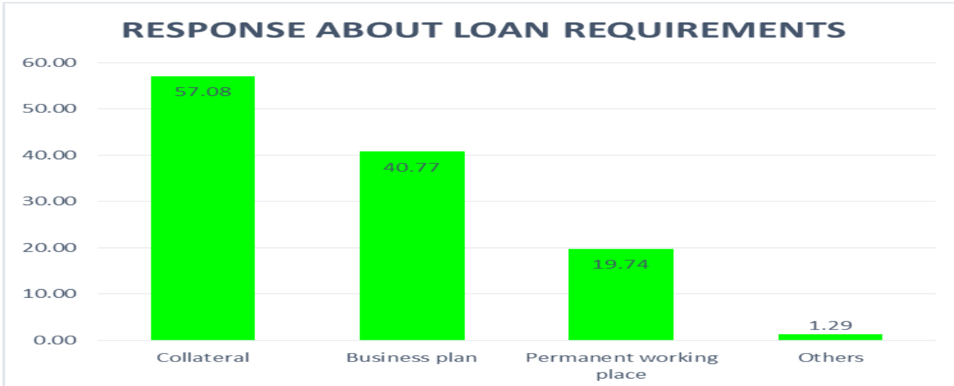
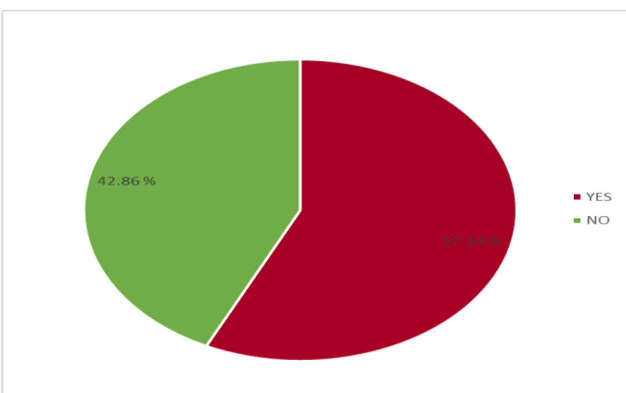



*Figure 4.13 : Summary of requirements for loan awarding by MFIs.*

The SMEs owners were asked to state the requirements that were mostly asked by the MFIs in order to advance loans to them. These were placed in four categories indicated in figure 4.13.Each respondent was to select one or more of the options that were applicable to him/her based on their previous experience on loan acquisition or general information held even for those who had not acquired any loan before. Collateral appeared to be the most preferred requirement by the lending institutions.

### 4.3.6 Ease of meeting MFI loan criteria by MSMEs

As mentioned earlier 78% had access to MFIs services, 93 % of them had already benefited from the loan facilities. Based generally on all who had access (since it was generally perceived that this group consisted of all well informed individuals), 42.86 % still felt that the criteria was not easy to be met. However, more than half felt that it was manageable to supply all the requirements to the lenders.




It is noteworthy also that the type of business activity, the stage of growth and the amount of turnover have a contribution to the business's ability in meeting the criteria. For instance, some service businesses such as those offering money transfer services have very little (if any) fixed assets while most of the young businesses had very low turnover.

*Figure 4.14 : Ease of criteria of meeting loan requirements by the MFIs.*

### 4.3.7 The purpose of loans taken from MFIs

The businesses were asked to state reasons for which they borrowed funds from the micro financing institutions. As depicted in the figure 4.14 most MSMEs seek finances for working capital requirements (78%).

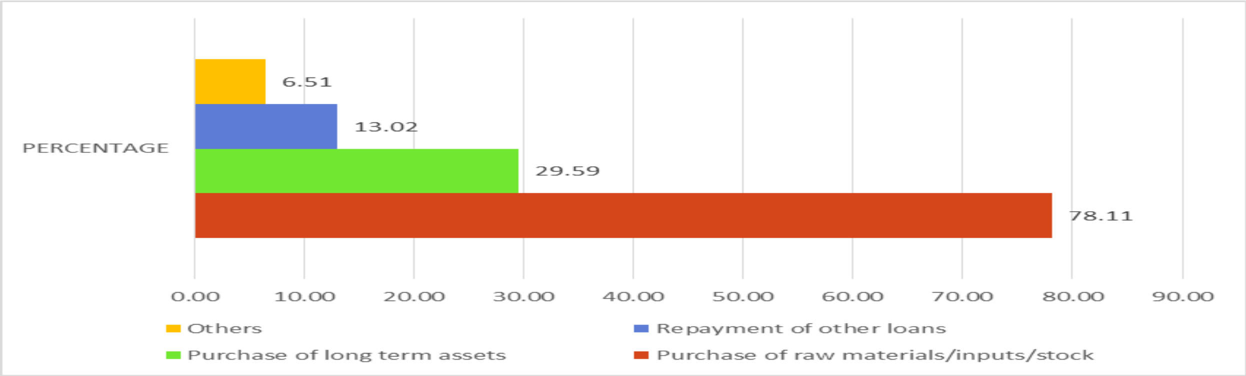



*Figure 4.15: The purpose of loans from MFIs*

### 4.3.8 Difficulties in micro finance loan repayment

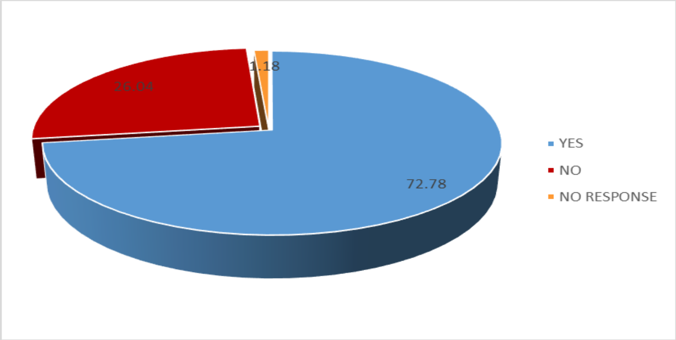



*Figure 4.16: Difficulties in loan repayment*

While some are locked out of accessing the MFI services by either inability to meet the criteria on varied reasons, the researcher sought to know whether the SMEs owners who qualified for loans experienced any difficulties in repayment. The responses were considered for those who had had active loans in the recent past.73.78 % (123 out of 169) indicating that they had ever faced difficulties in repayment.

### 4.3.9 Addressing of repayment problems by SMEs

With over 70 % of the respondents who had taken loans from the MFIs in the past reporting that they had a problem at least once in repaying the loans, the study also sought to establish the mechanisms or interventions that were put up to solve the challenge. The most preferred intervention was postponement of repayment date.

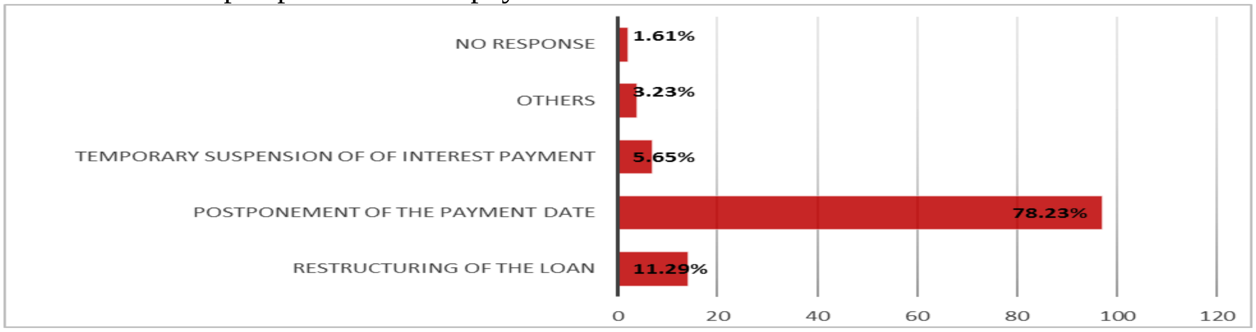



*Figure 4.17: Mitigations to the loan repayment challenges.*

### 4.3.10 Other reasons for preference of micro finance

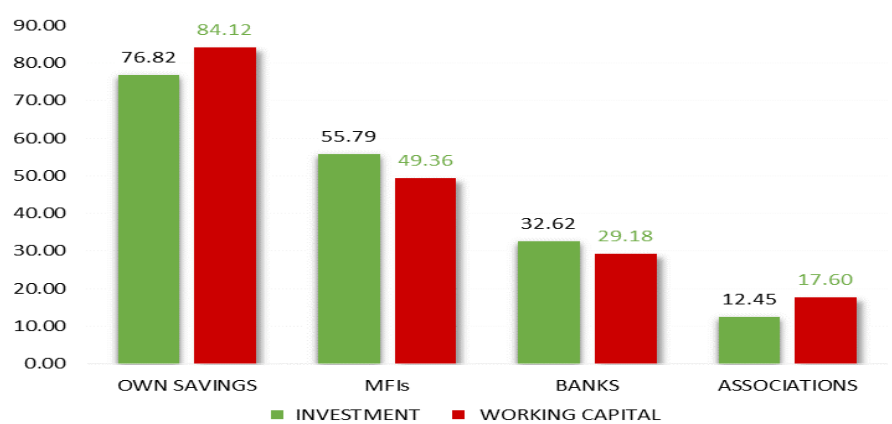
| SERVICES OFFERED | FREQUENCY | PERCENTAGE |
|---|---|---|
| Setting up of Business Plans | 56 | 24.03 |
| Making savings and payment services | 114 | 48.93 |
| Restructuring of loans | 36 | 15.45 |
| Insurance services | 18 | 7.73 |
| Not Applicable | 26 | 11.16 |

*Table 4.6: Other services of preference at the MFIs by the MSMEs owners.*

The provision of credit (micro credit) had a pivotal position in this study. However, as mentioned earlier, financial inclusion and growth aren't realized by merely availing credits to the concerned. The SMEs owners were asked to state other services for which reasons they preferred MFIs as appropriate for their businesses. Table 4.6 summarizes the responses.

### 4.3.10 Preferred sources of working capital and investment

The working capital sources and investment is variable across businesses. Among the factors that determine the source preferred by the business is the cost at which the capital is availed and the ease of access. In this study, the business owners were asked to state the sources used in the order of priority. The results were summarized in figuree 4.18.




The factors were not a spectrum but the SMEs owners did independent rankings of the sources.

*Fig 4.18 :Preferred of sources of working capital and investment by SMEs.*

## 4.4 Account ownership at the Micro finance Institutions.

The study sought information about the account ownership at the MFIs; savings and loans accounts. Tables 4.7 shows the number and nature of account held at the time of the research. The large institutions had savings accounts of up to 8000. On average, about one-fourth of the accounts held at the MFIs were dormant and one-eighth of the loan accounts were dormant. The proportion of loans account to savings account ownership was 0.7. The scope of the account holders was not just the SMEs owners but the general populace of Igembe South. 8 micro finance institutions gave the data.

| No | SAVINGS ACCOUNTS | | LOAN ACCOUNTS | |
|---|---|---|---|---|
| | ACTIVE | DORMANT | ACTIVE | DORMANT |
| **1** | 6000 | 3000 | 4000 | 1000 |
| **2** | 6000 | 250 | 2000 | 20 |
| **3** | 8000 | 2000 | 5000 | 1000 |
| **4** | 8000 | 2000 | 1000 | 500 |
| **5** | 2400 | 100 | 2100 | 390 |
| **6** | 4000 | 4000 | 9000 | 1000 |
| **7** | 6000 | 0 | 5000 | 0 |
| **8** | 4000 | 1000 | 4000 | 200 |
| **AVERAGE** | **5550** | **1544** | **4013** | **514** |

***Table 4.7: Accounts held at the MFIs.***

The showed that almost one-fourth (21.76%) the MFI clients held dormant savings accounts and 78.24% are actively used. 11.35% was the percentage of the loan accounts that were dormant on average which was approximately half of the savings dormant accounts. Generally, there were approximately 28% more savings accounts than loans accounts.

## 5.0 RECOMMENDATIONS, SUGGESTIONS AND CONCLUSION.

### 5.1 Recommendations

The research concurs with Wangechi and Waweru (2015) that access to information has a big impact on the loan acquisition by the SMEs in Kenya. The reasons for lack of access vary from demand side to supply side. In this particular study, over 35% of those who did not utilize credit facilities at the MFIs had fear of being unable to repay the loan. This is a gap that needs deliberate effort to be closed through constant dissemination of the information by the financial providers (MFI). FSD-Kenya has adopted the “Make the market work for the Poor” approach that is meant to ensure all the income earning levels of the population access information and financial services towards the achievement of the financial inclusion objective. The financial institutions should go just beyond just availing the services in the proximity of the living areas of the people and the small entrepreneurs but must put up constant efforts to reach the potential clients with the appropriate information.

Remarkable efforts have been noted by the MFIs to go beyond the provision of loans and saving facilities. A number of the SMEs are seeking services such as business plan formulation and the basic business skills that are required for improving their businesses. However, more than 26% either kept no records or insufficient records and they could not establish their profit margins. The SMEs should keep proper records of their businesses to increase on their credit ratings in respect to the loan acquisition. The MFIs may also continue to assist the SMEs owners to improve their business management skills through constant assessment of their records in the course of their dealings.

More than 72% of the businesses according to the survey faced strong and very strong competition in their business types; 60.94% and 11.16% respectively. The researcher recommends that the MFIs should encourage the innovative businesses that venture into gray areas or diversify their approaches. The lenders could do so by having special products for new and innovative businesses in order to spur more economic growth and participation. The level of operating profits or performance of these businesses would be impacted positively.

The participation of agribusiness was noted to be below 30% despite its pivotal role in the economy. More support should be given to this sector by the MFIs. Farmers, both small and medium, form a he potential client base for the

There should be deliberate credit information sharing among all the micro finance (and other financial institutions) to deal with the default risks in their assets. Muthoni et al (2017) compared MFIs and other financial Intermediaries found statistical significance between loan characteristics and loan default. They recommend proper scrutiny of borrowers before qualifying. Kiraka et al (2013) had noted default at the MFIs at 10-20% compared to commercial banks having less than 5%. MFIs should therefore utilize the CRB facilities in the process of lending.

The micro finance institutions should embrace the Fintech especially the mobile phone money transactions in order to ease the burden of the procedures and efforts spent by both the clients and the officers. This would aid the efforts in reaching more of the population especially in the rural areas. Clients who are constrained by distances can conveniently transact with the institutions remotely.

The government should increase more support to the MFIs by engaging them in the distribution of the public micro financing programs.

## 5.2 Suggestions for further research

In the course of the research, the researcher noted some few areas of concern that were suggested for more research;

- The effect of micro credit repayment rates on the profitability and sustainability of the micro finance institutions.
- The comparative study between the government-owned micro finance programs and the private or donor sponsored micro finance institutions.
- The effect of Fintech on the profitability of the microfinance institutions.

## 5.3 Conclusion

In the World Bank research working paper on **F**inancial **I**nclusion **A**round the **W**orld (Findex-2014), it was noted that people who participate in the financial system are better able to start and expand businesses, manage risks and absorb any financial shocks. Financial inclusion is not an end in itself but a means to that end. The world noted that the major interventions made in improving financial inclusion is to increase account ownership to those who do not possess one and increase the use by those who are already holders. As noted by Aduda and Kalunda (2012) in their study on financial inclusion and financial stability noted that developing the financial sector by any country in an attempt to increase accessibility and usage by all individuals in the population is a pre-requisite of economic growth. This study established that the financing gap is significantly being reduced by the MFIs that have products that are more-friendly to the MSMEs. The use of means such as group saving and group lending has helped to reduce the information asymmetries and enabled some micro and small business owners to benefited from credits which would otherwise be excluded. The reporting of over 70% of the MSMEs having accessibility to loans and other services from the MFIs is a great milestone in the general concept of financial inclusion. This achievement is not without its unique challenges. The high level of lending to the MSMEs has also increased the percentage of default. For instance, the response in this study revealed that over half of the MSMEs are not able to clear their loans promptly which has caused the lenders to devise other mechanisms such as imposing penalties and liquidating of the collateral assets. This problem has been caused by the inability by most of the MSMEs to keep good track of their businesses. In general, the MFIs have also cultivated the culture of making savings amongst the MSMEs and the accumulated savings in some cases have acted as a basis for which the loans are awarded. The regular use of the account (and banking services) have been achieved through the required periodical deposits to the accounts held at the MFIs. The accounts are also being used for payment services. Additionally, some institutions have embraced the mobile money technology and some clients can be able to access their accounts through their mobile phones. There are also agency and the field officers services that are aimed at reaching the clients who are far from where the branches are situated. These especially disseminate information to the clients in the agricultural sector such as dairy and horticulture farming that are mainly in the rural areas.

In general, this study concludes that the MFIs (or micro finance) is making huge contribution to financial inclusion especially access that is noted to be over 75% and usage over 68% with reference to the MSMEs. The issue of repayment by the MSMEs was noted to be a challenge that the lending institutions have to deal with in order to ensure sustainability of the micro financing programs.

## REFERENCES

Jovanovic (1982) Selection and the Evolution of Industry. Econometrica, *Journal of Econometric Society. Vol. 50*, No. 3 (May, 1982), pp. 649-670 http://www.jstor.org/stable/1912606

Rahman, A. (1999). Micro-credit initiatives for equitable and sustainable development: Who pays? World Development, 27, 1: 67–82

Mwenda, K.K. & Muuka, G.N. (2004). Towards best practices for micro finance institutional engagement in African rural areas: Selected cases and agenda for action. *International Journal of Social Economics*, 31, 1:143–58 . Google Scholar

Mitullah W.V. (2004) 'Participatory Governance for Poverty Alleviation in Local Authorities in Kenya. *Journal of Regional Development Dialogue (RDD) Vol.25 No. 1*

Santarelli, Klomp and Thourik (2004). *A paper on Gibrat's law: an overview of the empirical literature*

Government of Kenya (2006), *Micro Finance Act (No. 19 of 2006)* GoK Printer Nairobi.

Besnik (2007) Journal of Developmental Entrepreneurship Vol. 12, No. 1 (2007) 71–94 © World Scientific Publishing Company

Government of Kenya (2009) Youth Enterprise Development Fund Board Report. Nairobi: Government Printer.

Wanjohi A (2009). Challenges Facing SMEs in Kenya. http://www.buzzle.com/articles/challenges-facing-smes-in-kenya.html

Njuki (2009), The youth enterprise development and the Uwezo funds: a review of their Perfomance in Nyeri county. (MA Sociology Thesis University of Nairobi).

Mburu FN (2010) The Viability of YEDF as an Empowerment Strategy for Youth Entrepreneurs in Ruiru Division. *MBA Research Paper*. Nairobi, Thika District, Kenya.

Gumbo T (2010) Microfinance institutions: Challenges and prospects for sustainable poverty alleviation. *Journal of Business and Administrative Studies*, 2(1)

Farouk and Saleh (2011) A paper on An Explanatory Framework for the Growth of Small and Medium Enterprises, A System Dynamics Approach. Maastricht School of Management, Netherlands and Cairo University Egypt.

Okpara (2011) Factors constraining the growth and survival of SMEs in Nigeria: Implications for poverty alleviation, *Management Research Review*, Vol. 34 *Issue: 2*, pp.156-171, https://doi.org/10.1108/01409171111102786

Steering Committee for the Evaluation of the NetherlandsÕ Co-financing Programme (2012) (Authored by Hospes, Musinga and Ong'ayo) An Evaluation of Micro-Finance Programmes in Kenya as Supported through the Dutch Co-Financing Programme

Aduada and Kalunda (2012), Financial Inclusion and Financial Sector Stability With Reference To Kenya: *Journal of Applied Finance & Banking, vol. 2, no.* 6, 2012, 95-120 ISSN: 1792-6580 (print version), 1792-6599 (online) Scienpress, 2012

Olando et al (2013) The Contribution of Sacco Financial Stewardship to Growth of Saccos in Kenya, *International Journal of Humanities and Social Science Vol. 3 No. 17*; September 2013

Buru and Meredith (2013); Safaricom and M-pesa in Kenya: *Financial Inclusion and Financial Integrity Washington Journal of law, Technology & Arts volume 8, Issue 3,Mobile Money Symposium 2013*

County Government of Meru (2013), First Meru County Intergrated Development Plan 2013-2017

African Development Bank Group (2013) Financial Inclusion in Africa*;* ISBN: 978-9938-882-19-3.

Nguta and Huka (2013) Factors Influencing Loan Repayment Default in Micro-Finance Institutions: The Experience of Imenti North District, Kenya. *International Journal of Applied Science and Technology Vol. 3 No. 3;* March 2013
Machado (2013) Growth of small businesses: a literature review and perspectives of studies Gest. Prod., São Carlos, v. 23, n. 2, p. 419-432, 2016 http://dx.doi.org/10.1590/0104-530X1759-14

Oduol et al (2013) Effect of the Youth Enterprise Development Fund on Youth Enterprises in Kenya, *International Journal of Advances in Management and Economics* Available online at www.managementjournal.info

Gupta et al.(2013): Firm growth and its determinants. *Journal of Innovation and Entrepreneurship* 2013 2:15

United Nations (2013) Micro financing in Africa (Report)

Association of Micro Finance Institutions in Kenya (AMFI-K) *Annual reports 2013, 2014.*

Almsafir et al (2014) A paper on The Validity of Gibrat's Law: *Evidence from the Service Sector in Jordan 2nd Global Conference on Business, Economics, Management and Tourism, 30-31 October 2014,* Prague, Czech Republic

Ademola and Arogundade (2014) The Impact of Microfinance on Economic Growth in Nigeria; *Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 5(5):397-405© Scholarlink Research Institute Journals, 2014 pgs 397-415 (ISSN: 2141-7024) jetems.scholarlinkresearch.com*

Aruna (2015) Problems Faced By Micro, Small and Medium Enterprises – A Special Reference to Small Entrepreneurs in Visakhapatnam; *Journal of Business and Management (IOSR-JBM)* e-ISSN: 2278-487X, p-ISSN: 2319-7668. *Volume 17, Issue 4.*Ver. V (Apr. 2015), PP 43-49 www.iosrjournals.org

Musa and Chinniah (2015) Malaysian SMEs Development: Future and Challenges on Going Green *6th International Research Symposium in Service Management,* IRSSM-6 2015, 11-15 August2015, UiTM Sarawak, Kuching, Malaysia

Salhab M, Ali AA (2015) A Qualitative Analysis of People Views of Microfinance in Lebanon. *International Journal of Economics and Management Science 4: 304*. doi:10.4172/21626359.1000304

Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden.(2015). The Global Findex Database 2014: Measuring Financial Inclusion around the World. *Policy Research Working Paper 7255*, World Bank, Washington, DC.

Wangechi and Waweru (2015) Effects of Information on Loan Access: A Case of Small and Medium Enterprises in Kenya *International Journal of Academic Research in Business and Social Sciences June 2015, Vol. 5, No. 6 ISSN: 2222-6990*

Abdi and Ali (2015); The regulatory and supervision framework of the Microfinance in Kenya. *International Journal of Social Science Studies Vol. 3, No. 5;* September 2015 ISSN 2324-8033 E-ISSN 2324-8041, Redfame Publishers *URL: http://ijsss.redfame.com*

Mutuku and Omwansa (2015) Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenya *IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 17, Issue 4.Ver. V (Apr. 2015), PP 50-57 www.iosrjournals.org*

Amentie C, Negash E, Kumera L (2016) Barriers to Growth of Medium and Small Enterprises in Developing Country: Case Study Ethiopia. *Journal of Entrepreneurship and Organization Management* 5:190. doi:10.4172/2169-026X.1000190

Nyanchama, Atambo ,Nyangau (2016), Factors influencing access to uwezo fund by citizens in kenya: A case of Nyamira County; *International Journal of Social Sciences and information Technoogy Vol II Issue VIII*, October 2016 ISSN 2412-0294

Hande(2016),The Role of SMEs and Entrepreneurship on Economic Growth in Emerging Economies within the Post-Crisis Era: an Analysis from Turkey *Journal of Small Business and Entrepreneurship Development June 2016, Vol. 4, No. 1,* pp. 22-31 ISSN: 2333-6374(Print), 2333-6382(Online)

Financial Sector Deepening (FSD)-Kenya 2016 Annual Report

Makunyi and Rotich (2017) Impact of Micro Finance Institutions on Poverty Eradication in Meru South Sub-county, Kenya. *American Journal of Finance ISSN 2520-0445 (Online) Vol.1, Issue 5 No 4 pp 41- 58, 2017*

Kenya National Bureau of Statistics; Kenya Economic Survey Report (2017).ISBN: 978-9966-102-00-3

Muthoni et.al (2017) Influence of Loan Characteristics on Microcredit Default in Kenya: a Comparative Analysis of Microfinance Institutions and Financial Intermediaries) *IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 19, Issue 5. Ver. IV. (May. 2017), PP 39-59 www.iosrjournals.org*

Ampah et.al (2017) Effect of Micro Savings on Poverty Reduction in Central Region of Ghana; *The International Journal Of Business & Management Vol 5 Issue 10 pg 109-117 (ISSN 2321–8916) www.theijbm.com,*

Mugo and Kilonzo (2017) A paper on Community – level impacts of financial inclusion in Kenya with particular focus on poverty eradication and employment creation

M'Eruaki et al (2017) An Assessment of the Role of Internal Savings and Lending Communities (SILC) in Community Empowerment in Igembe North Sub- County, Kenya *Scholars Journal of Arts, Humanities and Social Sciences ISSN 2347-5374 (Online)*©Scholars Academic and Scientific Publishers (SAS Publishers)