THE ROLE OF MICROFINANCE INSTITUTIONS IN THE GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMEs). A CASE OF SMEs IN GIKOMBA MARKET. NAIROBI. KENYA.

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF POSTGRADUATE STUDIES IN THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE EXECUTIVE MASTER OF BUSINESS ADMINISTRATION OF THE MANAGEMENT UNIVERSITY OF AFRICA

JUNE, 2011
DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

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DEDICATION

This research project report is dedicated to my daughter Jennie Isis Ochieng whom I hope will scale greater heights in future. Special thanks to my wife for the perseverance during the works.
ACKNOWLEDGEMENT

I would like to express my sincerest gratitude to my supervisor Dr Peter Kithae for the tireless effort in guiding me towards completion of this research project report, the Management University of Africa Library Staff who aided me in searching the library for information, Special thanks to the SME owners of Gikomba market for their cooperation in answering the questionnaires.
ABSTRACT

The objectives of this study were to analyse how provision of seed capital affects growth of small and medium enterprises, to determine how financial skills training affects growth of small and medium enterprises, to investigate how the provision of role models affects growth of small and medium enterprises and finally to find out how mobilization of savings affects growth of small and medium enterprises. This study used stratified random sampling to collect data from 72 businesses and the population was segregated into subpopulations. Collection of data was done using a questionnaire whose validity and reliability was established in the pilot test. Descriptive research was used in the study and the quantitative data gathered was presented in bar graphs and pie charts. Analysis was done using Microsoft Excel. The study established that Microfinance Institutions played an important role in the growth of small medium enterprises by providing the following services seed capital, financial skills training, role models and mobilization of savings. The study recommends that Microfinance Institutions that Microfinance Institutions should play a larger role in the provision of seed capital which is mainly provided by relatives. The study recommends that Microfinance Institutions should employ field employees to sensitise the SMEs on financial skills training and gather information to minimize adverse selection. The study recommends that Microfinance institutions should be more active in providing role models necessary for business success and finally Microfinance Institutions should increase the number of savings accounts held by SMEs.
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LIST OF ACRONYMS/ABBREVIATIONS

CMA ..............................................................Capital Markets Authority

GEM .............................................................Global Entrepreneurship Monitor

GOK ..............................................................Government of Kenya

ILO ...............................................................International Labour Organisation

MFIs .............................................................Microfinance Institutions

NGOs ............................................................Non-Governmental Organisations

SMEs .............................................................Small and Medium Enterprises

USA ..............................................................United States of America
OPERATIONAL DEFINATION OF TERMS

Entrepreneur……………………………………….A person who is starting or running a business.

Financial Skills Training …………………………..Training on effective financial management.

Growth of SMEs…………………………………… Different levels of growth that Small and Medium Enterprises experience during their lifecycle.

Microfinance Institution ………………………… Financial Institutions licensed by the central bank of Kenya to provide microfinance services.

Role Modelling …………………………………….Examples of people who have excelled in business.

Savings mobilization………………………………Money stored by businesses for future use.

Seed Capital…………………………………………Initial Capital used to start a business.

Small and Medium Enterprises ………………… Businesses that employ 10 to 49 people.
CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The importance of entrepreneurship in the development of the Kenyan economy and the achievement of vision 2030 cannot be overemphasized. A survey by the Global Entrepreneurship Monitor Report found that in 34 countries surveyed, 9.3 percent (73 million) of the 784 million people either were nascent entrepreneurs or were owner of a new business (Global Entrepreneurship Monitor Report 2004, p.54). Businesses are started by entrepreneurs who are innovators that seize opportunities in a market place to realize rewards for their efforts.

The SME sector is critical to the United States economy, according to the U.S small business administrator’s office of advocacy, the SMEs represent more than 99% of all employers and provide about 75% of all Net new jobs” (Basefsky & Sweeney 2010, p.2). In America alone SMEs have created 34 million new jobs while the large fortune 500 companies have lost 5 million jobs. International trade and administration statistics indicate that, of the 302,000 US companies that exported goods in 2011, 98 percent (295,594) were small and medium sized companies (SMEs). The SMEs also accounted for 97 percent (178,820) of identified imports in 2011.

In the European Union, Latin America and the Caribbean, as described by Gibson and Vaart (2008) SMEs account for 99% of all enterprises, generate 67% of employment and produce a wide variety of products and services. They however have a limited participation in the export market and are more oriented towards the domestic market. The SME sector in these continents
is critical for the overall economic performance of the economy especially in areas of employment creation and income distribution. No other sector has the potential to generate a large amount of adequate income jobs.

In Asia, according to the OECD (2010) the SME segment constitutes 90% of all enterprises in the countries while employing 60% of the people. The sector accounts 30% of all exports in the countries. A good example of SME growth in Asia is Infosys of India which was started with a capital of US Dollars 250 but has now risen to become a global business with revenues of US Dollars 4 billion.

Fjose (2010) wrote that SMEs cover 95% of all firms in sub-Saharan Africa a vast majority of them in the informal sector accounting to between 40-50 percent of GDP. The informal sector players consist of small merchandise traders, simple manufactured goods, processed food and beverages. A World Bank policy research working paper 3127, (2003) shows that the SMEs sector in Africa contributions to both employment and GDP.

An example of success of in SME sector can be highlighted by Yatu tea factory in Zambia established in 1999. The factory was acquired by Miriam and Chapotemo after selling their personal possessions and is now selling three blends of tea and produces 900-1000 packages a day. A study by the IFC (2011) In Ethiopia indicates that SMEs in the Nascent flower export industry created 25,000 permanent jobs in 2001 and became one of the country’s top foreign exchange earners.

As depicted in the government of Kenya economic survey of (2003), The Small and Medium Enterprise (SME) sector accounted for 74.2 percent of the population engaged in employment.
Considering the significant contribution to employment in the country’s economy there is need for stakeholders to pay close attention to this sector. The government has emphasized the importance of this sector by committing to develop five small and medium enterprise industrial parks in the key urban centers as outlined in Kenya’s Vision 2030. The government further has initiated the youth enterprise fund and the women enterprise fund targeting entrepreneurs in the SME sector. Entrepreneurs face different challenges in raising capital, business management and planning which are the key ingredients in the survival of a small business therefore there is need to investigate the role of Microfinance Finance Institutions which are licensed to provide these services in the growth of SME’s.

1.2 Problem Statement

The development of Small Medium Enterprises (SMEs) is important for Kenya to achieve Vision 2030, an initiative to be a globally competitive and prosperous nation with a high quality of life by the year 2030. Statistics by G.O.K economic survey (2006) indicate that the SME segment contributed to 64% of the county’s urban employment and 50% of the new jobs created in 2005 were from the SME sector. Therefore SMEs are critical for moving the country forward. This is particularly highlighted by the SMEs in Gikomba Market who according to the Kenya National Bureau of Statistics economic survey (2012) provide employment to 50,000 people and contribute to 18% of Kenya’s GDP from micro small enterprises. The SME’s in Gikomba market require financing and management skills for their day to day activities. Microfinance a concept developed by Mohammed Unis in Pakistan has spread all over the world and even into Kenya. The Microfinance Institutions provide initial as well as working capital, financial skills training, role models and mobilize savings to the SME sector.
These services offered by Microfinance Institutions are expected to aid in the growth of SMEs eventually ensuring success of these businesses. This study seeks to establish the role of Microfinance Institutions in the growth of Small and Medium Enterprises in Gikomba market Nairobi Kenya.

1.3 Objectives
   a. To analyze how provision of seed capital affects growth of small and medium enterprises.
   b. To determine how financial skills training affects growth of small and medium enterprises.
   c. To investigate how provision of role models affects growth of small and medium enterprises.
   d. To find out how mobilization of savings affects growth of small and medium enterprises.

1.4 Research Questions
   a. How does provision of seed capital affect growth of small and medium enterprises?
   b. How do financial skills training affect growth of small and medium enterprise?
   c. How does provision of role models affect growth of small and medium enterprises?
   d. How does mobilization of savings affect growth of small and medium enterprises?

1.5 Justification of Study
Financial sustainability of SMEs in Gikomba market in Nairobi Kenya is vital to the survival of 50,000 people who are directly and indirectly employed by these enterprises. Microfinance Institutions strive to ensure financial sustainability of SME’s and eventually aid in the growth of these enterprises. The growth of enterprises in Gikomba market would increase employment and
reduce poverty in Kenya. It is therefore important to study the role of Microfinance Institutions in the growth of SME’s in Gikomba market.

1.6 Significance of the Study

This study is important to the stakeholders in the Microfinance sector and the SME sector to properly understand the role of Microfinance institutions in the growth of SMEs. The Microfinance Institutions through this study and develop an in-depth view of their services and how they affect the growth of SMEs. Further it will enable Microfinance Institutions improve their engagement with the SMEs. The Study will also provide Insights to the government on the role of Microfinance services in the success of SMEs which are important to the economic growth of Kenya.

1.7 Scope of the Study

This study focuses on investigating the role of Microfinance institutions the growth of SMEs in Gikomba Market Nairobi Kenya. Questionnaires were distributed to a sampled population of 72 SME owners or managers in Gikomba Market. The study was carried out in 5 months from January to May 2014.

1.8 Limitations and Delimitations of the Study

The main limitation of the study was that it was conducted when a fire gated down a number of businesses in Gikomba Market therefore it was impossible to capture the views of those businesses owners who had encountered losses. The study was also constrained by the hostility of the some business owners towards participating in a study that involved a university student as they did not foresee any benefits. The delimitation of this study was that the researcher chose not to interview any employees that were found at the business premises as their views would have created a conflict of interest between them and their employers.
CHAPTER TWO

LITERATURE REVIEW

This chapter reviews literature on the concept of Microfinance Institutions, services offered to SME’s that includes provision seed capital, financial skills training, provision of role models mobilization of savings and the growth of SMEs.

2.1 The Concept of Microfinance

Microfinance was first started in Europe by Fredrick W. Raiffeissen who organized poor farmers into credit and savings cooperatives. Jonathan swift later evolved the microfinance into the Irish Loan Fund system. In South America In 1961, a law student Joseph Blatchford raised $90,000 to start a community development program known as ACCION to help the poor jump-start their own businesses which has spread across Latin America. Microfinance is defined by Helms as “serving the poor and low-income clients with high quality and accessible financial services” (Helms, 2006, p.6). Simply Microfinance is banking for the poor.

Microfinance has operated for centuries in Africa with advent of the “SuSu” schemes in Ghana and the “Stokvels” in South Africa. In March 1978 according to Armendariz and Morduch (2010), a small group of young men joined together after the Bangladesh war for independence and created an organization that was dedicated to fighting rural poverty which was the earliest form of microfinance. A study by Mary Coyle, director of the International Institute at St. Francis Xavier University in Nova Scotia, Canada, and Microfinance started as savings clubs that can be traced to all parts of the world and they have operated for centuries probably since the introduction of currency. In West Africa, they were known as "tontines;" in Bolivia, "pasanaku;" and across Mexico and Central America, "tandas" where members of a group contribute to a pool of money, which shifts to a single member that has the most need. It cannot be precisely understood where the concept of microfinance started as the evidence given is not conclusive.

However today Microfinance has turned into an industry, Mohammed Yunus of the Bangladesh Grameen Bank and Maria Novak of France can be credited with the development of
Microfinance. Microfinance institutions provide financial services which generally include savings and credit but can also include other financial services such as insurance and payment services. Some microfinance institutions provide social services such as formation of groups, development of self-confidence and the training of members of a group on financial literacy and management. Developing countries are accepting microfinance as an instrument to combat poverty and boost entrepreneurial initiatives, they provide a wide range of financial and non-financial services that are needed by small and medium enterprises to grow and participate fully in their country’s economies.

Microfinance Institutions can be identified as four main types in Kenya Credit unions/ member based organizations, non-governmental microfinance institutions, formal finance institutions and informal microfinance providers. Helms (2006) describes credit unions as members owned and governed deposit taking financial institutions that provide services only to their members they typically rely on their member saving as the main source of funds. These institutions are usually supervised by the ministry of finance of the country and governed by the own regulations. Data from the government of Kenya economic survey of (2006) shows that members based organizations served 46, 700 members at the end of 2004.

According to Helms (2006) Non-governmental Microfinance Institutions specialize in lending to the self-employed and small and medium enterprises but are not licensed to take deposits. These Institutions depend on funds they raise from donors in Kenya and abroad. Estimates World Wide indicates that NGO’s offering financial services are up to 9000. Helms, further contends that Formal financial institutions (Banks) are commercial and government institutions that provide specialized lending services for small and medium enterprises. They could also be described as microfinance banks that led to SMES as their primary business purpose. In Kenya government microfinance institutions suffer from serious short comings including weak loan collection dependence on large subsidies political domination and lack of responsiveness to the demands of poor clients.

Helms (2006) describes informal financial providers as groups or individuals who provide leading or savings in an informal setting. They can be divided into individual providers and collective clubs or merry-go-rounds in Kenya they are known as “Chamas”. The collectives
clubs are able to organize themselves and open bank accounts which can provide them with loans. They organize themselves by each member contributing a certain amount of money every month with the savings revolving around the members. The savings can also be given out as loans to the members. It is a very common form of savings and credit. Members of the group are usually neighbors and friends and this form of special interaction is very popular with women. They cyclical contributions by members which a lump sum is given to a member of the group at the end of each cycle, provides capital to their businesses.

2.2 Services offered to SMES by Microfinance Institutions

2.2.1 Provision seed capital

The Microfinance Institutions provide seed capital to SMEs by lending them money and capacity equipment purchase. This requires the Microfinance Institution to have effective management of credit risk. The SMEs must organize themselves to be able to meet the credit terms set by microfinance institutions. These credit terms can affect the profitability of SMEs as failure to repay their loans could results in fines and other penalty related costs.

Forster, Greene and Pytkowska (2006) studied the state of microfinance in Central and Eastern Europe and found that outreach to the region’s poor was very low with the organizations mainly focusing on providing loans to already established SMEs. The study further highlights that Microfinance institutions based their operations around the delivery of simple, short-term, relatively high-interest, working-capital loan products. “Microfinance lending requires a genuine ability to repay the loans and diverse income sources” (Shreiner & Colombet 2001, p.351). The study by Forster, Greene and Pytkowska indicates that Microfinance Institutions do not provide seed capital to SMEs in the European regions that were sampled however it does not investigate the effect of lack of the provision of seed capital on SME growth. In contrast there exists an argument by Peters (2000) that equity financing in developed countries has been successful and can also be replicated in developing countries by providing business start-up grants. Evidence of the success of equity and grant start-up capital financing given by the study is not conclusive. It is important investigate lack of seed capital for business as it could prevent an entrepreneur from starting a business.
Zeller (2003) studied micro enterprises in Madagascar and concluded that friends and relatives were the biggest providers of seed capital for starting-up SMEs in this country. In Malawi as highlighted by Okurut, Banga & Mukungu (2004) SMEs acquired their start-up capital from money lenders however the money lenders did not lend to the poorest members of the community as they did not have ability to provide collateral.

Commercial banks may not able to provide seed capital due to their stringent loan requirements and in ability to penetrate rural areas but In South Africa, the banking system as written by FNB (2010) remains the main source of capital to start and grow businesses. Financial services groups like First Rand have an entrepreneurial tradition and have spurred successful entrepreneurial ventures like Discovery and Outsurance. The study by First National Bank also highlights that capital is not the only catalyst for business success and the entrepreneur plays the most important role by identifying the array of factors that dictate the conditions and circumstances under which a business should thrive which involves skill and aptitude. Similarly Heide (2006) indicates that finance is a necessary but not a sufficient condition for success of innovative start-ups, entrepreneurial and management skills are as vital therefore financing should be made conditional, only to be provided when the start-up accepts adequate managerial skills coaching to ensure successful business models.

Another study however indicates that “75 percent of applications for credit by new businesses in South Africa are rejected and only two percent of new SMEs are able to access loans, whilst only 2% of businesses seeking private equity are successful” (Dalberg and Morgan 2012, p.4). In Ireland the second most significant source of funding for SMEs as highlighted by Inter Trade Ireland (2013, p.13) is external equity finance as represented by seed capital, venture capital and business angel finance however it is mainly targeted at a small number of business sectors, mainly Information and Communications Technology, Professional, Scientific and Technical Services, Manufacturing and Medical Devices.

In Kenya lack of credit has been identified as one of the most serious constraints facing SMEs and hindering their development. Mwobobia (2012) argues that loans from Kenyan microfinance institutions tend to be limited in amount, have no grace period, are short term in design and carry very high interest rates. These studies may be important in highlighting the providers of seed
capital in these African countries but they have not discussed the effect of seed capital on the growth of SMEs.

A study by Kehinde and Ashamu (2014) on the effect on growth and earning of SMEs in Nigeria revealed that granting pioneering status for tax purpose will go a long way to create a strong earnings base for the SMEs. It was also revealed that personal saving is mostly used by the SMEs owner to start the business but it is not better than debt financing (government financing and leasing) at growth stage of the SMEs’ life. The study further highlighted the pecking order theory that stated companies prioritize on using internal sources of finance than taking on debt this involve issuing equity to enable companies access capital at the initial stage of their development. “Government should reduce tax and social security compliance burdens therefore securing fair tax and social security treatment for new firms” (OECD 2010, p.9). “SMEs also are disadvantaged when accessing seed capital through debt as the costs (risk assessment, legal and administrative costs, supervision) of providing a small amount of finance are practically identical to the costs of providing a large amount” (Heide 2006, p.14).

These studies provide an important base for assessing the impact of seed capital on growth of SMEs however it does not give a detailed analysis of the role of seed capital on the growth of SMEs. Ahiawodzi and Adede (2012) in a study of Ho-Municipality of Ghana indicate that access to credit exerts a significant positive effect on growth of SMEs, the result from the regression model shows that there is positive relationship between the growth of the SMEs and access to credit while this study addresses effect of access to credit on growth of SMEs it does not specifically mention seed capital.

2.2.2 Financial Skills Training

Financial education training provides material capital to a business person empowering the person to participate in the economy and society. Microfinance Institutions train entrepreneurs on financial management, business planning and projection.

However Wright (2000) is not enthusiastic about the role of microfinance institution training to SMEs and thinks that these funds should be diverted to other projects desperately needed such as
health of the people in an organization and there is inadequate learning from the training programs offered by Microfinance Institutions funds could be used in other projects that might help the SMEs more. It could also be noted that money given to the SMEs without proper management could result in spending on social entertainment such as alcohol or gambling.

Similarly another study by King & McGrath (2002) concludes that education is one of the factors that impact positively on growth entrepreneurs with large stocks of capital that includes education and or vocational training are better placed to adapt the constantly changing business environment. “SMEs are dominated by people with relatively low levels of education in Kenya” (Bowen, Morara & Mureithi 2009, p.14) similarly in Belgium SMEs according to statistics by the Nationale Bank van België, less than one out of ten employees had participated in formal education. In Zimbabwe Zindiye (2008, p.78) argues that the SME sector attracts a low priority to financial training and are often unwilling to participate in programs that require them to finance the costs these enterprises eventually are weak in cash management, marketing strategies and finance. The study further concluded that SMEs should be trained in the following financial management skills book keeping, preparing financial statements, debit/credit control, budgeting and tax calculation to ensure their growth. It can be argued that well designed financial training programs can improve the incomes of SMEs. Therefore microfinance institutions need to create ways of measuring the impact of financial skills training to the SMEs.

A study of SMEs by the OECD (2013) in New Zealand, United Kingdom, Belgium, Poland, Turkey and Canada outlined the following reasons why SMEs do not participate in financial training programs: lack of time, very expensive and difficulty in accessing its relevance to the needs of the enterprise. Furthermore a conclusion was drawn that firms that did not participate in
these training programs did so because they believed they already have or can recruit the skills the enterprise required. Therefore, Microfinance Institutions need to train SME owners to have skills for specific production, business management and access to markets in order to make profits from the financial resources they receive. Financial skills training can improve the ability of the low-income earners to operate enterprises either directly or indirectly. Complexity of financial decisions requires that business owners are able to make informed choices on saving, borrowing, spending and investing their money.

Financial skills as contended by the ILO (2013) can improve productivity and incomes in the informal economy and open opportunities to link with the formal economy this training can support medium term strategies for integration with the mainstream economy while also offering a range of immediate benefits to informal economy entrepreneurs and workers. This argument is particularly important in Gikomba market where a large population of the SMEs are in the informal economy their transition to the formal economy would create a bigger tax base for the government and also increase formal employment.

In Canada research was conducted by the CFEE (2011) into relationships between financial literacy and the nine Essential Skills (i.e., Numeracy, Thinking Skills, Reading Text, Document Use, Oral Communication, Writing, Computer Use, Continuous Learning, and Working with Others. The study found both empirical and anecdotal evidence in support of the relationship between financial skills and the nine essential skills. These essential skills can be viewed as very important to the success of a business enterprise.

It is therefore important to investigate the effect of financial skills training on the growth of SMEs as it is often these vulnerable businesses affected by lack of financial capability. The
effects of a lack of financial capability as highlighted by McQuid and Egdell (2011, p.2) are not only financial but may lead to wider problems for the individual, household and beyond, including debt, higher stress and reduced wellbeing.

2.2.3 Role Modeling

Role modeling is defined as “the tendency of individuals to identify with other people and the psychological matching of cognitive skills and patterns of behavior between a person and an observing individual” (Gibson 2004, p.136). The individual identifies with the other person because of belief that their characteristics are close to his/her own motives and character. Furthermore “individuals are attracted to role models who can help them to further develop themselves by learning new tasks and skills” (Gibson 2004, p.136).

Microfinance Institutions organize entrepreneurs into groups as depicted by Armendariz and Morduch (2010), this system also known as the Grameen Solidarity Group Model emphasizes on group members collectively giving guarantee to loan repayment, access to subsequent loans is dependent on successful repayment by all group members. The groups have proven effective in deferring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank in Bangladesh.

It can be further noted that the mutual trust between the group members enables it to become the building block to a broader social network whereby the members look up to each other. This reduces the cost of monitoring loans by the Microfinance institutions as the members of the group make sure the loans are paid or they become liable.
The social network created enables the members to monitor each other’s progress and reduce adverse selection where Microfinance Institutions discriminate of borrowers due to limited information on risky clients, loan officers at a group meeting will point out to them the members who may be running into difficulties with their loans and ensure the group solves the problems.

Armendariz and Morduch (2010) argues that the groups formed by Microfinance institutions could have disadvantages such as the members colluding against the institution by deciding collectively not to repay loans and these groups could also encourage free riding where borrowers do not see the need to work hard when others can work for them. These imperfections must be addressed for the successful cohesion of the groups and their contact with Microfinance Institutions.

Role modeling of business owners can eventually be cascaded down to their employees with a study by Brandon (2013) indicating that employees who have role models early in their careers in turn choose to become role models once they become leaders also employee characteristics of psychological ownership, self-esteem, and employee voice are enhanced by role modeling.

Research by Bosma, Hessels, Schitjens, Vanpraag & Verheul (2011) aimed at establishing the importance of role models for entrepreneurs in three major Dutch cities who have recently started up a business in the retail, hotel and restaurant sectors, business services and other services provided indications of the presence and importance of entrepreneurial role models, the function of these role models and the strength of their relationship.

The study further argues that entrepreneurial role models may perform four interrelated functions:
Inspiration and motivation (i.e. the role model creates awareness and motivates people to get started), Increasing self-efficacy (i.e. the role model makes people confident that they too can achieve a certain goal), Learning by example (i.e. the role model provides guidelines for action), and Learning by support (i.e. the role model provides hands-on support or advice). (Bosma, Hessels, Schijtens, Vanpraag & Verheul 2011, p.1)

This argument presents a basis on the role of entrepreneurial role models but it does not address how they impact the growth of SMEs.

2.2.4 Mobilization of Savings

Savings is defined by Gardiol “as the action of putting aside a part of current income, in order to consume or invest it later on. The money saved can be kept at home, deposited in a savings account or invested in different types of capital”. Savings is a critical service for entrepreneurs who want secure and convenient deposit services that allow for small transactions and offer easy access to their funds (Gardiol, 2004, p.3).

A study by Kurgat (2007) of the Kenya Women Finance Trust shows that clients preferred credit and savings services in the Microfinance Institution with their reason for saving being to expand their business (62%), education for their children (40%) and for emergencies (26%) additionally 71% of the clients viewed compulsory savings as an opportunity to save. In this study it is concluded that savings mobilization is important for the improved financial performance and outreach especially in the rural areas where access to financial services is challenging.
However, it can be argued that savings mobilization is costly and risky relative to other sources of financing and also that it would be better if entrepreneurs were helped to build assets through saving rather than to take on debt. A study by Bateman and Chang critically examined evidence on saving with microfinance institutions in Croatia and found that savings were only useful in maximization of profits for MFI managers and external shareholders. The study further argues that poverty reduction can only be done through a range of state coordinated policy interventions as happened in Malaysia, China, Taiwan, South Korea and India. It would be important to establish the role of savings on SMEs asset building with a view on possible solutions to any imperfections.

A study in Uganda by Akisimire (2010) found that MFI savings products to SMEs have encountered stiff competition at the market place with the entry of new commercial banks and downscaling of old banks’ while competition may be beneficial to the SMEs because of higher interest rates on savings, it could affect the MFIs by reducing the revenue available in order to lend. Similarly Yeboah (2010) contends that little progress has been made to establish microfinance institutions (MFIs) as full-fledged financial intermediaries and MFIs offer only credit, and savings mobilization remains the forgotten half of microfinance. Microfinance Institutions can gain outreach to SMEs by providing appropriate savings products. The MFIs should conduct research to ensure that the pricing of their savings products will ensure financial sustainability.

In the United Kingdom a study by Gray, Saunders and Goregaokar (2012) found the main sources of finance used by SMEs to fund their businesses were reinvesting profits (68%), Personal/ family savings (39%) and bank loan (29%). This indicates the importance of saving in
funding business growth at 39%. Similarly the Important of savings to SMEs is emphasized by Citi’s “susu” in Ghana where 200 to 800 members save between US dollars 40,000 and 800,000 per cycle with the accumulated savings being paid out to the members over a 100 week cycle for each week’s collection (Bass and Henderson 2014, p.10).

This example is a clear evidence of success of saving with Microfinance Institutions however Bass and Anderson further argue that this success is solely not dependent on the design of the savings products but also on pricing and marketing. The MFIs must also have a sound management structure and an appropriate management information system that safeguards clients’ deposits. This argument may be important for the microfinance institutions to consider but the growth of SMEs needs to be taken into consideration also to ensure benefits to SME clients, constant growth of SMEs can improve availability of Micro financial funds and lower their costs.

Akasamire (2010) wrote that firm growth opportunities has a correlation with liquidity levels, enterprises with more investment opportunities keep higher liquidity levels in order not to limit or cancel their profitable investment projects. It can be argued that these kind of firms would require a reliable savings institution to enable them maximize on their growth opportunities, MFIs should establish effective savings programs by transforming their capabilities to support SME saving services. However it should also be noted according to Gray, Saunders and Goregaokar (2012, p.8) that too much liquidity is harmful as SMEs might not spend it wisely effective training on cash flow management is also important.
2.3 Importance of SME Growth

Berry (2002) recognized that some of the world’s best performing economies notably Taiwan and Hong Kong are heavily based on small and medium enterprises. SMEs are critical for creating jobs, reducing poverty and improving living standards in a country. The SME sector can be described as one of the most powerful economic forces. Starting a business or finding a job in an existing business is a sure way for people to escape poverty. It can also be argued that SMEs can substitute aid which does not have a clear role in reducing poverty and long term economic health of countries.

In Kenya the SME sector is perceived as the engine of growth and is important in generating employment, income and a driver of industrial innovation. It is a critical sector in attaining Vision 2030. A study by Odhiambo and ong’olo (2013), finds that SMEs are critical for the success of the new devolved system in Kenya with the Micro and Small Enterprise Act 2012 providing an opportunity through which evolution of SMEs can be realized in the devolved framework. Moving forward the SME sector will be a provider of employment and income for millions of Kenyans.

2.4 Microfinance Institutions and Growth of SMEs

Penrose describes the term growth can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements” (Penrose, 1995, p.3). The availability of resources to a firm can determine its growth and the existence of growth opportunities in firms can also be an important factor that positively affects cash flow. Therefore it can be viewed that participation in MFI programs by SMEs contribute to reduced vulnerability to liquidity shortage.

Microfinance Institutions can provide solutions to problems encountered by SMEs during their growth, a World Bank Business Environment Survey (2012) by Kaufmann and Stone of 10,000
firms in 80 countries reveals that SMEs Worldwide on average named financial constraints as the second most severe obstacle to their growth. Entrepreneurial finance can be one of the key factors for stimulating and supporting entrepreneurial activity.

Services offered by MFIs which include: Capital financing, financial skills training, provision of role models and mobilization of savings are an opportunity for SMEs to solve problems that may arise during their growth. A study by Chepkirui (2011) reveals that credit scheme services provided by MFIs played a significant role in enabling SMEs obtain capacity to buy land and other assets while business training leads to reduction in wastage of funds. Safe-custody of the SMEs revenues through savings lead to a reduction in thefts and losses. It would be vital to highlight the importance of these services offered by MFIs at the different stages of business growth which the study does not address. Churchill and Lewis (1983), outlines the five stages of business growth as Existence, Survival, Success, Take-off and Resource Maturity.

The Existence stage of is where the business is starting up, here the organization is simple, the owner does everything and directly supervises the subordinates. The business faces problems of obtaining customers and delivering products and services to the market. Financial Institutions consider businesses at this stage to be risky to finance as they cannot provide histories with important signals to help facilitate access to debt financing.

The Survival stage is when a business has demonstrated that it is a workable business entity with customers satisfied with its products and services. At this stage businesses can be divided into stable and unstable. Unstable businesses are not considered credit worthy to access financial services provided by Microfinance Institutions as they may survive for a limited time. MFIs may focus on providing them with other services that can stabilize their businesses.

In the Success stage a business has attained true stability, has sufficient size and product penetration to ensure economic success. The owners of the business would have to make a decision whether to expand or keep the business stable and profitable.

At the Take-off stage a business grows rapidly and therefore requires growth capital to expand. MFIs prefer to provide loan services to businesses at this stage of growth because it is more
reliable and possess less risk. SMEs at this stage of growth require funds to finance growth in fixed capital and increase working capital.

The final stage of Resource Maturity is where a business possesses financial resources to engage in detailed operations and strategic planning. Business at this stage possesses financial resources and managerial talent to comfortably run their operations.

2.5 SMEs in Gikomba Market

Gikomba market is located in Kamukunji constituency in Nairobi Kenya. It is densely populated with 1337 licensed SMEs according to the Nairobi City County licensing department (2014). According to Johnson and Copestake (2002), studies on microfinance do not explicitly focus on the beneficiaries, therefore a gap exists on study of the role of microfinance institutions in the growth of SME’s in Gikomba Market as it is important in ensuring effective implementation of microfinance products.

According to a study by Akuku (2009) on the role of Microfinance Enterprises in funding startups in Gikomba Market finds very small percentage explored loans from MFIs and the recommendations made from the research study, is the need for immense outreach and promotion coupled with properly drafted marketing policy, the study however assumes that MFIs only offer loans for seed capital and does not address other services that include role modeling, financial training and saving. The researcher in this study has included all these aspects of MFI services and their role in the development of SMEs in Gikomba Market hoping that financial investment in the poor as highlighted by Hulme, (1997) through microfinance services will lead to increased incomes of the poor and ultimately result in poverty reduction.

Klinger and Kwanja at the Kennedy Business School in Harvard University researched and developed a tool called the EPL which is a questionnaire that assesses an entrepreneurs’ credit worthiness using EFL tests for evidence behaviors and attitudes; it asks questions directly related to an entrepreneur’s ability to succeed in business and the likelihood that the individual would repay a loan. Gikomba Market was used as a pilot test for this project by the Standard Bank and has reduced the typical default rate on their comparable SME bank loans by 20 percent.
Microfinance Institutions were not included in this study which presents a gap on how to reduce default rates by SMEs in Gikomba Market borrowing from MFIs and increase lending.

2.6 Conceptual Framework

The conceptual framework is presented in the diagram below showing the independent and dependent variables.

![Conceptual Framework Diagram](image)

Figure 2.6: Conceptual Framework  Source: Author (2014)

The above variables depicted in figure 2.7 may be explained as follows:

### 2.6.1 Provision of Seed Capital

This is a variable described as the initial capital utilized to start a business. This variable is to produce quantitative data that highlights the effect of Seed capital provided by Microfinance Institutions on the growth of SMEs.

### 2.6.2 Financial Skills Training

This variable is defined as the financial skills training necessary to manage a business. The variable is expected to produce quantitative data that analyses the financial skills acquired by entrepreneurs from Microfinance institutions and the effect on the growth of SMEs.

### 2.6.3 Role Modeling

This variable is defined as examples of people who have excelled in business. The variable is expected to produce quantitative data on the effect of role modeling by Microfinance Institutions on the growth of SMEs.
2.6.4 Mobilization of Savings
This Variable is defined as the money stored by entrepreneurs for future use. This variable is expected to provide quantitative data on the amounts of savings that Microfinance Institutions accumulate from SMEs and the effect on their growth.

2.6.5 Growth of SMEs
This variable defines the five stages of growth of an SME. It is expected to produce quantitative data on the effect of services provided by MFIs on the growth stages of the SMEs.
CHAPTER THREE

RESEARCH METHODOLOGY

This chapter highlights the methods that will be used in this study which include the research design, target population, sample size, data collection instruments, reliability, validity, pilot test and data analysis.

3.1 Research Design

Kothari describes a research design “as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (Kothari, 2004, p.31). Kothari further asserts that there are different research designs namely:- Exploratory research which formulate a problem for more precise investigation, Descriptive research which are concerned with describing the characteristics of a particular individual or group and hypothesis-testing research where the researcher test the hypothesis of causal relationships between variables.

This study employs descriptive research design to investigate the relationship between four independent variables namely provision of seed capital, financial skills training, provision of role models and mobilization of savings with the dependent variable growth of small and medium enterprises in Gikomba Market Nairobi, Kenya.

3.2 Target Population

The target population of this study is the Small and Medium Enterprises in Gikomba Market, Nairobi Kenya. This area is densely populated by different small and medium enterprises which include trader, transporters, agricultural, hospitality, professional services, health, entertainment and factories that are appropriate to gather data related to the research. The study focuses on
registered SME’s in Gikomba and enquires on the role of Microfinance in the growth of their businesses. The table below shows the different types of business registered by the city county of Nairobi in Gikomba market.

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Description</th>
<th>Total Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traders</td>
<td>Micro Trader Shop</td>
<td>246</td>
</tr>
<tr>
<td></td>
<td>Small Trader, Shop or Retail Service</td>
<td>595</td>
</tr>
<tr>
<td>Storage and Transport</td>
<td>Small Transportation Company</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td>Small Petrol Filling</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Small Storage Facility</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Small Communications Company</td>
<td>8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Small Agricultural Produce Processor/Dealer</td>
<td>44</td>
</tr>
<tr>
<td>Hospitality</td>
<td>Micro Lodging House With Restaurant Or Bar</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Small Lodging House With Restaurant/Bar</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Micro Lodging House</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Small Lodging House Basic Standard</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Small Restaurant With Bar</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Large Eating House; Snack Bar; Tea House</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Micro Eating House; Snack Bar; Tea House</td>
<td>10</td>
</tr>
<tr>
<td>Professional</td>
<td>Micro professional services firm</td>
<td>3</td>
</tr>
<tr>
<td>Services</td>
<td>Small professional services firm</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Micro financial services</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Small financial services</td>
<td>3</td>
</tr>
<tr>
<td>Health and</td>
<td>Small private health facility</td>
<td>3</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Doctor/ Dentist/Physiotherapist</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Small Entertainment Facility</td>
<td>3</td>
</tr>
<tr>
<td>Factories and</td>
<td>Small Industrial Plant</td>
<td>3</td>
</tr>
<tr>
<td>Contractors</td>
<td>Micro Workshop, Services-Repair Contractor</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Small Workshop Service Repair Contractor</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1337</td>
</tr>
</tbody>
</table>

Table 1: Number of Registered Businesses in Gikomba Market Source: City County of Nairobi Licensing Department 2014

3.3 Sample Size

Kothari wrote that “a size of a sample should neither be excessively large nor too small but should be optimum to fulfill the requirements of efficiency, representativeness, reliability and flexibility” (Kothari, 2004, p.56) therefore the researcher used a sample of 5% taken using
stratified random sampling. This represents 72 businesses registered by the Nairobi City County as outlined in the table below.

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Target</th>
<th>Sample</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traders</td>
<td>841</td>
<td>43</td>
<td>59.72%</td>
</tr>
<tr>
<td>Storage and Transport</td>
<td>245</td>
<td>14</td>
<td>19.44%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>44</td>
<td>3</td>
<td>4.17%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>36</td>
<td>2</td>
<td>1.44%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>51</td>
<td>3</td>
<td>4.17%</td>
</tr>
<tr>
<td>Educational, Health and Entertainment Services</td>
<td>49</td>
<td>3</td>
<td>4.17%</td>
</tr>
<tr>
<td>Factories and Contractors</td>
<td>71</td>
<td>4</td>
<td>5.55%</td>
</tr>
<tr>
<td>Total</td>
<td>1337</td>
<td>72</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 2: Population Sampled Source: Author.

3.4 Data Collection Instruments

Primary data will be collected using questionnaires as they are inexpensive and the researcher can distribute them easily. Walliman (2005, p.281), comments that using questionnaires enables a researcher to organize the questions and receive replies without actually having to talk to every respondent.

Therefore this study uses questionnaires as they can be easily distributed and also due to their impersonality. The questionnaires are structured according to the objectives and were closed ended to ensure effective analysis.
3.5 Reliability and Validity

Kothari describes validity as “indicating the degree to which an instrument measures what it is supposed to measure while reliability has to do with the accuracy and precision of a procedure” (Kothari 2004, pp.73-74). Validity accuracy and reliability of the data was carried out through a thorough audit and scrutinized for any errors.

3.6 Pilot Testing

According to Walliman “a questionnaire should be pre-tested on a small number of people in what is called a pilot study and it is best to test it on people of a type similar to that of the intended sample” (Walliman, 2005, p.282). Therefore a pilot test of the questionnaires for this study was conducted in Kangemi market.

3.7 Data Analysis

The researcher collected Quantitative data using questionnaires which were analyzed using Microsoft Excel. The data was presented in bar graphs and pie charts.
CHAPTER FOUR

DATA ANALYSIS, DISCUSSION AND PRESENTATION

This chapter focuses on data analysis and presentation with a view to answering the following research questions; how does the provision of seed capital affect growth of SMEs?, how does financial skills training affect growth of SMEs?, How do provision of role models affect growth of SMEs? And how does mobilization of savings affect growth of SMEs. Descriptive Data was obtained using questionnaires and are presented in pie charts and bar graphs. The data was analyzed using Microsoft Excel.

4.1 Response Rate

A total of 72 questionnaires were distributed and 52 were returned which represents a response rate of 72.2% the respondents were interviewed to establish whether they were business owners or managers.

4.2 General Information

4.2.1 Gender

The study sought to find out the percentage of respondents who were either male or female and the findings are presented in the chart below:
The study depicts that a narrow majority of the respondents were male at 52% while females were 48%. This indicates that there are only a slight percentage of more men than women who conduct business in Gikomba Market.

**4.2.2 Age**

The study sought to find out the demographic information of the respondents and the findings are presented in the graph below:
Figure 4.2 Respondents Age

The study depicts that twenty four of the respondents were aged 32-42 years, twenty two were aged 21-31 years, four were aged 43-53 years and two were aged 10-20 years respectively. The data indicates that majority of the business owners in Gikomba Market were middle aged. A few were under age and none were elderly.

4.2.3 Level of Education

The study sought to establish the level of education that the respondents had attained and the findings are presented in the graph below:
According to the findings of the study twenty eight of the respondents had attained a level of education at secondary school level/ high school, twenty primary school and four college while none of the respondents had attained a level of education at university. This data indicates that all of the respondents were not highly qualified and had only attained basic education. This concurs with a study by Bowen, Morara & Mureithi 2009 that SMEs are dominated by people with relatively low levels of education in Kenya.

### 4.2.4 Number of Years in Operation

The study sought to establish the number of years that the businesses had operated and the findings are presented in the bar graph below:
Figure 4.4 Years of Business Operation

According to the study Twenty five of the businesses had operated for 4-7 years, twelve businesses 8-11 years, twelve businesses 12-15 years and three businesses 1-3 years. This data indicates that the businesses had surpassed the start-up phase of the business cycle/ growth. Majority of the businesses according to the model by Churchill and Lewis (1983) of five stages Existence, Survival, Success, Take-off and Resource Maturity were at the existence stage of business growth.

4.3 Seed Capital

4.3.1 Institutions that Provided Seed Capital for Business Growth

The study sought to discover the Institution that offered seed capital to the businesses in Gikomba Market and the findings are presented in the graph below:
The study found that thirty seven of the respondents accessed seed capital from friends or family while fifteen from Microfinance Institutions. This data indicates that a majority of the businesses are started by funds from friends or family (angel investors) with Microfinance Institutions only helping a very small group of entrepreneurs access seed capital. These findings concur with a study by Zeller (2003) Madagascar and concluded that friends and relatives were the biggest providers of seed capital for starting-up SMEs. Similarly in Europe were Sarah, Greene and Pytkowska (2006) studied the state of microfinance in Central and Eastern Europe and found that outreach to the region’s poor was very low with the organizations mainly focusing on providing loans to already established SMEs.

4.3.2 Difficulty in Accessing Seed Capital for Business Growth

The study sought to establish the difficulty in accessing seed capital for the businesses in Gikomba market and the findings are presented on the graph below:
Figure 4.6 Rate of Difficulty in Accessing Seed Capital for Business Growth

The twenty five of respondents in the study rated it hard to access seed capital while seventeen very hard and finally ten very easy. This data indicates that it is very difficult to access seed capital necessary for business start-up. This concurs with as study by Mwobobia (2012) in Kenya that identified lack of credit as one of the most serious constraints facing SMEs and hindering their development.

4.3.3 Importance of Seed Capital in Business Growth

The study sought to find out the rate of importance of seed capital in starting businesses and the findings are presented in the chart below:
The study found out that 98% of the respondents considered seed capital as very important in starting their businesses while only 4% rated it as not important. This data indicates that large majority of the business owners viewed seed capital as very important in starting their businesses. These findings concur with a study by Ahiawodzi and Adede (2012) indicating that access to credit exerts a significant positive effect on growth of SMEs.

4.4 Financial Skills Training

4.4.1 SME Owners Trained on Financial Management

The study sought to establish the percentage of SME owners that were trained in financial management and the findings are presented in the chart below:
The study discovered that only 10% of the respondents were trained on financial management while 90% were not trained. This data indicates that a large majority of the entrepreneurs had not been trained on financial management. This concurs with a study by Zindiye (2008) in Zimbabwe indicating that the SME sector attracts a low priority to financial training.

4.4.2 Institution Offering Financial Training

The study sought to find out the institution that offered financial training to the business owners and the findings are presented in the graph below:
According to the study four of the respondents possessing financial skills were trained by Microfinance Institutions and one by friends or family. This data indicates that Microfinance was the Institutions had offered financial education to majority of the respondents. These findings do not concur with Wright (2000) that funds used by Microfinance to train SMEs should be diverted to other projects desperately needed such as health of the people in an organization however it shows that MFIs are actively involved in training of SMEs.

4.4.3 Effect of Financial Management Training on Business Growth

The study sought to investigate the effect of financial training on business growth and the findings are presented in the chart below:
Figure 4.10 Effect of Training on Business Growth

The study discovered that of the respondents who were trained in business a majority at 86% had experienced their business grow while 14% did not experience their business grow. This data indicates that 86% of the respondents viewed financial education as aiding in business growth. These findings concur with King and McGrath (2002) that financial education is one of the factors that impact positively on growth, entrepreneurs with large stocks of capital that includes education and or vocational training are better placed to adapt the constantly changing business environment.

4.5 Role Modeling

4. 5.1 Role Modeling Provision in Business

The study sought to find out if the business owners had been provided with role models and the findings are presented in the chart below:
The study discovered that 43% of the respondents had been provided with a role model while 57% had not been provided. This data indicates that a majority of the respondents had not experienced any role modeling in their businesses. This could affect majority of the respondents since according to Gibson, (2004) individuals attracted to role models can develop themselves by learning new tasks and skills.

4.5.2 Institution Providing Role Models

The study sought to discover the institution that was providing role models to the business owners and the findings are presented in the graph below:
According to the study four of the respondents who had considered friends and relatives as their role models while two were provided with role models by Microfinance Institutions. This data indicates that majority of the role models for the business owners were friends or family. Effective deferring of defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank in Bangladesh may not be achieved as MFIs were not actively involved in role modeling.

### 4.5.3 Role Modeling Impact on Business Growth

The study sought to establish how role modeling impacted business growth and the findings are presented in the chart below:
The study discovered that 80% of the respondents who had been provided with role models experienced their business grow while 20% had not experienced growth. This data indicates that role modeling was very important to business growth. This concurs with a study by Bosma, Hessels, Schitjens, Vanpraag and Verheul (2011) providing indications of the presence and importance of entrepreneurial role models on business growth.

4.6 Mobilization of Savings

4.6.1 Number of Businesses with Savings

The study sought to find out the number of businesses that stored savings and the according to the study all the respondents had kept savings. This data indicates that saving is very important to SMEs in Gikomba Market. This concurs with Gardiol, (2004) that Savings is a critical service for entrepreneurs.
4.6.2 Institutions Storing Savings

The study sought to discover the institution that stored savings for the businesses and the findings are presented in the graph below:

**Figure 4.14 Institutions Storing Savings**

The study discovered that forty of the respondents stored their savings with banks while twelve stored with the Microfinance Institutions. This data indicates that banks were the most preferred institution for storing savings while a significant minority stored their savings with Microfinance Institutions. These findings concur with a study by Akisimire (2010) in Uganda indicating MFI savings products to SMEs have encountered stiff competition at the market place with the entry of new commercial banks however did does not concur with Kurgat (2007) in a study of the Kenya Women Finance Trust showing that clients preferred credit and savings services in a Microfinance Institution.
4.6.3 Savings and Business Growth

The study sought to establish the number of businesses that grew by saving and discovered that all the businesses grew by saving to fund their future operations. This data indicates that saving was important in growing the businesses in Gikomba Market and does not concur with a study by Bateman and Chang who critically examined evidence on saving with microfinance institutions in Croatia and found that savings were only useful in maximization of profits for MFI managers and external shareholders.

4.7 Summary of Findings

4.7.1 Seed Capital

According to the study findings seed capital is difficult to access therefore starting a business is also hard for the entrepreneurs in Gikomba Market. Further friends and relatives were the biggest funders of SMEs when they started their businesses. Microfinance Institutions according to the respondents provided seed capital but mainly whenever the entrepreneurs belonged to a group. Seed capital had a relationship with growth when staring an enterprise.

4.7.2 Financial Skills Training

A small percentage of the SME owners in Gikomba Market had acquired financial skills this is an indicator of the lack of basic financial resources management skills of SMEs owners in Gikomba Market and could lead to wastage of funds. Microfinance Institutions were the institutions offering financial education to the SMEs and therefore ensuring their growth as evidenced by 86% experiencing growth.
4.7.3 Role Modeling

Role modeling according to the study is not highly experienced in Gikomba Market with only 43% of respondents having a role model. This indicates that the majority of the respondents had proceeded through their business on their own without any guidance or learning best business practices form others. The SMEs who had role models experienced business growth this is an indication that the businesses that lacked role models would have experienced business growth.

4.7.4 Mobilization of Savings

According to the study Banks were able to mobilize more savings than Microfinance Institutions. The findings further indicate the importance of saving to the SMEs with all the respondents acknowledging to storing savings to fund their business growth therefore savings has a relationship with business growth.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

This chapter focuses on presenting a summary, conclusion and recommendation of the study based on the findings that are presented in chapter four.

5.1 Summary

The study established that provision of seed capital affects growth with 96% of the business owners saying it was important in starting their businesses therefore without seed capital their businesses would remain an idea that cannot be implemented. According to the findings the starting entrepreneurs depend mostly on friends and family to raise start-up capital.

The study established that financial skills training affected growth of SMEs with all the business owners who had financial skills saying that without financial skills training their businesses could not have grown however majority of the business owners had not been trained on financial management. The study further established that majority of the respondents had been offered training by Microfinance Institutions.

The study established that role models affected the growth of SMEs with 80% of the respondents saying that role models had enabled their business grow however a majority of the respondents at 57% had not been provided with a role model. The study further found out that friends or relatives were the biggest providers of role models.

The study found out that savings affected the growth of SMEs with 80% of the respondents experiencing growth through saving all the businesses stored savings. The study also established
that SMEs mostly stored their savings in banks. The study further found out that savings were important to the growth of the small and medium enterprises.

5.2 Conclusion

The study discovered that a respondent’s level of education and age are important aspects to consider in the field. Questionnaires that were not returned were due to uneducated entrepreneurs who could not answer questions. Further young entrepreneurs did not view the study seriously and did not return the questionnaires. Questions that involved saving or money was viewed with suspicion and it took the respondents a lot of effort to answer.

5.2.1 Answers to Research Questions

a. How does provision of seed capital affect growth of SMEs? The study therefore concludes that provision of seed capital is very important in starting a small and medium enterprise it affects their growth by ensuring an idea to start a business is able to grow and become an actual business that is able to run its day to day operations.

b. How do financial skills training affect growth of small and medium enterprises? Financial skills training are important in managing a business effectively and ensuring its growth, business that could properly manage their financial resources affected their growth by having resources available for expansion and their daily business operations were also uninterrupted to ensure growth.

c. How does the provision of role models affect growth of small and medium enterprises? Provision of role models was important in ensuring business growth through mentoring and guidance. The effect of role modeling on growth of SME was higher when the business owners were provided with role models.
d. How does Mobilization of Savings affect growth of small and medium enterprises?

Mobilization of savings of savings is very important in the growth of the SMEs. It affected growth of the SME by ensuring that the business owners utilized their savings to grow their enterprises.

5.3 Recommendation

The researcher recommends the following to Microfinance Institutions. The institutions should make an effort to increase in providing seed capital offered to small and medium enterprises. Seed capital would ensure a lot of businesses are started to reduce poverty and create employment. The respondents who accessed seed capital from microfinance institutions could only access it in a group this reduced chances of access for individual applicants.

The researcher also recommends that the Microfinance institutions should increase the number of SME owners trained on financial management by employing field agents to sensitize the business owners on the benefits of financial skills and also gather data on small medium enterprises to reduce adverse selection.

The researcher would also like to recommend that Microfinance Institutions provide role models to small and medium enterprises as they can guide them on how to succeed in business.

The researcher would also like to recommend to the Microfinance Institutions to Increase the number of savings accounts held by SMEs as savings was very important to their growth.

5.4 Suggestions of Further Research

The researcher recommends further research to establish why the small medium enterprises prefer to save in banks more than microfinance institutions. The researcher further recommends a
study to establish if there is a correlation between entrepreneurial education qualification and business success.
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APPENDICES

Appendix A: Letter of Introduction

Kelvin Apollo Ochieng Onyango

P.o Box 14181-00800

Nairobi.

Dear Sir/ Madam,

I am writing to let you know about a research study that you have the option to take part in. The research study is being conducted by Kelvin Apollo a student at the Management University of Africa. I am contacting you because you are a business owner and your input is of great importance to this study.

The Research study is done to establish the role of Microfinance Institutions in the growth of Small and Medium Enterprises. If you decided to take part in the study, we will review the study with you. There is no cost to participate in the study.

Thank you for your time.

Sincerely,

Kelvin Apollo Ochieng Onyango
Appendix B: Questionnaire

(Tick in the Boxes Provided)

Section A: General Information

1. Gender?
   Male
   Female

2. Age?
   10-20 yrs.
   21-31 yrs.
   31-41 yrs.
   41-51 yrs.

3. Highest Level of Education?
   Primary School
   High School
   College
   University
4. Number of years in Operation?

1- 3 yrs. 

4 – 7 yrs. 

8 – 11 yrs. 

12 – 15 yrs. 

Section B: Seed Capital

1. Where did you access seed capital for your business growth?

Microfinance 

Bank 

Friends and Family 

2. Rate the difficulty in accessing seed capital for your business growth?

Very Easy 

Hard 

Very Hard 

3. Rate the importance of access to seed capital in growing your business?

Not Important 

Very Important
Section C: Financial Skills Training

1. Have you ever been trained on Financial Management?
   Yes
   No

2. Who offered the Training?
   Microfinance
   Bank
   Friends and Family

3. If you attended training did the training help in growing your business?
   Yes
   No

Section D: Role Modeling

1. Have you ever been provided with a Role Model?
   Yes
   No

2. Who provided the Role model?
   Microfinance
   Banks
   Friends and Relatives

3. Has Modeling helped your business grow?
   Yes
   No
Section E: Mobilization of Savings

1. Do you have any Savings?
   Yes
   No

2. Where do you store your savings?
   Microfinance
   Bank
   Friends and Relatives

3. What attracts you to Store your savings in 2 above?
   Ease of Access
   Good Relationship
   Interest Rate

4. Does saving enable business growth?
   Yes
   No