

**MICROFINANCE INSTITUTIONS' SOCIAL INTERMEDIATION AND
MICRO AND SMALL ENTERPRISES SURVIVAL IN THIKA TOWN**

BY

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DECLARATION

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

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DEDICATION

This research project is dedicated to my beloved mother M/s Lucy Wairimu Chege and grandmothers Mrs. Naomi Chege and Rose Chege for their support in my study.

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TABLE OF CONTENTS

DECLARATION	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES.....	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS AND ACRONYMS	x
OPERATIONAL DEFINITION OF TERMS	xi
ABSTRACT	xiii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1. Background.....	1
1.1.1. Microfinance Institutions	1
1.1.2. Social Intermediations.....	4
1.1.3. Micro and Small Enterprises (MSEs)	6
1.1.4. Government Policy Towards MFIs and MSEs	8
1.1.5. Entrepreneur Characteristics in accessing social intermediation services	9
1.1.6. Overview of Thika Town, MFIs, and MSEs.....	10
1.2. Statement of the Problem.....	12
1.3. Research Questions	13
1.4. Objectives of the Study.....	13
1.5. Significance of the Study	13
1.6. Scope and Limitations of the Study	14
CHAPTER TWO.....	15
LITERATURE REVIEW	15
2.1. Introduction.....	15
2.2. Theoretical Literature.....	15
2.2.1. Theory of the Firm	15
2.2.2. Exchange of Information Theory.....	15

2.2.3. Resource-Based Theory of the Firm	16
2.3. Empirical Literature	17
2.4. Overview of Literature	23
2.5. Conceptual Framework	23
CHAPTER THREE	26
RESEARCH METHODOLOGY	26
3.1. Introduction.....	26
3.2. Research Design.....	26
3.3. Theoretical Framework.....	26
3.5. Definition and Measurement of Variables	28
3.6. Target Population.....	29
3.7. Sampling Techniques and Sample Size	29
3.8. Data Type and Source	30
3.9. Research Instruments	30
3.10. Pilot Study.....	31
3.11. Data Collection	31
3.12. Data Cleaning, Coding and Refinement	31
3.13. Data Analysis	31
3.14. Ethical Issues.....	32
CHAPTER FOUR	33
EMPIRICAL FINDINGS	33
4.1 Introduction.....	33
4.2 Response Rate	33
4.3 Demographic Data	33
4.3.1 Gender Distribution.....	35
4.3.2 Distribution by Age.....	35
4.3.3 Distribution by Education Level	35
4.3.4 Distribution by Years in Business.....	36
4.3.5 Access to Non-financial Services	36
4.4 Role of Social Intermediation Services Provided by MFIs on the survival of MSEs..	36
4.4.1 Effect of Participation in Microfinance on MSE Survival.....	37

4.4.2 Effect of Training on MSE Survival	39
4.4.3 Effect of Group Liability on MSEs Survival	42
4.4.4 Effect of Networking on the Survival of MSEs	44
4.4.5 Assessment of Enterprise Survival	46
4.5 Ranking of Social Intermediation	48
CHAPTER FIVE	49
SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS	49
5.1 Introduction	49
5.2 Summary	49
5.3 Conclusions	51
5.4 Policy Implications	51
5.5 Areas of Further Research.....	52
5.6 Limitations of the Study.....	53
REFERENCES	54
Appendix I: NACOSTI Permit	64
Appendix II: Questionnaire	65

LIST OF TABLES

Table 3.1: Definition and measurement of variables.....	28
Table 3.2: Strata’s Representation	30
Table 4.1: Entrepreneurs Characteristics	34
Table 4.2: Effect of microfinance participation on MSE survival	37
Table 4.3: Correlation between microfinance participation and survival of MSEs	38
Table 4.4: Effect of Training on MSE survival	39
Table 4.5: Correlation between training and survival of MSEs	41
Table 4.6: Effect of group liability on MSEs survival	42
Table 4.7: Correlation between group liability and survival of MSEs	43
Table 4.8: Effect of Networking on the survival of MSEs	44
Table 4.9: Correlation between networking and MSEs survival	45
Table 4.10: Assessment of Enterprise survival	47
Table 4.11: Ranking of social intermediation	48

LIST OF FIGURES

Figure 2.1: Conceptual Framework	24
Figure 3.1: Resource-based view	27

LIST OF ABBREVIATIONS AND ACRONYMS

AMFI-K:	Association of Microfinance Institution-Kenya
DTM:	Deposit Taking Microfinance
ECLOF:	Ecumenical Church Loan Fund
FSD:	Financial Sector Deepening
GDP:	Gross Domestic Products
GOK:	Government of Kenya
ILO:	International Labor Organization
KIPPRA:	Kenya Institute for Public Policy Research and Analysis
K-REP:	Kenya Rural Enterprise Program
KWFT:	Kenya Women Financial Trust
SDGs:	Sustainable Development Goals
MESA:	Micro and Small Enterprises Authority
MFIs:	Microfinance Institutions
MSEs:	Micro and Small Enterprises
NGO:	Non-Governmental Organization
SACCO:	Savings and Credit Cooperative Organization
SMEP:	Small and Micro Mnterprises Program
TCDT:	Thika Community Development Trust
WEF:	Women Enterprise Fund
YEDP:	Youth Enterprise Development Fund

OPERATIONAL DEFINITION OF TERMS

Financial literacy is training on effective financial management.

Microfinance institutions refer to financial institutions offering banking services to low-income individuals and groups that would not normally have access to traditional banks' services.

Micro and small enterprises refer to businesses that employ 1 to 50 workers.

Social capital refers to the gain that accrues to an individual who participate in microfinance schemes such as group membership.

Social intermediations refer to services aimed at enhancing human resource and institutional capacity which include training and group formation.

Survival of MSEs refers to the continuous existence of micro and small enterprises expanding either vertically or horizontally.

Horizontal expansion is the establishment of new MSEs branches/outlets

Vertical expansion is the increase in the number of employees in MSEs both paid and unpaid.

Group liability is the collective responsibility of group members for each others' loans offered by MFIs.

Community MFIs are licensed by Central Bank of Kenya to carry out deposit taking microfinance business within a specified region like a city or a district

National wide MFIs are licensed by Central Bank of Kenya to carry out deposit-taking microfinance business countrywide.

ABSTRACT

The continuous rapid growth of microfinance institutions in Kenya seems not to offer enough solution to the micro and small enterprises survival challenges. More than a one-third of MSEs start-ups collapse within the first three years whereas, those that survive only very few graduate from micro and small to medium enterprises. It is the high rate of collapse and low rate of survival of MSEs that triggered this research to (or “intending to”) fill the existing gap on the missing linkage between MFIs and MSEs survival. This study evaluated the role of microfinance institutions social intermediation services on the survival of MSEs. Specifically, the study determined the most sought social intermediation services by MSEs in Thika. Second, it determined the role of entrepreneur characteristics in the adoption of MFIs social intermediation and the survival of MSEs in Thika Town. Third, it determined the role of the social intermediation services offered by MFIs on survival of MSEs in Thika Town. The study focused on Thika town because it is both an industrial town and a business hub. Descriptive research design was adopted to achieve the study objectives. Stratified and purposive sampling methods were used to select a sample 272 MSEs in Thika Town from which data was collected using a structured questionnaire. The collected data was analyzed and presented in forms of tables with Pearson’s Product Moment correlation used to determine the degree of relationship between survival of MSEs in Thika town and microfinance participation, training, group liability, and networking. The study found that; entrepreneur age, gender, education, and experience played a crucial role in accessing MFIs social intermediation services. Regular microfinance participation help reduce loan application and payment bureaucracy while keeping entrepreneur updated on available opportunities. Training equips MSEs owners with necessary managerial skills on financial management, book keeping, and business operations. Group liability eliminates the need for collateral security when accessing loan while it increases the amount of loan accessed. Networking increases business link widening goods and services markets and allows for formation of business clubs. Finally, it was found that training was the most sought service followed by group liability, microfinance participation, and networking. From the study findings, the researcher recommends that MSEs continue seeking for social intermediation services and especially networking to improve their competitiveness to create a competitive advantage over their competitors boosting their survival.

CHAPTER ONE

INTRODUCTION

The chapter reviews the background of the study including the statement of the problem, objectives of the study and research questions. Further, the section explores the significance, scope, and limitations of the study.

1.1. Background

1.1.1. Microfinance Institutions

Microfinance is the provision of financial services such as savings and credit to low-income clients including self-employed individuals (Ledgerwood, 2002; Ubom, 2003). However, microfinance institutions (MFIs) services have evolved to include non-financial services such as micro-insurance, payment services, social intermediations groups, training in financial literacy and business management. Therefore, microfinance definition has broadened to include both financial and nonfinancial services with a client base typically ranging from self-employed to low-income entrepreneurs in both urban and rural areas (Ledgerwood, 2002). The microfinance institutions have traditionally targeted micro, small and medium enterprises (MSMEs) which have difficulties in accessing financial services from formal commercial banks.

The concept of microfinance dates way back to 1950s when governments and donor agencies offered subsidized agricultural credit to small and marginalized farmers to raise their productivity and incomes (Mbuthia, 2011). In the 1970s, the Nobel Prize winner of 2006 and father of microfinance, Mohammad Yunus identified a group of 42 poor entrepreneurs in Bangladesh and rescued them from the informal money lenders exploitation. Mohammad Yunus efforts culminated into Grameen Bank in 1976 that offers

financial services to the poor in Bangladesh using the group based lending system commonly known as Grameen Model (Mwangi, Robert, & Von, 2012).

In Kenya, the microfinance movement gained momentum in the late 1980s due to the exclusion of a significant proportion of the population by the commercial banks and yet the need for credit by low-income individuals was rising. MFIs emerged to fill the market gap left by banks by providing credit to individuals, micro, small and medium enterprises (MSMEs) which were on the rise during the period. The 1990s period saw structural adjustments policy of deregulation and liberalization of the economy. As a result, the state proposed investment incentives like investment allowance for enterprises outside Nairobi and Mombasa and tax exemption on imported machines worth less than 20 million for rural areas small enterprise to encourage entrepreneurs to engage in informal sector business (Republic of Kenya, 1992). The result was an increase in the need for credit by individuals and MSEs leading to the recognition of MFIs in Kenya. Among the pioneer microfinance services providers in Kenya were Equity Building Society (currently Equity Bank), Family Building Society (currently Family Bank), Faulu Kenya and K-REP (Mwangi, 2010).

The MFIs in Kenya like many other countries were founded using Non-governmental organizations (NGOs) like Kenya Rural Enterprise Programme (K-REP) (now Sidian bank), Kenya Women Financial Trust (KWFT), Faulu and Jamii Bora; Saving and Credit Cooperative Society (SACCO) including Unaitas or religious based framework like Ecumenical Church Loan Fund (ECLOF), Small and Micro Enterprises Programme (SMEP), Vision Fund and Thika Community Development Trust (TCDT). Their main aim was credit provision to the many low-income households and MSEs. The informal sector from independence up to late 2000 was regarded as risky and commercially unviable by

formal banking sector a gap that MFIs utilized to gain prominence in Kenya. MFIs to penetrate the market offered new, innovative and proper modes of financing low-income households and MSEs based on sound operating principles. Since their inception, MFIs have significantly contributed to the social-economic empowerment to the beneficiaries and their dependents (Hans, 2009). According to the Association of Microfinance Institutions-Kenya (AMFI-K), by 2012, there were 62 registered institutions with 51 retail and wholesale MFIs (AMFI-K, 2013). The report indicates that as of December 2012, a network of 269 branches across the country comprising of 105 deposit taking microfinance (DTM) and 164 credit-only MFIs provided microfinance services.

The major target group of MFIs is self-employed, low-income entrepreneurs who are traders, street vendors, small-scale farmers, artisans, and other micro and small-scale enterprises. Low-income, participation in informal sector economic activities, lack of physical collateral for loans in the formal banking sector, closely interlinked households or business activities characterizes the clients (Republic of Kenya, 2012).

To increase their customer base and enhance the success of their clients business, MFIs expanded the scope of services they offered from the financial intermediation to include social intermediation targeting organized groups and MSEs (Hans, 2009). Although meant to create uniqueness in service delivery, social intermediation activities have gone much further to influence the MSEs survival.

MFIs work on the premise that traditional banking sector is not tailored to reach millions of poor for whom small loans could make a significant difference (Ledgerwood, 2002). The traditional banks are unable to reach out to the poor since they are mostly rural, very

dispersed and have low education levels if any. Thus, the cost of supplying loans to the poor is extremely high. Also, they lack assets to use as collateral for securing loans. Hence, the only source of credit remains local money-lenders who charge exorbitant interest rates (Mbaluka, 2013). To fill the gap and change the trend, MFIs adopted the group training programs on financial literacy and afterward extending financial access.

In providing group lending, the MFIs use trust which is their social capital as security. The borrowers in pioneering models are usually members of organized small groups subjected to training on finances utilization and management and the importance of proper business record keeping. Although individuals are extended loans, the entire group handles the repayment. Therefore, any borrower who fails to meet the commitment of repaying back the amount loses his or her social capital: the trust from the group members (AMFI-K, 2013). The defaults justify the need for the MFIs compulsory deposit from the clients before accessing any credit facilities.

Women in Kenya have been a major target by the MFIs, both in rural and urban areas. The fact that they already have organized groups makes them easy to target by the MFIs (Muteru, 2013). More so, an essential requirement to access the women enterprise funds (WEFs) is to be in an organized and registered group. Since the WEFs are not sufficient for the groups, MFIs come in to extend a hand by offering microfinancing to the groups by enticing them with training. They also link them up with other successful groups through the market interventions (AMFI-K, 2013).

1.1.2. Social Intermediations

Social intermediation involves group formation, networking, and capacity building through training on financial literacy, bookkeeping, and business management among members of a

group (Mbaluka, 2013). This role qualifies MFIs as a development tool on top of banking. Bennett (1996) defines social intermediation as:

A process in which investments are made in the elaboration of both human resources and institutional capital with the aim of increasing the self-reliance of marginalized groups, preparing them to engage in formal financial intermediation (p.2).

However, social intermediations are used for more than just preparation for financial intermediation (Zohir & Matin, 2002). Social intermediation through a range of activities and capacity-building has enabled people to become good borrowers and savers, better manage their finances or their financial groups and help them to put whatever ‘social capital’ they have to more productive use (Kadagi et al., 2015). Hence, shifting MFIs focus from financial security to social security. Using ‘trust’ as the base, MFIs have been able to foster group cohesiveness through networking. The group members derive a range of benefits including but not limited to low-cost marketing, knowledge diffusion and opportunity awareness (Hans, 2009).

According to Hans (2009), social intermediation is unlikely to be financially sustainable. Hence, MFIs have adopted a variety of methodologies in the provision of social intermediation just like in financial intermediation services provision. The methodologies include self-help groups (SHGs), individual banking programs in the form of joint liability groups, credit and saving cooperatives or even SHGs, Grameen model involving private borrowing but all borrowers belong to joint liability groups or the mixed model involving Grameen and SHGs (Mbaluka, 2013). It is important to note that the MFIs like any other financial institution, their primary objective is to maximize shareholders wealth while

minimizing the cost which is ever increasing due to the high administrative cost of the micro loans. Though as identified earlier one of the aims of the MFIs in providing social intermediations is preparing individuals to engage in formal financial intermediation, it has positive externalities as it imparts knowledge.

While credit availability may be the major constraint on MSEs growth, other constraints come into play, for instance, products market and managerial constraints that hinder their survival. According to the International Labor Organization (ILO), MSEs are unlikely to grow significantly and survive without additional inputs to address the additional hindrances (ILO, 2007). MFIs are therefore obliged to provide non-financial services to the clients who happen to be mostly MSEs.

AMFI-K (2013) found that the most widely offered non-financial service was group training. The program covers fundamental aspects of the group, loan, and business management. Another sought after service was business training especially by the organized group of entrepreneurs (AMFI-K, 2013). Sessional Paper No. 2 of 2005 (Republic of Kenya, 2005) recognizes the need for non-financial services for growth and development of MSEs and consequently survival.

1.1.3. Micro and Small Enterprises (MSEs)

Globally, MSEs are known for their pivotal role in promoting grassroots economic and equitable sustainable development (Makena, Kubaison, & Njatti, 2014). However, MSEs are widely defined based on their characteristics that include the size of capital invested, the number of employees, business turnover, the management style, location and the market share. The country context plays a crucial role in determining the nature of these characteristics especially the size of capital investment and the number of employees. The

most commonly used definition is the number of workers an enterprise employs (Kisaka & Mwema, 2014). In developing countries, microenterprises employ less than ten workers, and small-scale enterprises usually employ less than 50 workers (Mbaluka, 2013).

Ease of entry and exit, small-scale production, lack of or low relevant skills, low-level capital and equipment, limited capital access, low productivity and low income characterize MSEs market. Most operate mainly in the informal sector. They are unregistered, unregulated, and have little or no access to formal banking services. However, in recent past, MSEs have become an important component of the economic matrices across the globe, especially in developing countries. The increased deliberate government policies and legislations targeting the MSEs as engines of economic growth and the employment creation are indicative of their importance (Katua, 2014).

In most economies with a high rate of job growth, it is estimated that MSEs constitute over 90 percent of total enterprises (World Bank, 2013a). MSEs not only act as a vehicle for increased industrial production by offering local supply channels but also as an avenue for job creation. Kenya Economic Survey of 2008 found that the informal sector had created 90 percent of new jobs created between 2006 and 2007. According to Kenya Institute for Public Policy Research and Analysis (KIPPRA) in 2013, MSEs sector employed over 40 percent of the working population (KIPPRA, 2013). In 2014, the informal sector employment increased by 40 percent to 14,316,700 in 2014. According to the economic survey of 2015, the sector had the largest share of employment accounting for 82.7 percent of the total jobs in the economy (Republic of Kenya, 2015).

To drive economic development and enhance financial inclusion and entrepreneurship growth, microfinance, and MSE financing plays a pivotal role. Kenya Vision 2030 (Republic of Kenya, 2007a) spells out the financial goals to be achieved through the MSEs sector to alleviate poverty and unemployment. As part of the strategy to attain the Sustainable Development Goals (SDGs) and the financial inclusion targets, the government created a Rural Finance Department at the Central Bank of Kenya and a microfinance unit in the Ministry of Finance (Financial Sector Deepening, 2009).

A survey by Kenya National Bureau of Statistics in 2007 indicated that three out of five MSEs start-ups collapse within the first few months of operation (Republic of Kenya, 2008). The few left in operation either remained at their initial level or choose to expand horizontally by starting other similar ventures (Mbugua, Mbugua, Wangui, Ogada, & Kariuki, 2013). Memba, Gakure, and Karanja (2012) supports the findings that ventures have collapsed as soon as organizations pull out of the project and remaining ones have remained small. Such massive collapse of MSEs is indicative of the failure of MFIs' intermediation to achieve the desired results. Therefore, there is the need for a study on the role of social intermediation services provided by MFIs in the survival of MSEs.

1.1.4. Government Policy Towards MFIs and MSEs

The Microfinance Act of 2006 (Republic of Kenya, 2007b) sets out a framework for inclusion and regulation of MFIs in Kenya. The Act specifies two types of microfinance: community MFIs and nationwide MFIs. In Thika Town, the two categories of MFIs exist side by side. Community MFIs include TCDP and Vision Fund while nationwide MFIs include KWFT, SMEP, and ECLOF. According to the Act, the microfinance industry is

expected to play a pivotal role in deepening financial markets and enhancing access to financial services and products by a majority of the Kenyans.

The formal policy framework of MSEs is contained in the Sessional Paper No. 2 of 1992 (Republic of Kenya, 1992). It defines micro enterprises as enterprises employing one to ten workers and small businesses as ones employing eleven to fifty workers. Further, the National Baseline Survey of 1999 defined MSEs as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting and gathering and forestry) whether formal or informal sector with employment capacity of one up to fifty employees (Republic of Kenya, 1999). On average, Kenyan MSEs employ one to two workers while over 70 percent employ only one person with few growing to employ more than six workers (Republic of Kenya, 1999). This study adopted the government of Kenya official definition of MSE as an enterprise that employs between one and fifty employees.

In 2012, the government established a state corporation through Ministry of Industrialization and Enterprise Development named Micro and Small Enterprises Authority (MESA) under Micro and Small Enterprises Act No. 55 of 2012 (Republic of Kenya, 2013). The authority whose objectives include promoting the development of competitive and sustainable MSEs is mandated with the promotion, development, and legislation of MSEs in Kenya.

1.1.5. Entrepreneur Characteristics in accessing social intermediation services

Human characteristics play a crucial role for an entrepreneur to benefit from the MFI social intermediation services. The individual attributes include owner age, education, the number of years in business (experience) and gender (Rutherford & Oswald, 2000). According to Hassan and Mugambi (2013), the level of education is necessary for knowledge transfer through impersonal communication or group conversations which in turn helps in accessing

financial resources, entrepreneur skills and networking skills. Experience makes a significant contribution in diversifying social network needed for MSEs to utilize available resources (Maria, 2011). Yusuf (2005) identified education and prior experience in business as critical success factors for small firms. According to ILO (2007), one-third of all successful entrepreneurs are youths aged between 26-35. This emphasizes the importance of enterprise's owner's age. Gichuki, Mutuku, and Kinuthia (2014) found that gender plays a significant role in the success of business.

1.1.6. Overview of Thika Town, MFIs, and MSEs

Thika is a cosmopolitan and an industrial town in Kenya located 40 KM north east of Kenya's capital city, Nairobi. It is the largest town and a business hub in Kiambu County with a population of 139,853 (Republic of Kenya, 2010). The town is home to both formal and informal sector enterprises characterized by the existence of MSEs operations. According to Republic of Kenya (2006), Thika Municipality had over 2000 registered MSEs mainly drawn from the informal sector. By 2011, the number of MSEs had risen to 22,451 with 17,864 operating in the central business district out of which 8,617 had constantly operated for more than five years (Muchira, 2012). To promote MSEs growth, existing MFIs offer both financing and social intermediation services to MSEs in Thika town (Muiruri, 2014; Kamunya, 2014).

According to World Bank survey (2013b) since 2008, Thika town is ranked as one of the leading towns in Kenya regarding starting and registering a business. Doing business factors in regulations that enhance business and those that constrain it. The analysis factor in four major variables in the regulation namely starting a business, dealing with construction permits, registering property, and enforcing a contract. Thika records a 1, 7, 3, 7

performance in the four factors against the 13 towns selected for the survey. Overall it was ranked number three after Malaba and Narok beating key towns and cities like Nairobi, Kisumu, Mombasa, Nakuru, and Nyeri. Procedure wise in starting a new business in Sub-Saharan Africa, Thika ranks number 8 (World Bank, 2013b).

According to the Business Directory (2015) and Association of Microfinance Institution-Kenya (AMFI-K, 2014), Thika town hosts a total of 16 MFIs branches. They include Faulu, KWFT, SMEP, Rafiki, Uwezo, Remu, Choice, Sumac, ECLOF, Musoni, Thika Community Development Trust (TCTD), KADET, Vision Fund, Pamoja Women Development Programme (PAWDEP), Microfinance Partners Ltd and MIGICH Investment Company Ltd. According to Muiruri (2014), 77.3 percent of MSEs in Thika had received non-financial services a fact that was supported by 93.75 percent of MFIs respondents interviewed. Although the businesses had accessed the services, their growth exhibited stagnation, raising uncertainty about the role of MFIs in their growth and future survival (Republic of Kenya, 2011).

Although the number of MFI institutions in Thika Town continues to grow, their large presence does not correspond to the survival rate of MSEs in the town. According to Memba, Gakure, & Karanja (2012), social intermediation services offered by MFIs play a critical role in the survival of a business venture even after the funding is curtailed. Some researchers have identified the role of MFIs intermediation services in boosting the business growth and performance (Kisaka & Mwema, 2014; Mbaluka, 2013; Chelsin, 2013; Memba, Gakure, & Karanja, 2012; Bowen, Morara, & Mureithi, 2009; Muiruri, 2014).

1.2. Statement of the Problem

MSEs are and will continue to play a crucial economic role in any country (Republic of Kenya, 2011). However, according to Mwaura (1994) and Mwaura and Nelson (1997), more than one-third of MSE start-ups collapse within the first three years. The ones that survive, only very few graduate from micro and small to medium enterprises. Republic of Kenya (2008) supports the two studies' findings by stating that three out of five businesses fail within the first few months of operations and those that continued 80 per cent failed before the fifth year. MSEs have unique issues limiting their profitability and growth and hence their survival.

The situation persists even with the increased credit availability among MSEs in Kenya from the increasing number of MFIs and the continuous government schemes and funds like WEF and Youth Enterprise Development Fund (YEDP) targeting MSEs (Republic of Kenya, 2016a). The credit availability (financial intermediation) does not match with the survival rate of MSEs. The situation triggers the need to focus on social intermediation services offered by MFIs to MSEs and determine their role in the survival of MSEs. This study incorporates human characteristics including owner age, experience, gender, and education level to assess the role played by MFIs' social intermediations in the survival of MSEs.

Previous studies have largely focused on the role of micro financing on the growth and development of MSEs, ignoring their survival (Chelsin, 2013; Kisaka & Mwema, 2014; Muiruri, 2014). This study aimed at describing the nature of the relationship between MFIs social intermediations and the survival of MSEs with a focus on Thika Town to fill the knowledge gap.

1.3. Research Questions

- i. What is the role of MSE's entrepreneur characteristics in accessing social intermediation services?
- ii. What is the role of the social intermediation services provided by MFIs on the survival of MSEs?
- iii. Which are the most sought social intermediation services by MSEs in Thika town?

1.4. Objectives of the Study

The major objective of the study was to determine the role of MFIs social intermediation on MSEs survival in Thika Town. Specifically, the study sought to:

- i. Establish the role of MSE's entrepreneur characteristics in accessing social intermediation services in Thika Town.
- ii. Determine the role of the social intermediation services offered by MFIs on the survival of MSEs in Thika Town.
- iii. Determine the most sought social intermediation services by MSEs in Thika town.

1.5. Significance of the Study

The continuous effort by the government of Kenya to implement Kenya Vision 2030 and the Sustainable Development Goals (SDGs) objectives benefit from the study findings. Both Kenya Vision 2030 and SDGs aim at creating employment and reducing poverty levels and as established earlier the MSEs are one of the vehicles in achieving the agendas.

The study sought to fill a knowledge gap that exists on the role of MFIs social intermediation on the survival of MSEs in Thika town. The findings help inform the MSEs entrepreneurs on the need for the MFIs social intermediation services. Also, the information help inform the MSEs operators of the most relevant social intermediation services offered

by MFIs. More so, the MFIs' management find the findings useful in helping them formulate packages that suit the MSEs entrepreneur's needs.

Further, the county government policy formulation aimed at improving and encouraging entrepreneurship and employment creation benefit from the study findings. This goes hand in hand with creating favorable condition for MFIs service delivery.

1.6. Scope and Limitations of the Study

The study covered MSEs operating within Thika Town. The study was faced with some limitations. First and foremost, the respondents feared participating in the pilot study due to deep-held suspicions of taxation. However, the researcher confirmed to the participants that the research was for academic purpose with the NACOSTI permit and university approval and they fully cooperated. Further, many MSEs do not maintain business records. As a fall back position, the researcher concentrated on the information that can easily be provided without resistance during the study.

CHAPTER TWO LITERATURE REVIEW

2.1. Introduction

The chapter is divided into four sections; theoretical literature review, empirical literature review, an overview of the literature, and conceptual framework.

2.2. Theoretical Literature

2.2.1. Theory of the Firm

The theory of a firm posit that a firm is a “black box” operated so as to meet the relevant marginal conditions on inputs and outputs, thereby maximizing profits, or more accurately the present value (Kantarelis, 2007). That is

$$\pi(p, w) = \max[pf(x) - wx] \dots\dots\dots(2.1)$$

Where: p is the output price taken as given by the firm (producer), w is the vector of strictly the input prices, and x is a vector of inputs.

However, a firm may pursue other objectives including revenue maximization, cost minimization or market share maximization. To pursue the objectives, the firm needs social capital and institutional capacity building through the supportive services extended by financial institutions (Cerveau, 1999). For MSEs due to the high competition among MSEs in the informal sector and from large firms in the formal sector, they pursue market share maximization objective to survive. This makes the theory of the firm as per Kantarelis (2007) less applicable to MSEs.

2.2.2. Exchange of Information Theory

Exchange of information theory as proposed by Robson and Ladner (2006) holds that interpersonal, interactional, procedural and informational factors are linked to literacy skills.

Hence, the higher the interactions, the higher the level of literacy the individual will have. Lusardi and Mitchell (2008) also supported this theory by their findings which indicated that financial literacy is higher among those who are working and in some countries those who are self-employed as compared to those who are not working. Therefore, the difference in literacy levels among individuals as shown in this theory is as a result of the exchange of information between the more literate and the less literate, financial education that may be offered in the workplace and the skills acquired on the job. As a result, for one to be more financially literate, they have to increase their level of interactions with other persons. According to this theory, the financial literacy of the MSE owners will increase if they operate their businesses more and also enhance their interactions with other individuals. This will not only inform them of financial systems but also the trends and changes in the systems. This theory's proposition to the study is that it tends to explain the difference in financial literacy among people, and it also suggests how to improve the literacy levels. The theory view is complimented by the social capital theory that proposes that social capital is an essential input for the survival of MSMEs (Fafchamp and Minton, 1999).

2.2.3. Resource-Based Theory of the Firm

The resource-based theory of the firm principal proponents were Bain (1968) and Porter (1979,1980, 1985) to complement industry organization view (Esteve-Perez & Manez-Castillejo, 2008). The theory holds that firms are heterogenous and they possess firm-level resources that when exploited are a source of competitive advantage. According to this theory, a firm or an enterprise is seen as a distinct bundle of tangible and intangible resources and capabilities that are acquired on a semi-permanent basis developed and expanded over time (Esteve-Perez & Manez-Castillejo, 2008). An enterprise's resources and

capabilities are the results of its strategic choices and resource commitments across time and ultimately determine its performance at any time. Hence, the ability of a firm to develop distinct capabilities enhances its ability to adapt to the changing competitive environment and improve its survival prospects (Cressy, 2006).

However, the theory holds that not all resources of the firm are useful in generating a competitive advantage and superior performance. To gain a sustainable competitive advantage, the resources must be valuable, non-substitutable and non-transferable (Barney, 1991). Hence, gaining a competitive advantage in an industry or market is temporary.

Tangible resources are the physical inputs that are observable and evaluated including land, plant, equipment, and cash. Intangible resources, on the other hand, cannot be seen or quantified. They include human capital, goodwill, patents, management skills, networks, social capital, and organizational skills (Wilk & Fensterseifer, 2003). This study focuses on the role of MFIs social intermediation services that are intangible inputs/resources in MSEs survival.

2.3. Empirical Literature

Bekele and Worku (2008) empirically estimated the factors that affect the long-term survival of Micro, Small and Medium enterprises in Ethiopia. The study involved a sample of 500 small businesses located in five major cities in Ethiopia that were followed up for six years (1996 to 2001) to assess the impact of influential factors that affect the long-term survival and viability of small enterprises. Cox proportional hazards model was used to quantify the key survival predictors. The researcher classified the independent variables into four; macroeconomic factors, factors that influence access to social capital, factors that affect the

internal efficiency of MSEs, and factors that affect access to micro credit. The study found that inadequate finance (61%), low education level (55%), poor managerial skills (54%), shortage of technical skills (49%) and inability to convert part of their profit to investment (46%) characterized the businesses that ceased operations. The study found that participation in social capital and networking schemes was critical for long-term survival. Businesses that did not participate in the plan were 3.25 times likely to fail as compared to businesses that participated. However, the study fails to integrate all social intermediation extended by MFIs in the study only focusing on long-term survival.

Ibru (2009) study on growing microfinance through new technologies in Nigeria found a significant correlation between education and training. Also, the study found gender to have a significant impact on the skill acquired with women limited in terms of time to attain the skills due to many domestic chores. These findings were in support of Shane (2003), whose study on the individual-opportunity nexus, found education, skills or knowledge acquired through work experience, and social network crucial for an entrepreneur to benefit from MFIs services. Further, Islam, Mohammad, Abu and Alam (2011) study on the role of entrepreneur and firm characteristics on the success of small and medium enterprises in Bangladesh, t-test showed that gender played a critical role in the success of business. However, the studies did not focus on the relationship between identified human factors and the survival of MSEs.

Babajide (2011) evaluated the impact of microfinance on micro and small business survival in Nigeria. The study adopted two-method strategy to enhance its authenticity by combining primary survey based data with secondary information from bank records. A regression model was estimated (Cox survival model) to explain survival using a sample of 623

entrepreneurs obtained from the six estates of South-West geopolitical zone for the period 2004 to 2008. The dependent variable used was the probability of survival. Explanatory variables were regular participation in Microfinance, ability to convert profits into investments, ability to make a profit, entrepreneur level of education, technical capacity, contact with the loan officer, access to microcredit, and mandatory micro savings. Participation in microfinance and regular contact with credit officer was found to have a significant positive influence. In conclusion, although micro financing enhances MSEs survival, most of the enterprises remain at the survival level of the business life cycle. The study mainly focused on financial intermediation and consolidated social intermediations as a single factor. More so, the researcher left out entrepreneur traits that play a critical role in service consumption.

Abeka (2011) examined the role of informal personal networks in determining micro small enterprises (MSE's) success in Kenya. The study found differences between genders networking priorities. Men motives are instrumental while women have affective considerations in social relationships. In the case of a business problem, women entrepreneurs seeks assistance from family first, then close friends and later knowledgeable business sources while men entrepreneurs seek advice from their networks. Hassan and Mugambi (2013) associate the notion to lack of professional experience or diverse network endowed with required resources. The studies point out a clear link between accessibility of social intermediations and gender and education level. However, they fail to link social intermediation with MSEs survival and the role of the personal traits in the relationship.

Kimutai and Akubu (2013) empirically investigated the effects of the MFIs on small scale business growth in Uasin-Gishu County, Kenya. The study used primary data collected from

50 respondents using questionnaires. Using modified Evans growth model, they regressed the data using ordinary least square using a growth equation. The dependent variable enterprise growth was measured using assets. Explanatory variables are the MFIs intervention services; training, meeting with clients, bookkeeping counseling and monitoring skills. The researcher found a positive correlation between the MSEs growth and intervention service. A percentage increase in the intervention services explains 64.4 percent improvement in growth of MSEs ($R^2 = 0.644$). However, the study never evaluated the effect of MFIs intervention services on the MSEs survival.

Worku (2013) empirically analyzed the factors affecting the long-term survival of small businesses in Pretoria South Africa. The study used primary data collected from a sample of 349 small business enterprises observed for the period 2007 to 2012. Binary logistic regression analysis and Cox Proportional Hazards model were used to estimate odds ratio and hazards ratio. The researcher classified the 26 independent variables into three; entrepreneur characteristics, enterprise characteristics, and microfinance intermediation. The study found the lack of entrepreneurial skills, lack of supervisory support for start-ups, and inability to access relevant vocational skills to have a significant negative influence on MSEs survival. However, the researcher recognizes that Pretoria, which was the city of study focus, has smaller trade volume capacity and exposure making generalization impossible.

Gichuki et al. (2014) analyzed the effects of village credit and savings associations (VCSA) credit on women-owned enterprises performance in Nakuru town. The study adopted a cross-sectional survey design utilizing a sample of 225 small women-owned enterprises. The study aimed at investigating selected factors perceived to influence the performance of

women owned MSEs in Kenya. The factors included credit and dividends accessed from table banking group, entrepreneur's experience, education level of women, and income. A logit regression model was used to regress the data. The study found that women entrepreneurs involved had attained formal education with 43.6 percent having attained secondary education. The model had a Pseudo R^2 of 60.2 percent and 49.3 percent greater than the statistical threshold of 20 percent. This implied that the selected factors: credit, income, and education level of the respondents had a positive influence on the profits and capital of MSEs. The study found that the male counterparts businesses performed better than those owned by female stressing the role of gender in business performance and survival. However, the study did not evaluate the intervening role of experience, education level, and gender between MFIs social intermediation and MSEs survival.

Mwangi, Shisia, Mwai and Okibo (2014) assessed the impact of microfinance on small and medium enterprises performance in Murang'a. A linear regression was used to analyze how managerial skills, training, financial skills, technology, and MFI funding impacted on SMEs performance. The study found a positive relationship between the variables and SME performance. However, the study indicated other factors could affect performance including owner attributes, enterprise characteristics, and market networking.

Jagongo and Muchira (2014) in a descriptive study in Thika Municipality in Kenya investigated the extent to which MSEs owners or managers kept business records. The study also found that only 30 percent of MSEs maintained business records. However, those kept were sketchy, incomplete, unprofessionally done and did not meet the recommended accounting standards. MSE operators lacked basic accounting knowledge and were deterred by the high cost of hiring professional accountants making it hard to make rational economic

decisions. However, the study found that 70 percent of MSEs owners and managers were willing to learn about bookkeeping and accounting. MFIs through the non-financial services can extend their services to the client to win them and promote their business survival. The study only concentrated on one aspect of social intermediation intervention in bookkeeping knowledge.

Muiruri (2014) carried out a review of non-financial factors to investigate the role of MFIs in the growth of MSEs in Thika. The study sought to show the importance of non-financial services to the growth and survival of MSEs. A sample of 285 MSEs and 16 MFIs was selected for the study. The researcher found that 52 percent of MFIs clients had access to non-financial services. The distribution of access as per service was business counseling 37 percent, and management training 40 percent. However, 22.7 percent of the MSEs had not received any nonfinancial service from MFIs. The study limited itself to business counseling and management training and did not investigate other factors that promote MSEs survival.

Rotich, Lagat, and Kogei (2015) reviewed the effects of microfinance services on the performance of MSEs in Kenya. The study estimated a multivariate regression model using a sample 272 MSEs out of the 429 registered MSEs in Kiambu Municipal Council. The variables regressed were dependent variable microenterprise performance measured by return on assets and independent variables: access to credit, saving mobilization and managerial training. The study found a strong positive relationship between independent variables and performance. However, the study concluded that other factors not included in the model were affecting the performance.

2.4. Overview of Literature

Three main theories on the survival of enterprises were reviewed. Kantarelis (2007) theory of the firm, Robson and Ladner (2006) exchange of information theory and the Resource-based theory of the firm by Bain (1968) and Porter (1979,1980, 1985). The theories formed the theoretical review of the study.

From the empirical literature reviewed, some variables were considered including financial literacy, technical skills, networking, participation in microfinance, owner characteristics, firm characteristics, bookkeeping, and managerial training. The studies reviewed are not clear about the role of MFIs social intermediation services on the survival of MSEs. Concerning the entrepreneur characteristics, the studies reviewed pointed out at entrepreneur age, education level, gender, and experience as the essential attributes in accessing social intermediations and consequently the survival of MSEs. However, the studies did not incorporate the attributes in determining the role of social intermediation on the survival of MSEs. The majority of the studies used surveys in data collection with only guideline information from MFIs on the location of MSEs accessing their services. The study adopted Bain (1968) and Porter (1979,1980, 1985) resource-based theory of the firm.

2.5. Conceptual Framework

In line with the above discussion, the study's dependent variable was survival of MSEs while the independent variables were training, networking, participation in microfinance and group liability with owner characteristics as the intervening variable.

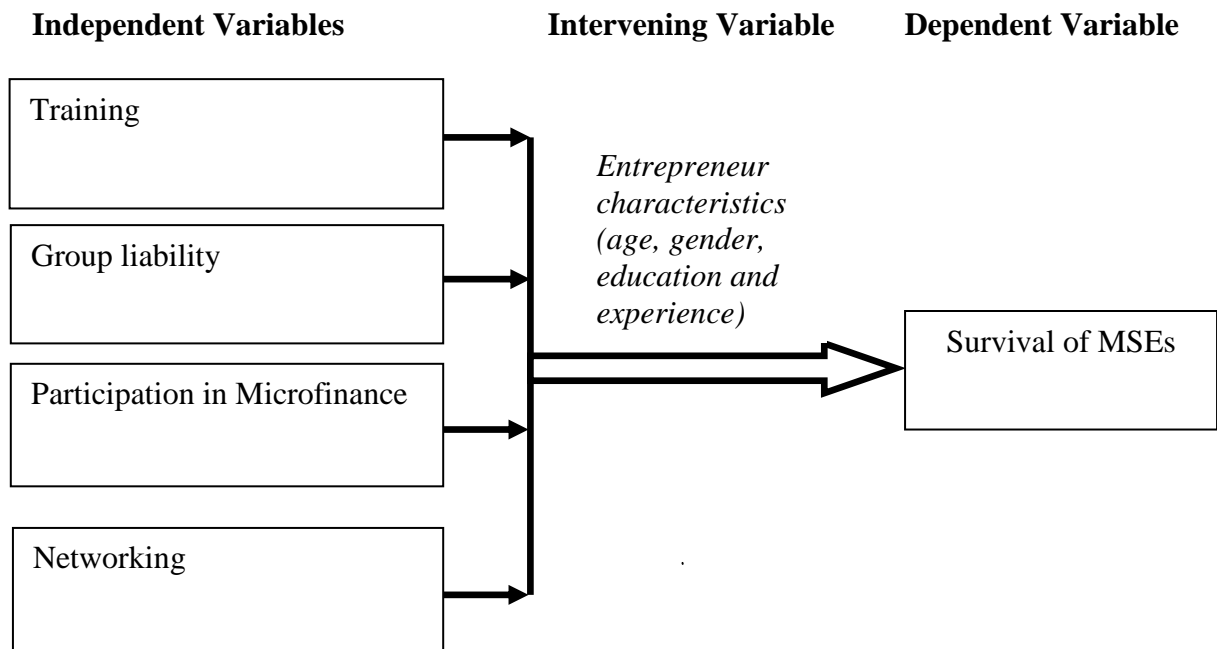


Figure 2.1: Conceptual Framework

According to this model, social capital that is an essential ingredient for MSEs survival can be achieved through MFIs social intermediations-participation in microfinance, networking, training, and group liability. Other intervening factors that impact on the social capital growth and survival of MSEs and their ability to consume the social intermediation services are entrepreneur characteristics. They include age, gender, education level, and the number of years in business (experience). The existence and favorability of these traits act as a catalyst in accessing and consumption of social intermediation services and consequently the MSEs' survival.

Training equips an entrepreneur with business management, customer support, and financial skills. Also, the technical skills acquired gives an entrepreneur practical knowledge on the venture. For businesses that had borrowed loans, they are trained on how to manage funds and reduce wastages to repay loans and increase chances of survival.

Networking plays a crucial role in providing necessary and sufficient market information. As a result, MFIs encourage MSEs to join professional bodies to gain a competitive advantage in business. Sector and industry associations help entrepreneurs to network and gain business information. More so, MFIs can provide a link between MSEs and clients through business clubs, marketing associations and developing and maintaining an up to date database on MSEs products and services (Mwangi, 2013).

Participation in microfinance is crucial to MSEs especially for starters to create loyalty. The MSEs are allowed to access specialized services through their constant contacts. It further allows for knowledge diffusion and information sharing with the MFIs.

Group liability goes to a great extent in boosting the amount of loan an entrepreneur can access through the group. Importantly, MSEs that do not have enough collateral security for a loan extension utilize the group liability to access funding. Also, due to group members close monitoring of funds use to avoid any instance of misuse leading to default, MSEs utilize the funds properly.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The chapter describes the methodology that was used in conducting the study. It entails the research design, theoretical framework, conceptual framework, study area, target population, sampling design and sample size, data type and source, research instruments for data collection, data processing and analysis and ethical issues.

3.2. Research Design

The study adopted a descriptive design to analyze the role MFIs social intermediation on the survival of MSEs in Thika Town. Both qualitative and quantitative data was collected using survey instrument of structured questionnaires.

3.3. Theoretical Framework

The study is anchored on the resource-based theory of the firm. According to this theory, a firm or an enterprise is seen as a unique bundle of tangible and intangible resources and capabilities that are acquired on a semi-permanent basis developed and expanded over time (Esteve-Perez & Manez-Castillejo, 2008). It's through the ability of a firm to develop distinct capabilities that enhance its capacity to adapt to the changing competitive environment and improve its survival prospects. Although MFIs were initially established to provide tangible assets in the form of financial services, they have evolved to provide intangible assets through social intermediations including training to enhance the social capital, networking and participation in microfinance (Muiruri, 2014). Also, the theory recognizes the importance of human capital; education and experience as an intangible resource (Barney, 1991). Figure 3.1 below illustrate the relationship.

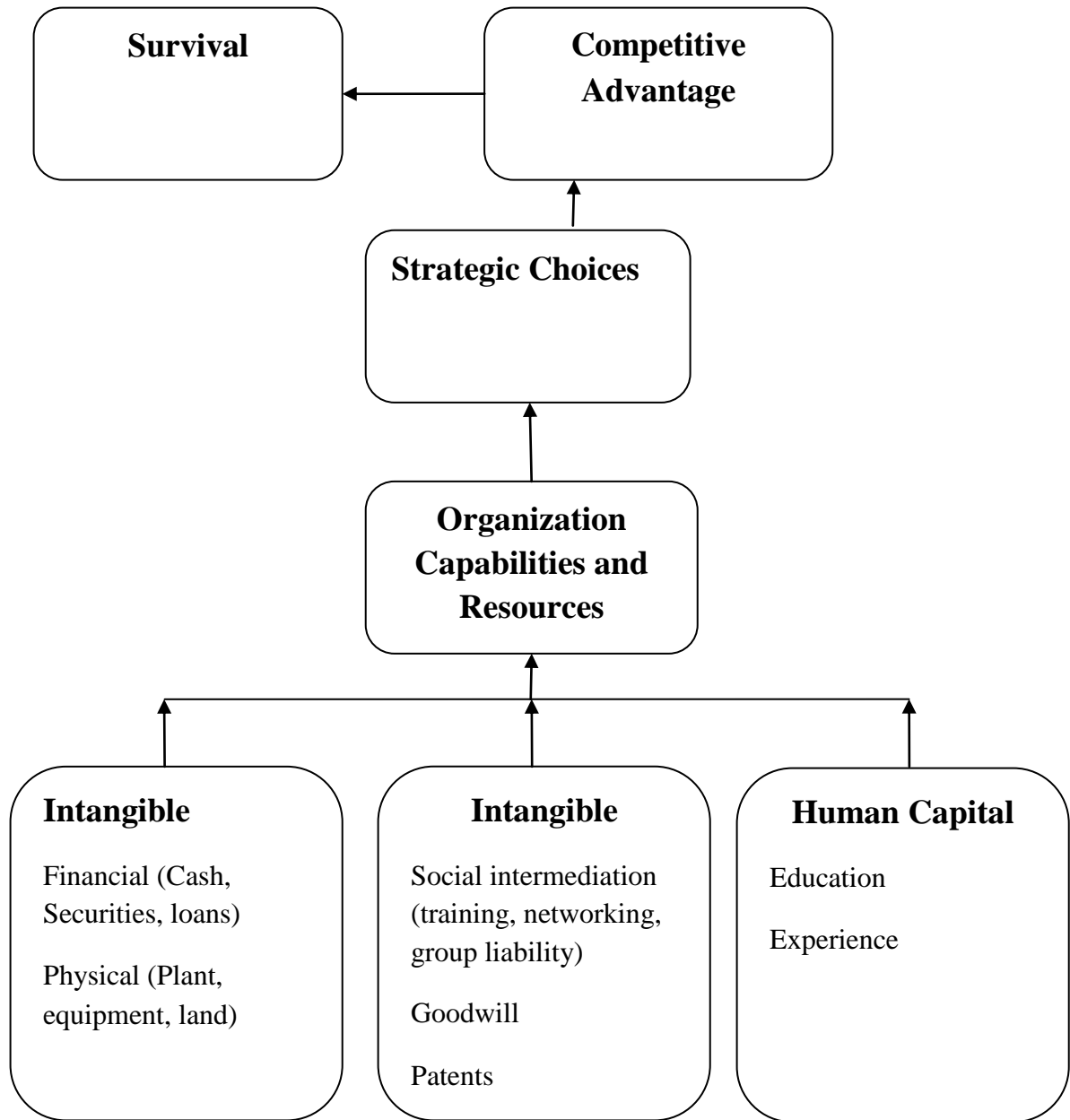


Figure 3.1: Resource-Based View Framework

Source: Barney (1991).

3.5. Definition and Measurement of Variables

Table 3.1: Definition and measurement of variables

Variable	Description	Unit of Measurement	Scale
Survival	Ability to withstand competition <ul style="list-style-type: none"> ▪ Establishment of branches ▪ Increased number of employees both paid and unpaid ▪ Continued existence in years of operation 	Likert scale	Ordinal
Training	Development of financial and business management skills <ul style="list-style-type: none"> ▪ Enhanced business management ▪ Able to maintain up to date financial records ▪ Financial management skills for start-up or expansion ▪ Employee motivation 	Likert scale	Ordinal
Group liability	Group Membership <ul style="list-style-type: none"> ▪ Increased amount of loan accessed ▪ Eliminate the need for collateral security ▪ Proper use of borrowed funds 	Likert scale	Ordinal
Participation in microfinance	Regular contacts with MFIs <ul style="list-style-type: none"> ▪ Eased payments making ▪ Reduced the loan application procedure ▪ Constant update on available business opportunities 	Likert scale	Ordinal
Networking	Creating business groups <ul style="list-style-type: none"> ▪ Membership to business club ▪ Market interlink ▪ Availability of database about MSEs in town 	Likert scale	Ordinal

Source: Author

3.6. Target Population

The target population of the study were the 40,524 MSEs operating within Thika Town as identified by Republic of Kenya (2016 (b)). As a cosmopolitan town, Thika hosts quite a variety of MFIs and MSEs.

3.7. Sampling Techniques and Sample Size

Stratified random sampling was used in the study. The MSEs were stratified into four geographical regions of operation including Central Business District, Industrial area, road reserve and open space. From the four regions, the number of respondents was selected proportionally considering the population of each region. Within each region, purposive sampling was used to ensure fair representation across the social-demographic characteristics. A sample size of 272 MSEs was chosen based on a formula adopted from Watson (2001) in sample size determination

Sample Size, n

$$n = \frac{\left\{ \frac{P(1-P)}{\frac{A^2}{Z^2} + \frac{P(1-P)}{N}} \right\}}{R}$$

Where:

n = sample size

N= accessible population (in our case the population of Thika town is 40,524 MSEs)

P= estimated variance of the population taken as 0.2 at 20%

A= precision desired or margin error taken as 0.05 at 5%

Z= confidence level taken as 1.96 (at 95% confidence level)

R= estimated response rate taken as 0.9 at 90%

Thus,

$$n = \frac{\left(\frac{0.2(1-0.2)}{\frac{0.05^2}{1.96^2} + \frac{0.2(1-0.2)}{40,524}} \right)}{0.9} = 272$$

Regional distribution

Table 3.2: Strata's Representation

Region	Population	Proportion in the sample
Central business district	13,900	$\frac{13900 * 272}{40524} = 93$
Industrial area	600	$\frac{600 * 272}{40524} = 4$
Road reserve	11,014	$\frac{11,014 * 272}{40524} = 74$
Open space	15,010	$\frac{15010 * 272}{40524} = 101$

Source: Republic of Kenya (2016 (b))

3.8. Data Type and Source

The study used a structured questionnaire to collect primary data of quantitative and qualitative nature from MSEs in Thika town to achieve the stated objectives.

3.9. Research Instruments

A structured questionnaire (see Appendix II) was used to collect primary data from the MSEs operators. A questionnaire was preferred as the main instrument because it is cost effective when dealing with a large population, free from interviewer bias and allows enough time for well-thought answers from the respondent. The instrument was structured in such a way that relevant and vital information on the variables can be obtained. The instruments were administered to the 272 sampled MSEs operating in Thika town.

3.10. Pilot Study

A pilot testing was done on 15 selected MSEs, which did not form part of the study population. The selected MSEs enabled the researcher to test the questionnaire reliability, establish any weakness with it and make improvements. Cronbach Alpha was used to determine the questionnaire reliability. A Cronbach Alpha greater than 0.9 is considered 'Excellent', greater than 0.8 is 'Good', greater than 0.7 is 'Acceptable', greater than 0.6 is 'Questionable', greater than 0.5 is 'Poor' and less than 0.5 is 'Unacceptable' (Gliem & Gliem, 2003). The study had a Cronbach Alpha of 0.8 and hence the questionnaire was Good.

3.11. Data Collection

Data was collected from the sampled 272 MSEs. The researcher used the drop and pick later strategy in distributing the questionnaires to the MSEs operators. However, for those who could not read and write, the researcher assisted them to fill in the questionnaire by capturing their responses.

3.12. Data Cleaning, Coding and Refinement

Data was verified and cleaned to ensure only complete questionnaires were used. Qualitative data of categorical nature was assigned dummy variables. The midpoint of the interval variables was used. The data was then be coded, refined and entered into a spreadsheet document from which it was analyzed using statistical computer software of SPSS version 20.

3.13. Data Analysis

Quantitative data on entrepreneur characteristics was analyzed using tables. Qualitative data obtained from the questionnaires was edited and classified into common themes groups. The common themes content were analyzed guided by the objectives. Tabulation, frequency

tables, and descriptive analysis were used to describe the role of MFIs social intermediation services on the survival of MSEs. Pearson's product moment correlation test was used to determine the degree of relationship between survival of MSEs and microfinance participation, training, group liability, and networking.

3.14. Ethical Issues

Permission from the area Provincial administration and the Thika Sub-county commissioner was sought before embarking on data collection in the field (see Appendix I). The consent of the traders through their representatives and their oral consent was sought with appreciation afterward. Information availed by respondents was treated with confidentiality to avoid any instance of access by unauthorized persons. Also, the work of other scholars and researchers quoted in the study was acknowledged through citations.

CHAPTER FOUR EMPIRICAL FINDINGS

4.1 Introduction

The chapter presents the research results and findings of the three objectives of the study aimed at determining the role of social intermediation services on MSEs survival in Thika Town.

4.2 Response Rate

The researcher targeted a sample of 272 MSEs operators of which 225 participants completed the questionnaires representing a response rate of 82.7 percent. In descriptive studies, a response rate of 50 percent is adequate, 60 percent is good, and 70 percent and over is excellent for analysis and reporting (Mugenda and Mugenda, 2003). Hence, the 82.7 percent response rate was excellent for the study data analysis and reporting.

4.3 Demographic Data

The first objective sought to establish the role of entrepreneur characteristics in accessing social intermediation services and the survival of MSEs in Thika Town. To achieve the objective, the researcher determined demographic data on entrepreneur gender, age, education level, and years in business as indicated in Table 4.1 below.

Table 4.1: Entrepreneurs Characteristics

Variables	Category	Frequency	Percent (%)
Gender	Male	112	49.8
	Female	113	50.2
	Total	225	100.0
Age	18-35 Years	118	52.4
	36-55 Years	96	42.7
	56 years and above	11	4.9
	Total	225	100.0
Highest education level	Primary	21	9.3
	Secondary	112	49.8
	Postsecondary	92	40.9
	Total	225	100.0
Number of Years in Business	0-5 years	82	36.4
	6-10 years	67	29.8
	11-15 years	37	16.4
	16-20 years	13	5.8
	Over 20 years	26	11.6
	Total	225	100.0
Accessed non-financial microfinance services	Yes	177	78.7
	No	48	21.3
	Total	225	100

Source: Survey Data (2017)

4.3.1 Gender Distribution

According to Table 4.1, the results of gender show that there were 50.2 percent female and 49.8 male participants who are not different. According to Gichuki, Mutuku, and Kinuthia (2014), Gender is a significant factor in the success of an enterprise. Muteru (2013) support the idea by pointing out that women are an easier target for MFIs social intermediation since they are already in organized groups.

4.3.2 Distribution by Age

Regarding age distribution, most of the respondents (52.4 percent) were aged between 15-35 years. The trend may be attributed to high unemployment levels with youths opting for income generating activities through entrepreneurship. ILO (2007) pointed out that one-third of all successful entrepreneurs were youths attributing the success to the fact that they are more energetic, committed, motivated, and less risk averse. Age group 36-55 years had 96 respondents representing 42.9 percent with those aged 56 years and above as the minority with 4.9 percent (11 respondents).

4.3.3 Distribution by Education Level

Most of the participants had secondary school education represented by 49.4 percent of the respondents with 40.9 percent having postsecondary education. A minority of the respondents 9.3 percent had primary education. The result indicates that most of the respondents had acquired basic education essential for personal development and fulfillment. Hassan and Mugambi (2013) pointed on the importance of education level in knowledge transfer through interpersonal communication or group conversations which help in accessing both tangible and intangible resources by an entrepreneur.

4.3.4 Distribution by Years in Business

Experience is a critical factor in performance and survival of business. Most of the study participants (36.4 percent) had 0-5 years experience while the minority (5.8 percent) had 16-20 years in business. From the result, over a half of the respondents had over five years experience and were familiar with business operations and their responses were reliable. According to Yusuf (2005), a prior business experience is crucial to the success of small firms. Experience allows one to diversify social network necessary for utilization of available resources (Maria, 2011).

4.3.5 Access to Non-financial Services

A majority of the participants (78.7 percent) had accessed non-financial services with only 21.3 percent having not accessed the intangible resource. The result confirms the above findings that personal characteristics had an impact on access to non-financial services and subsequently the survival of MSEs.

4.4 Role of Social Intermediation Services Provided by MFIs on the survival of MSEs

To assess the second objective which was the role of social intermediation services provided by MFIs on the survival of MSEs, participants were presented with statements on a Likert scale. The respondents were required to rate the statements as 1-strongly disagree (SD), 2-disagree (D), 3-neutral (N), 4-agree (A), and 5-strongly agree (SA). The researcher considered the responses of the 117 respondents (78.7 percent) who indicated that they had accessed non-financial services.

4.4.1 Effect of Participation in Microfinance on MSE Survival

Involvement in microfinance allows an MSE to gain familiarity with operations and information on business opportunities that is crucial for MSEs survival. Table 4.2 below shows the three statements presented to the respondents and their responses as per statement.

Table 4.2: Effect of microfinance participation on MSE survival

Statement	SD %	D %	N %	A %	SA %	Mean	Std. dev	Implication
Regular contact with MFIs has eased making of payment by MSEs	7.3	10.7	9.0	56.2	16.9	3.65	1.106	Agree
The loan application procedure has been eased by regular contact with MFIs	4.5	8.4	9.6	47.8	29.8	3.90	1.063	Agree
Constant contact ensures up to date information on business opportunities	4.5	6.7	10.7	56.7	21.3	3.84	.987	Agree
Average						3.80		Agree

Source: Author Computations

From Table 4.2 above, more than two-third (73.1 percent) of the respondents agreed that regular contact with MFIs have eased making of payment by MSEs while 77.6 percent agreed that regular contact with MFIs had eased the loan application procedure. 78 percent agreed that constant contact ensures up to date information on business opportunities.

The findings are in line with Mwangi et al. (2014) study that assessed the impact of microfinance on small and medium enterprises performance in Murang'a. The study found microfinance participation among MSEs critical for business survival. Hence, there is the need for MSEs to participate in MFI programs.

A correlation analysis was conducted to establish the relationship between microfinance participation and survival of MSEs, as presented in Table 4.3

Table 4.3: Correlation between microfinance participation and survival of MSEs

	Have enabled the MSE to establish new branch	Increased the number of employees both paid and unpaid	Have facilitated continued existence in terms of years
Eased making of payment	.242**	.237**	.100
Eased loan application procedure	.165*	.206**	.320**
Constant up to date information on business opportunities	.313**	.214**	.147

** . Correlation is significant at the 0.01 level (2-tailed) and * . Correlation is significant at the 0.05 level (2-tailed).

Source: Author Computations

As per Table 4.3 above, the correlation between SME survival and microfinance participation indicated that there was a significant relationship at 1% level of significance between having enabled establishes a new branch and eased making of payment, and constant up to date information on business opportunities. Also, a significant relationship between having enabled establish a new branch and eased loan application procedure was found (.165) at 5% level of significance. Increased the number of employees both paid and unpaid was found to have a significant relationship with eased making of payment, eased loan application procedure, and constant up to date information on business opportunities at

1% significance level. Having facilitated continued existence in terms of years was found to be significantly associated with eased loan application procedure at 1% level of significance.

4.4.2 Effect of Training on MSE Survival

Training equips an entrepreneur with the necessary business management, customer support, technical, analytical, and financial skills. The skills are crucial for the survival of an enterprise and profitability. Table 4.3 below shows the four statements presented to the respondents and their responses as per statement.

Table 4.4: Effect of Training on MSE survival

Statement	SD	D	N	A	SA	Mean	Std. dev	Implication
	%	%	%	%	%			
The management skills provided by MFIs have helped in sustaining the business in a better way	1.1	3.9	4.5	51.1	39.3	4.24	0.803	Agree
The financial training offered by MFIs have enabled us to record and maintain business records	1.7	7.3	3.9	45.5	41.6	4.18	0.934	Agree
Through training offered by MFIs, we have been able to recognize the need for employee motivation	0.6	9.6	8.4	51.7	29.8	4.01	0.905	Agree
The management skills impacted by MFIs help in business start-up and expansion	1.1	4.5	6.2	46.6	41.6	4.23	0.842	Agree
Average						4.17		Agree

Source: Author Computations

From Table 4.4 above, more than three-quarter of the respondents agree with the four statements on the effect of training on the survival of MSEs. Most of the participants (90.4 percent) agree that the management skills provided by MFIs have helped in sustaining the business in a better way. 87.1 percent agreed that the financial training offered by MFIs had enabled us to record and maintain business records. 81.5 percent agreed that through training offered by MFIs, we have been able to recognize the need for employee motivation. The management skills impacted by MFIs help in business start-up and expansion was agreed upon by 88.2 percent of the respondents.

The findings support Muiruri (2014) study results that carried out a review of non-financial factors to investigate the role of MFIs in the growth of MSEs in Thika Town. Muiruri (2014) found that management training was the most significant non-financial service for MSEs from MFIs.

A correlation analysis was conducted to find out the relationship between training and survival of MSEs as presented in Table 4.5

Table 4.5: Correlation between training and survival of MSEs

	Have enabled the MSE to establish new branch	Increased the number of employees both paid and unpaid	Have facilitated continued existence in terms of years
Helped sustain a business in a better way	.317**	.338**	.323**
Enabled to recording and maintain business records	.315**	.280**	.257**
Recognized the need for employee motivation	.342**	.401**	.200**
Help in business start-up and expansion	.162*	.213**	.200**

** . Correlation is significant at the 0.01 level (2-tailed) and * . Correlation is significant at the 0.05 level (2-tailed).

Source: Author Computations

As per Table 4.5 above, the correlation between survival of MSEs and training indicate that there was a significant relationship at 1% level of significance between having enabled the MSE establish new branch and help sustain a business in a better way, enabled record and maintain business records, and recognized the need for employee motivation. Also, at 5% level of significance, having enabled MSE establishes a new branch was significantly associated with help in business start-up and expansion. Increased the number of both paid and unpaid employees was found to be significantly associated at 1% level of significance with help sustain a business in a better way, enable recording and maintain business records, recognize the need for employees motivation, and help in business start-up and expansion. Having facilitated continued existence in terms of years was found to be statistically

associated with help sustain a business in a better way, enable recording and maintain business records, recognize the need for employees motivation, and help in business start-up and expansion at 1% confidence level.

4.4.3 Effect of Group Liability on MSEs Survival

Group liability boosts the amount of loan that an MSE can access as MSEs lack the collateral security required in the formal banking sector. MFIs use the social security to extend loans to MSEs to enhance their survival. Table 4.4 below shows the three statements presented to the respondents and their responses as per statement.

Table 4.6: Effect of group liability on MSEs survival

Statement	SD	D	N	A	SA	Mean	Std. dev	Implication
	%	%	%	%	%			
Group membership has increased the amount of loan accessed by MSE from MFI.	4.5	6.7	31.5	33.1	35.1	3.88	1.106	Agree
Group membership enhances accountability and proper use of borrowed funds	6.7	18	18.7	33.1	23.6	3.49	1.222	Neutral
Group liability eliminate the need for collateral security when accessing a loan	5.1	5.6	16.9	33.7	38.2	4.24	3.984	Agree
Average						3.87		Agree

Source: Author Computations

From Table 4.6 above, most of the participants (71.9 percent) agreed group liability eliminates the need for collateral security when accessing a loan. 68.2 percent agreed group

membership had increased the amount of loan accessed by MSE from MFI. 56.2 percent accepted group membership enhances accountability and proper use of borrowed funds.

Bekele and Worku (2008) support the study findings in the study aimed at investigating factors affecting micro, small, and medium enterprises long-term survival. The researchers recommended that business should participate in social capital schemes to increase their chances of survival.

A correlation analysis was conducted to find out the relationship between group liability and survival of MSEs as presented in Table 4.7

Table 4.7: Correlation between group liability and survival of MSEs

	Have enabled MSE to establish new branch	Increased the number of employees both paid and unpaid	Have facilitated continued existence in terms of years
Increased the amount of loan accessed	.061	.025	.118
Enhances accountability and proper use of borrowed fund	.168**	.175**	.040
Eliminate the need for collateral security	.036	.100	.026

** . Correlation is significant at the 0.01 level (2-tailed) and * . Correlation is significant at the 0.05 level (2-tailed).

Source: Author Computations

From Table 4.7 above, the association of MSEs survival and group liability indicate there was a significant relationship at 1% level of significance between having enabled MSE establish a new branch and enhancing accountability and proper use of borrowed fund.

Increased the number of employees both paid and unpaid was found to have a significant relationship with enhances accountability and proper use of borrowed fund at 1% level of significance.

4.4.4 Effect of Networking on the Survival of MSEs

MFIs encourage sectoral and industrial associations to help MSEs network and gain business information. Also, MFIs through networking link MSEs to customers and suppliers. The networking broadens their market and increases their profitability for their survival. Table 4.5 below shows the three statements presented to the respondents and their responses as per statement.

Table 4.8: Effect of Networking on the survival of MSEs

Statement	SD	D	N	A	SA	Mean	Std. dev	Implication
	%	%	%	%	%			
MFI membership has enabled the MSE to join a business club	9.6	25.3	16.9	33.1	15.2	3.19	1.243	Neutral
Business group membership by MSE has increased products and services marketing	4.5	10.7	10.7	51.1	23	3.78	1.060	Agree
The data base of MSEs available has eased business link	3.4	16.3	12.9	44.9	22.5	3.67	1.098	Agree
Average						3.547		Agree

Source: Author Computations

As per Table 4.8 above, the statement MFI membership have enabled the MSE to join a business club received less than half participants agreement at 48.2 percent. 74.1 percent

agreed with the statement business group membership by MSE have increased products and services marketing. The database of MSEs available has eased business link was agreed upon by 67.4 percent.

The result supports Surin and Wahab (2013) findings that social networking has a positive and significant impact on business performance and hence the survival. Turyakira and Mbidde (2015) in their study on networking for SMEs in Uganda found that networking enhances SMEs competitiveness and survival emphasizing the role of networking in business survival.

A correlation analysis was conducted to find out the relationship between networking and survival of MSEs as presented in Table 4.9

Table 4.9: Correlation between networking and MSEs survival

	Have enabled the MSE to establish new branch	Increased the number of employees both paid and unpaid	Have facilitated continued existence in terms of years
Enabled MSEs join a business club	.253**	.162*	.096
Increased products and services marketing	.322**	.266**	.178*
Eased business link through available database	.372**	.284**	.181*

** . Correlation is significant at the 0.01 level (2-tailed) and * . Correlation is significant at the 0.05 level (2-tailed).

Source: Author Computations

From Table 4.9 above, the association between MSE survival and networking indicate a significant relationship at 1% level of significance between having enabled MSE to establish

a new branch and enabled the MSE to join a business club, increased products and services marketing, and eased business link through the available database. Increased the number of employees both paid and unpaid was found to be significantly associated with enabled MSE join a business club at 5% level of significance. Also, Increased the number of employees both paid and unpaid was found to be significantly associated with increased products and services marketing and eased business link through the available database at 1% level of significance. Having facilitated continued existence in terms of years was found to be significantly associated with increased products and services marketing and eased business link through the available database at 5% significance level.

4.4.5 Assessment of Enterprise Survival

To assess MSEs survival, the researcher presented three statements to the respondents. Table 4.6 below shows the three statements presented to the respondents and their responses as per statement.

Table 4.10: Assessment of Enterprise survival

Statement	SD %	D %	N %	A %	SA %	Mean	Std. dev	Implication
MFIs non-financial services have enabled the MSE to establish new branch	7.9	15.7	19.7	39.3	17.4	3.43	1.178	Neutral
Non-financial services provided by MFIs have made it possible for MSE to increase the number of employees both paid and unpaid	6.7	21.9	16.3	36.5	18.5	3.38	1.207	Neutral
MSE continued existence in terms of years of operation have been facilitated by MFIs non-financial services.	3.9	10.7	10.1	46.6	25.8	3.84	1.064	Agree
Average						3.55		Agree

Source: Author Computations

From Table 4.10 above, most of the respondents (56.7 percent) agreed that MFIs non-financial services had enabled the MSE to establish a new branch. The social intermediation services give participating MSEs a competitive advantage over those MSEs not involved. Non-financial services provided by MFIs have made it possible for MSE to increase the number of employees both paid and unpaid received 55 percent support implying the services have seen business survive and grow. MSE continued existence in terms of years of operation have been facilitated by MFIs non-financial services received close to three-quarters support (72.4 percent). The results indicate that MSEs value the social intermediation services offered by MFIs. The findings support Republic of Kenya (2005) report that non-financial services are vital for MSEs survival.

4.5 Ranking of Social Intermediation

The third objective sought to determine the most sought social intermediation services by MSEs in Thika Town. The researcher ranked the services by getting the overall result of the statement describing a social intermediation service as indicated in Table 4.7 below.

Table 4.11: Ranking of social intermediation

Variables	Mean	Implication	Rank
Microfinance Participation	3.80	Agree	3
Training	4.17	Agree	1
Group Liability	3.87	Agree	2
Networking	3.57	Agree	4

Source: Author Computations

According to the Table 4.11 above, training was the most famous and most sought social intermediation service offered by MFIs followed by group liability, and microfinance participation. The least sought service was networking.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

5.1 Introduction

The chapter covers an account of the study findings as well as the conclusions drawn from the findings. In line with the study findings and conclusion, the chapter also suggests policy implications and areas for further research.

5.2 Summary

The government of Kenya continuous effort to eliminate unemployment and poverty levels in the country motivated the study. The government has envisaged its objective to empower its citizens economically in Kenya Vision 2030 and Sustainable Development Goals (SDGs). It has also established funds for MSEs and established Acts guiding the MFIs and MSEs interactions. MFIs have gone a step further to boost MSEs survival by providing social intermediation services that motivated the study to assess their impact on MSEs survival.

The study determined the role of MFIs social intermediation services on MSEs survival in Thika town. The study objectives were to; establish the role of MSE's entrepreneur characteristics in accessing social intermediation services, determine the role of the social intermediation services offered by MFIs on the survival of MSEs, and determine the most sought social intermediation services by MSEs in Thika town.

Using the data collected from the 225 MSEs, each social intermediation service was analyzed. On the microfinance participation, most of the participants agreed with the three statement that regular contact with MFIs has eased making of payment by MSEs, the loan

application procedure has been eased by regular contact with MFIs, and constant contact with MFIs ensure up to date information on business opportunities.

On the role of training on the survival of MSEs, a majority of the participants reported that management skills provided by MFIs had helped them in sustaining the business in a better way. Most of the respondents agreed that the financial training offered by MFIs had enabled them to record and maintain business records. Also, most of the participants agreed that they have been able to recognize the need for employee motivation through training provided by MFIs. The statement that the management skills impacted by MFIs help in business start-up and expansion was agreed upon by a majority of the respondents.

On the role of group liability on survival, a majority of the respondents agreed that group membership had increased the amount of loan accessed by MSE from MFI. Most of the respondents agreed that group membership enhances accountability and proper use of borrowed funds. Also, a majority of the respondents agreed that group liability eliminated the need for collateral security when accessing a loan.

On the role of networking on MSEs survival, a majority of the respondents disagreed with the statement MFI membership enabled MSE to join a business club. However, a majority agreed with the statements business group membership by MSE increased products and services marketing and that database of MSEs available eased business link.

Finally, on the assessment of MSE survival, most of the participants agreed that MFIs non-financial services had enabled MSE to establish a new branch. A majority of respondents agreed that non-financial services provided by MFIs had made it possible for MSEs to increase the number of both paid and unpaid employees. MSE continued existence in the

number of years of operation had been facilitated by MFIs a non-financial service was agreed upon by the majority of the participants.

5.3 Conclusions

The study findings indicated that participation in microfinance, training, group liability, and networking played crucial roles in the survival of MSEs. Microfinance participation eases loan application and making of payment for MSEs while providing useful business insights on existing market gaps. Training provides necessary skills and knowledge for the management of both upcoming and existing MSEs. Group liability provides the social capital needed to secure a loan from an MFI while the amount extended as a loan increased. The networking helps MSEs share a common experience in operating a business and marketing while increasing the pool of suppliers.

Therefore, it can be concluded that MFIs need to be encouraged continue to extend social intermediation services to MSEs. The service boosting MSEs survival thus reducing unemployment and poverty levels with MFIs and MESA encouraging entrepreneurs to start MSEs in line with Vision 2030 and SDGs (Republic of Kenya, 2007a).

5.4 Policy Implications

MSEs have an important economic role to play in creating employment and alleviating poverty underlining their economic importance. It is from this premise that the study makes policy recommendations based on the study findings.

The government through MESA should extend need to extend training and networking to promote entrepreneurship in Kenya. Through training, MSEs will be imparted with the necessary skills and knowledge for running an enterprise. Networking will increase business inter-linkages ensuring perfect information flow and exploitation of available markets.

The county governments have a role in creating a favorable policy on MSEs and MFIs operations. The policy will help to encourage entrepreneurship that will contribute to reducing unemployment that results into social vices.

MSE enterprises should form an association that will help them air their grievances to MFIs, banks, and government. It will also assist in identifying both financial and non-financial problems hindering the survival of MSEs and look for possible solutions. Further, it will offer business links and provide information on available business opportunities.

MFIs need to impart necessary business skills to MSEs through training and encouraging MSEs to participate in microfinance for up to date information. Also, they need to have an updated database on the available MSEs and keep a close monitoring of the challenges facing them while offering solutions to reduce instances of MSEs collapse.

5.5 Areas of Further Research

The study identified the following areas of further research.

Determine role of social intermediation offered by microfinance services of banks in Thika town. Also, the same survey should be extended to the main cities together in Kenya. A comparative study on the role of social intermediation on MSEs survival in urban areas and rural areas is necessary to establish the extent of the service diffusion in both areas. Finally, a censored case study on both microfinance institutions and microfinance services extended by banks is necessary for survival analysis in Kenya.

5.6 Limitations of the Study

Some MSEs operators feared to offer information on their business due to suspicion that it was a ploy to monitor their tax compliance even when data confidentiality was assured. This affected the randomness of the sample population. However, most of the respondents agreed upon the production of NACOSTI permit and university research authorization letter.

The study only restricted itself to MFIs and non-financial services while many MSEs had adequate information on financial services. This limited their usefulness in the study.

Language barrier was another constraint while translating the information to the various local dialects in a multicultural setting. This excluded some participants who would have more useful information specially the old and illiterate.

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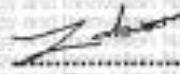
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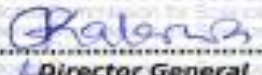
Appendix I: NACOSTI Permit

THIS IS TO CERTIFY THAT:
MR. ZABRON CHEGE WAIRIMU
of KENYATTA UNIVERSITY, 147-10218
Kangari, has been permitted to conduct
research in Kiambu County

on the topic: MICROFINANCE
INSTITUTIONS' SOCIAL INTERMEDIATION
AND MICRO AND SMALL ENTERPRISES
SURVIVAL IN THIKA TOWN

for the period ending:
7th December, 2017



Applicant's Signature




Director General
National Commission for Science,
Technology & Innovation

Permit No : NACOSTI/P/16/72215/14894
Date Of Issue : 8th December, 2016
Fee Received :Ksh 1000

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit.
2. Government Officer will not be interviewed without prior appointment.
3. No questionnaire will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two(2) hard copies and one (1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice


REPUBLIC OF KENYA


National Commission for Science,
Technology and Innovation

RESEACH CLEARANCE
PERMIT

12278
Serial No.A

CONDITIONS: see back page

Appendix II: Questionnaire

Zabron Chege, a Master's student at Kenyatta University is conducting a research to determine the effects of Microfinance Institutions Social Intermediations on Micro and Small Enterprises Survival in Thika Town. The information from the research will contribute to the design and implementation of policies aimed at enhancing the survival of MSEs. Your participation in this study will be highly appreciated and information given will be handled with strict confidentiality.

I. Demographic Information (Tick appropriately)

1. Gender:

a. Male b. Female

2. Owner age (Years):

15-35 years 36-55 years 56 years and above

3. Education Level:

a. Primary b. Secondary c. Postsecondary

4. Number of years in business:

0-5 years 6-10 years 11-15 years

16-20 years over 20 years

II. Consumption of nonfinancial microfinance services

5. Have you ever accessed any non-financial microfinance services?

a. Yes b. No

6. If Yes to the above, please list in order of preference the most important non-financial services to MSEs survival in Thika Town.

i.

ii.

iii.

iv.

III. Effect of Participation in microfinance

7. In a 5-point likert scale of 1-Strongly disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A), 5-Strongly agree (SA) rate the following statements on the level of participation in microfinance by MSEs in Thika Town.

Statement	SD	D	N	A	SA
Regular contact with MFIs have eased making of payment by MSEs					
The loan application procedure has been eased by regular contact with MFIs					
Constant contact ensure up to date information on business opportunities					

IV. Effect of Training

8. In a 5-point likert scale of 1-Strongly disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A), 5-Strongly agree (SA) rate the following statements on training by MFIs in Thika Town.

Statement	SD	D	N	A	SA
The management skills provided by MFIs have helped in sustaining the business in a better way.					
The financial training offered by MFIs have enabled us to record and maintain business records					
Through training offered by MFIs, we have been able to recognize the need for employee motivation					
The management skills impacted by MFIs helps in business start up and expansion					

V. Effect of Group liability

9. In a 5-point likert scale of 1-Strongly disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A), 5-Strongly agree (SA) rate the following statements on group liability by MFIs in Thika Town.

Statement	SD	D	N	A	SA
Group membership has increased the amount of loan accessed by MSE from MFI.					
Group membership enhances accountability and proper use of borrowed funds					
Group liability eliminate the need for collateral security when accessing a loan					

VI. Networking

10. In a 5-point likert scale of 1-Strongly disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A), 5-Strongly agree (SA) rate the following statements on the level of networking by MFIs to MSEs in Thika Town.

Statement	SD	D	N	A	SA
MFI membership have enabled the MSE to join a business club					
Business group membership by MSE have increased products and services marketing					
The database of MSEs available have eased business link					

VII. Assessment of Enterprise survival

11. In a 5-point likert scale of 1-Strongly disagree (SD), 2-Disagree (D), 3-Neutral (N), 4-Agree (A), 5-Strongly agree (SA) rate the following statements on survival of MSEs on receiving MFIs social intermediation in Thika Town.

Statement	SD	D	N	A	SA
MFIs non financial services have enabled the MSE to establish new branch					
Non financial services provided by MFIs have made it possible for MSE to increase the number of employees both paid and unpaid					
MSE continued existence in terms of years of operation have been facilitated by MFIs non financial services.					

The End

Thank you for your cooperation and participation