A RESEARCH PROJECT ON THE FACTORS HINDERING GROWTH OF MICRO AND SMALL ENTERPRISES- A CASE OF MICRO-FINANCE BORROWERS IN KISUMU CITY

PRESENTED BY

NYABICHA ALFRED MOKAYA
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Declaration

This project is my original work and has not been presented in any other university for the same award.

NYABICHA ALFRED MOKAYA
D53/7451/2001

SIGNATURE 27/07/2003

SUPERVISOR'S APPROVAL

This work has been submitted for examination with my approval as a university supervisor

SIGNATURE 29/07/03

MR. ELIUD OBERE
LECTURER, BUSINESS ADMINISTRATION
DEPARTMENT

CHAIRMAN'S APPROVAL

This work has been submitted for examination with my approval as the chairman.

SIGNATURE

DR. E.W. KHAKAME
CHAIRMAN
DEPARTMENT OF FINANCE
KENYATTA UNIVERSITY
Dedication

To my late Grandfather Soteri Ogeto who acknowledged the power of education and hard work. May the Lord rest his soul in eternal peace.
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List of Abbreviations

ILO – International Labor Organization
KIE – Kenya Industrial Estates Limited
ROSCA – Rotating Savings and Credit Associations
GOK – Government of Kenya
SMEs – Small and Medium Enterprises
MSEs – Micro and Small Enterprises
NGOs – Non Governmental Organizations
MFIs – Micro Finance Institutions
BDS – Business Development Services
CGAP – Consultative Group to Assist the Poorest
WEDCO – Women Economic Development Company
K-REP – Kenya Rural Enterprise Programme
ODA – Overseas Development Agency
NIC – Newly Industrialized Country
BKK – Bedan Credit Kelamatun – a network of village banks of Regional Development Banks – Bangladesh
SMEP – Small and Micro Enterprises Programme
KADET- Kenya Agency for Development of Enterprises and Technology
RECA-Relief Environmental Care Africa
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Abstract

MSEs are important for raising economic efficiency of a country owing to their flexibility and low production costs. They are breeding grounds for entrepreneurship, innovations and inventions hence a reservoir for employment. Sustainable jobs, creates incomes which in turn reduce the level of poverty. For these reasons, MSEs must be nurtured to grow beyond survival level. However this has not succeeded in Kisumu city. The MSEs have not grown to create any notable impact despite being assisted by MFI s to carry this task. This raises the issue whether the assistance given is adequate or there could be other factors affecting growth. The study sought to analyse constraints that face MSEs in Kisumu City after acquiring loans form MFIs.

The study design used a cross-sectional sampling strategy. A total of 60 respondents were randomly selected followed by stratification. The data was gathered using questionnaires, interview and observation. The data was analysed by using statistical package for social sciences (SPSS). Descriptive and multiple regressions were used.

Based on the result of the survey it was found that MSEs are affected by the following problems: domestic responsibilities, loan diversion to other uses, low demand, competition, government regulation, lack of relevant business training, a realistic loan repayments and amounts, insecurity, high transportation cost, inadequate working capital and market information. The highest ranking among them was domestic responsibility while the least is market information.

These are some of the suggestions and remedies to the problems: to evaluate loan amounts and credit delivery method, market information centers, provide relevant and affordable training, review taxes on raw materials and procurement procedures.
CHAPTER ONE

1.0 BACKGROUND

Donor agencies have long recognized the important contribution that micro and small enterprises (MSEs) can make to poverty reduction, employment and private sector development. MSEs especially micro-enterprises offer both safety valve for the survival of surplus workers unable to find steady wage employment and an opportunity for the entrepreneurial poor to rise their incomes. MSEs also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage-earning opportunities for the poor while raising national income levels. It is for these reasons donors as well as national governments have attempted to promote the MSEs through support of financial and non financial services appropriate for them (BDS for MSEs, 2000).

While MSEs tend to absorb large numbers of unemployed people, they are in themselves not able to generate reasonably remunerated long-term jobs. Given an enabling policy environment, well targeted technical assistance and financial support, the MSEs sector can play a critical role in providing opportunities likely to stimulate sustainable growth.

In Kenya, baseline survey conducted in 1999 shows that MSEs contribute 13.8% to the country’s GDP. It further indicates that there exists 1.3 million enterprises and it employs about 2.4 million people, two out of three of these employees are based in rural areas.
Currently the accessibility to credit facilities in the country is limited due to high requirement of collateral and high interest rates. These requirements negatively affect the entrepreneur especially in the informal and MSEs category.

The interest rate on loans results to the credit being unaffordable to many investors and also causes the repayment of loans to be difficult due to high operational costs and which in most cases lead to insolvency and in some cases high defaulting rates. This is therefore a great disincentive to the operations of the sub-sector and thus has contributed to low level of investment in the sector.

From the baseline survey of 1999, unavailable credit was confirmed to be the second most hindrance to the growth and development of the SME but it should be noted that the availability of the credit will not lead to automatic growth of the MSEs.

1.1 STATEMENT OF PROBLEM
Microfinance credit programs in Kenya have increased the credit availability to both urban and rural MSEs in Kenya. Since 1966 a lot of money has been injected to implement Government of Kenya (GoK) policies towards promoting MSEs sector (Sessional paper no. 2, 1992).

Businesses have remained small despite having accessed to credit, this has raised questions as to whether business loans are actually used in business (Goetz and Sen Gupta, 1996). Easing credit to MSEs may not therefore automatically translate into their proper use that will lead to growth.
Oketch et al (1991) found in an analysis of 216 successful SME credit recipient in Kenya 24% of the borrowers diverted portions of their loans to unspecified items – not specified on the loan application. Women diverted three times more than men.

Kilemi (1997) in a study on Kenya Rural Enterprises Program (KREP) observed that about 45% of clients interviewed owned that their businesses had not grown at all or instead had negative growth rate as a result of injecting loan funds.

Various studies carried out have clearly stated that lack of credit is not a major constraint to MSEs growth, instead poor people demand a wide range of financial, BDS and social services for different business and household purposes (Helge, 1998).

Earlier researches on SME growth are based on the premise that the lack of capital is the cause of non-growth. This is not the case in Kisumu town where micro finance programmes like WEDCO, KIE, KOLPING, FAULU Kenya, SMEP, Lake Victoria Management Environmental Programme (Micro credit component) are providing credit yet MSEs have not shown any significant growth. Credit then is not the only cause of non-growth of MSEs particularly in Kisumu, therefore there must be other factors. This research was set to determine these possible factors.
1.2 GENERAL OBJECTIVES THE OF STUDY

The general objective of this study was to investigate the factors that hinder the growth of MSEs in Kisumu City after acquiring loan from MFIs. The general objective of the study was guided by the following specific objectives:

- To investigate the constraints that hinder the growth.
- To investigate whether the funds received is utilized in the business or diverted.
- To investigate the link between capital and growth of the MSEs.

1.3 SCOPE OF THE STUDY

Kisumu city is the largest and most important center West of the Rift valley. It is strategically located at the center of a communication network, which serves most of western Kenya. This has effectively facilitated its dominance as an administrative, industrial and commercial center for this area. Its rural hinterland hosts some seven million inhabitants and covers an area of 31,000 square kilometers (Kisumu District Development Plan 1998) incorporating the whole of western and Nyanza province as well as the western part of Rift Valley.

The town owes its present to its nodal position as the only part on lake Victoria providing marine engineering service, freight, rail and ferry communication with Uganda and Tanzania. It has a rich agricultural hinterland. Kisumu town has an area of 419 square kilometers out of which 157 square kilometers falls under water.
Some of the MSEs include repair, laundry and other personal services like grain mill products, bakery products, spinning, weaving, fishing, textiles furniture and fabricated metals which employ a reasonable number of people.

Several commercial banks exist in Kisumu meaning that the potential of availability of working capital is reasonable. Non-banking financial institutions have been established to compliment the efforts of the existing commercial banks. Even with availability the growth is not notable and this study aimed at identifying the reason behind this.

1.4 SIGNIFICANCE OF THE STUDY

The study was necessary for the following reasons:

- The study will contribute more information on how loans are utilized by various MSEs in Kisumu City. It will assist MFI on how to improve credit delivery for subsequent loans and uses.
- Academicians especially in entrepreneurship will use research findings to understand the issues raised and use them as a reference material or basis for further research.
- It will help Donors who have committed funds to lending institutions to find out how far their objectives of poverty alleviation are being attained. Further information will assist them in prioritizing their development assistance agenda.
1.6 JUSTIFICATION OF THE STUDY

In Africa, millions of people have no formal work hence continued struggle to make a living is the order of the day. Theo Kolste, Joep Bilsmer and Fon Von Oosterhour (1994) established that poor people have to create jobs for themselves or find jobs within informal sector to provide for basic needs. He states that activities of informal sector are meant to provide for basic need and survival for the family. People can only think to invest and save when they have achieved survival. These are in hierarchical form and have to be achieved in some order.

Majority of MSEs activities are limited in their productivity, capital intensity, specialization. Growth is very rare but they are productive, dynamic informal businesses that work in large scales generating work and income for third parties. As a result of SME activities some families earn more than minimum income. The dynamic and growth potential of MSEs should be given due attention as a basis for providing support not only to the individual entrepreneurs but to his family, community and nation.

Kisumu City was chosen because it is among areas that MSEs have sprang however they have not matured to be large scale enterprises and also many MFIs have not succeeded either in making any impact.
1.7 ASSUMPTIONS

It was assumed that on acquisition of credit from MFIs would lead to the growth of the enterprises. The other assumption is that MSEs have unique characteristics and needs which are different from the formal enterprises.

1.8 CONCEPTUAL FRAMEWORK/THEORETICAL FRAME WORK

In the study, growth was taken to mean that business units getting bigger in size by expanding existing business in terms of size and employment of workers. The constraints that hinder the growth of MSEs include the following; working capital, level of income, business training, education, diversion of funds, domestic roles and market or demand.

Absence of adequate working capital means that operations can not run smoothly. In many cases the SME cannot access credit because financial institutions view them, as unbankable. Furthermore, they have no collateral to secure their loans. Therefore availability of capital is expected to have a positive correlation with growth.

It is expected that with credit available the growth of SME will occur. However, fungibility of funds among other things affects the growth (David and Meyer, 1980). In many situations, enterprises do not separate household and business activities so household and finances overlap with business money. They further argue that SME owners make consumption and production decisions simultaneously so that loans may substitute for household saving or other sources of liquid. Fungibility of loan funds is negatively correlated to growth.
Parker (1995) focusing her attention to Kenya on whether education contributes to the growth of enterprises found that SME owners who had completed primary school education were better able to deal with fluctuating economic circumstances, relative to those with less education. They were better able to grow regardless of the general economic environment, while entrepreneurs with less education were more severely hurt by economic downturns. In general, entrepreneurs with more education were able to follow a smoother growth path, while those with less education showed substantially more fluctuations in the level of employment in the enterprise. Therefore with education it is expected that growth will take place hence positive correlation is expected.

Business training is expected to lead to the growth of the business. A survey conducted in Kenya and Zimbabwe by Daniels and Mead (1998) found that there exists positive relationship between training and enterprise growth. The more one is trained in the business the easier it is to identify market opportunities as well as take advantage of them.

One of the most common reasons given for failure of small business today is that, they are insufficient customers for its products (Stokes, 1998). The entrepreneurs do not understand what the customers want in the market, finding it for them and making it available in an acceptable way. Demand will have positive correlation with growth. Relevant market information implies the entrepreneurs will produce what is needed in the market, right quality, right quantity and proper pricing. This will minimize waste and
maximize profits. Therefore, right market information will have a positive correlation with growth.

**The model**

To capture relationship between enterprise growth (dependent variable) and the constraints (independent variable), the following model was used.

\[
G = f(w, i, c, e, b, d, m, et)...
\]

Where

- \( G \) - Growth of enterprise
- \( w \) - working capital
- \( i \) - market information
- \( c \) - fungibility of loan funds
- \( e \) - education
- \( b \) - business training
- \( d \) - domestic roles
- \( m \) - demand
- \( et \) - error-term

The above can be expanded with a regression model.

\[
G = \alpha_0 + \alpha_1w + \alpha_2i + \alpha_3c + \alpha_4e + \alpha_5b + \alpha_6d + \alpha_7m + \alpha_{et}
\]

Where \( \alpha_0, \ldots, \alpha_7 \) are parameters to be estimated.
1.9 DEFINITIONS

Micro finance institutions
According to consultative group to assist the poor (CGAP) defines MFIs as specialized institutions to finance the poor in the society.

Small enterprises
According to Stokes D (1998), European Economic Commission defines small enterprises as businesses employing between 10 and 49 employees. Employment in the context does not mean those engaged have necessarily have to be paid wages. This term will be used to cover a range of establishments in Informal and formal sector enterprises that employ less than 50 persons.

Micro enterprises
Curran (1991) defines micro enterprise as businesses employing between 0 and 9 employees. This definition will be adopted for the purpose of this study.

Growth
According to this study growth means getting larger in size by expanding the existing business in terms of employing more workers, starting a branch elsewhere, increased asset base. This is confirmed by a study carried by Bennet (1989) who defined growth as increased profits.

Micro finance
According to Panos (1997) Micro finance is the provision of very small loans to the poor who are outside the conventional banking systems. The loans are used for income generation activities or urgent domestic needs. This loans are repaid at concessionary rates as opposed to exorbitant rates charged by money lenders.
CHAPTER TWO

2.0 LITERATURE REVIEW

This sought to review literature related to small-scale enterprises access to credit. It will start with the role of SME on development and acceptance of the informal sector as a way of sustaining economic growth, the constraints they face. This is followed by literature on the need and role of MFI in the growth of SME.

2.1 THE ROLE OF SME

Micro and small enterprises (MSEs) play a vital role in the society including promotion of the service sector. This is attributed to the fact that majority of the MSEs operate in the service sector. In addition, with growth of enterprises from small to large, new technology emerges consequently bringing in new business opportunities leading to new markets. Furthermore, MSEs enhance flexible specialization and networks since there are diverse customer needs, businesses have learnt to segment the market to differentiate products. Mass production is not appropriate here hence 'flexible specialization' model of economic development implies long term in form of small business. Besides, MSEs get sub-contracts and fragmentation from larger organization. MSEs absorb retrenched workers from the formal sector and encourage enterprise culture.

There are many cases of research interest in the role of MSEs in Kenya and other LDCs. The enthusiasm for the small scale enterprises originated from Mahatma Gandhi recognition of the critical role of the hand spinning and weaving in Indian society (Harper, 1993).
In every country and community, there are examples of businesses which have started and are operating as a small business. At any one time in the economy there are large numbers of people thinking about establishing a business. In most cases there are those starting new businesses while at the same time others are terminating their first or second business ventures.

Many countries have small-scale enterprises, which have been used as an avenue for industrialization. For example India had given its mass poverty and widespread unemployment had no alternative but to search for entrepreneurial talent in order to solve these problems through rapid growth of the industrial sector with their characteristics of low capital intensity and high labor intensity, small scale enterprises were thought to be the source of income, while a majority supplied more than half of the household income.

According to Hyman Report (1989), many economist and policy makers prefer large scale, capital intensive enterprises because they generate more non-wage income which increase investment. The small business is considered backward and irrational, marginal, unproductive and has little potential for growth or development of entrepreneurial capacity.

However later, Stiffe and Nicholas (1988) criticized Hyman (1989) who supported reliance on large-scale enterprise. Dinesh N. Awasthi et al, (1990) asserted that more attention should be put on micro enterprises than large scale enterprises which suited to Indian condition.
The small businesses play a prominent role in many countries where living standards are high including Japan, Switzerland, Scandinavian countries as an alternative development strategy (Gib, 1988) small businesses are major vehicles for reducing unemployment and reducing the drift towards the urban centres.

In Kenya, the role of MSEs has been emphasized by Sessional Paper no. 2 of 1992 whereby policies have been formulated to support MSEs. Conducive policy environment has been formulated and credit schemes established to support the sector.

MSEs require various inputs at various levels of growth which include an enabling environment with conducive investment policies and credit which can be availed by either MFIs, donor communities and other agencies. Beside the two mentioned MSEs require non-financial services managerial training, counseling, marketing, program design, program implementation, use of technology (Sessional Paper no. 2, 1992). Credit is given a special relevance in this case.

According to GoK Development Plan (1989) the government recognized an entrepreneur as a role model in the community, provider of employment for others, stabilizing factors in the society and a primary contributor of resources to develop basic economic structure within a nation. LDCs faced with numerous challenges viz. to provide employment for ever increasing population. This has not been possible because urban or agriculture cannot create adequate jobs for both skilled and unskilled manpower.
Historically, Kenya has enjoyed internal stability and advances but at the same time suffered downturns, incidences of poverty, unemployment, meagre foreign exchange from agriculture production and low per capita income as expressed in sessional paper no. 2 of 1996 on transformation of Kenya into newly industrialized nation by 2020. It estimated that 43% of Kenya population live below poverty line with GDP per capita income of $275 in 1995 and the trend can not absorb ever growing labour force.

GoK Development Plan (1997-2001) laid a foundation for the transformation of Kenyan economy with agriculture as its backbone to newly industrialized country by 2020. A rapid industrialization is aimed with an improvement of the average 17% of GDP to about 30% annually.

The GoK's ambition is that every Kenyan should benefit fully from the benefits of independence through quality life. However, the levels of deprivation and poverty still afflict this expectation. The rural and urban poor population struggle daily to provide enough for their daily needs. MSEs is cited as a function that could bring about sustainable economic growth and rapid employment.

The GoK Development Plan 1997-2001 indicated the government emphasize to facilitating the private sector to be able to invest more in productive area. This had to be matched and surpassed by private sector enterprises. This was to facilitate private sector through establishment of favorable policy environment, sound macro-economic
management – maintaining the law together with social and political stability investing infrastructure and human resource development.

The main economic challenges are poverty alleviation and employment. Nearly half a million jobs are required annually in the country. Sessional paper no of 1996 details and policies that will lay the structure for transforming the country into (NIC) by 2020. Among the policies mentioned is the promotion of MSEs. In this light MSEs are both rural and urban and this is a strategic tool for improving incomes. The sustainable economic growth is seen as a means of generating employment for working age.

The promotion of MSEs in industrial and service sectors will address the issues of retrenchment and employment is also important in this respect. Informal sector is also important in the integral part of the individual sector.

The role of job creation is indicated to be played by the small scale and Jua Kali Enterprises (SSJKE) sector by Sessional paper no. of 1992 on SSJKE.

Daniels, Mead Musinga (1993) in a survey stated that a micro and small scale enterprises is a supplement activity contributing less than half of the total income. The study revealed that nearly 20% of the enterprises studied were virtually of small and large firms in urban areas was initiated by World Bank reports of 1978, 1980, 1984. Pederson (1998) established from ILO published report that it recognized the urban informal industry. It was seen as reservoir of employment. UN (1996) report indicates
that the informal sector makes valuable contribution to the economic and social development.

Calkins R. cited WDR, (1993) indicated that the poor need greater access to productive resources through more balanced regional pockets of poverty. He established that special attention should be given attention to increase opportunities for income generation activities within the informal sector and their prospects for employment at a reasonable wage rates.

In support of MSEs, a World Bank survey (1991) in Egypt concurred that the MSEs draw heavily self-financing for capital accumulation. The survey stated SME develop skills through apprenticeship and do not place heavy demand on pre-employment training. Their production was found to be largely based on domestic resources reducing the demand for foreign exchange while their demand for infrastructure roads, schools, telecommunications are limited and are assumed to be less costly from the government perspective. The SME products are also sold to low income hence they meet their marked segment needs.

On the other hand UN report (1996) supports MSEs created and run by the poor. The report indicated that incomes earned allows for survival for the poor. They increase income through job creation and multiplier effect on the economy and induce social stability.
A report by Undugu Society of Kenya (1993) indicated that with little education among rural and high unemployment the most promising alternative would be self-employment especially in SME sector.

Kilby (1982) states that the large share of the SME sector fulfills the basic need that is providing low income consumers and produce goods for which there are no substitute save for the higher prices.

Kagame (1995) in his study of Kisumu town – urban found out that the MSEs provided cheap goods and services to the low income groups, products at reasonable prices and employment and training grounds for its population.

Dando and Parker (1991) established that with a few studies done in Kibera, the reports have shown that urban poor have no regular income. Their income levels vary with most of it spent on priority basis, food, fuel, housing, clean water and education.

Alila (1994) supported the authors where indicated that seemingly endless crises of stagnation, poverty and famine lead to the mushrooming of MSEs. This is a manifestation of survival strategy.

A survey by Kershaw (1994) also indicated that the micro-business among the poor is perhaps a family slender lifeline and all that stands between and starvation. Daniels et al
(1993) in their survey conducted in Kenya revealed that SME generated net income below minimum wage level, they were still preferred alternative survival strategy.

2.2 CONSTRAINTS THAT FACE MSEs

The MSEs though vibrant in many economics have faced serious teething problems. Macro-economic conditions such as interest rates and overall levels of consumer demand and micro-environmental factors in the local catchment area or industry sector such as the intensity of competition are important influences on whether a new venture sinks or swims. Small business environment varies from being hostile to relatively be high, depend on time period, geographic area and market sector under which the firm operates. Because of the vulnerability of small firms much depend on owner manager’s ability to adapt to the changing circumstances around them.

Internal attributes like personal attributes, skills and competence of individual owner manager are crucial to how well the business faces up to the inevitable crises that arise which particular factor for the owner to follow is not definite but researchers have attempted to identify those areas which are important as some are more critical to survival than others.

A study carried out by Watkins (1982) on events that threaten the survival of small ventures found out that the businesses experienced crisis as in: marketing 38.1%, finance 32.2%, managerial 14.2%, personal 13 %, acts of God 10.4%, no crisis 18%.
When Berryman (1983) was reviewing on the subject of small business failure and bankruptcy, he revealed six major categories; accounting, marketing, finance problems, the behaviour of owner, the endogenous (internal) factors and exogenous (external) factors.

A study of surviving small firms concluded that small young organizations experience problems particularly in the areas of accounting and finance, marketing and management of people (Cromie, 1991).

Researchers in Europe asked financial institutions lending to small manufacturing industries to rank their perceptions of the major threats to the survival of small firms (Watkins et al, 1982) came up with the following in the UK and West Germany survival of small firms were found to be availability of finance, management capabilities of the owners and marketing problems whereas in France the threats included management capability of the owner, availability of finance and difficulties in complying with new laws and regulations.

Judgement of individual investors in small business or so-called ‘business angels’ is interesting in that it indicates what they have discovered to be critical function which make a venture more likely to succeed or fail. The principles reasons given by business angels for not investing are: lack of relevant experience of entrepreneurs and any associates, deficiencies in marketing and flawed incomplete or unrealistic financial projections (Harris, 1993).
2.3 The role of micro-finance

Micro-credit is the provision of very small loans to the poor who are outside the conventional banking system. The loans are used for income generating or urgency needs. Providing access to such loans prevents the poor from paying high interest rates from 'shylok' money lenders and thereby alleviating poverty. Apart from offering micro credit also other financial services such as micro-finance institutions. Loans vary from a few dollars to hundreds of dollars for buying stock, ingredients, food stuffs, seeds, etc.

Micro-finance was born in 1976 when Grameen bank was started in Bangladesh by Yunus Mohamed and this has replicated in many parts in the world with slight modification to suit the situation.

Many borrowers organize themselves and save for some period and then borrow small loans guaranteeing each other and graduate to higher as they repay successfully. High repayment rates and demand for credit has reflected the successful story. However this is input approach rather than output approach on what happens on the funds used.

Less than 2% of poor people have access to financial lenders while fewer than ten million of the 500 million people currently running micro-credit and small enterprises have access to loan or saving facilities (Panos, 1997). Banks tend to assume that the needy will not keep up with repayment rates or the cost of serving transactions on small scale will make lending unprofitable. However the success of Grameen Bank in Bangladesh has proved that the poor are worthy investing, for example Grameen lend US$ 30 million
each month to 1.8 million poor people of whom 94% are women. The repayment rate was 98% (CGAP, 1997).

Commercial banks have began to show interest in micro-finance however they are very cautious because of unfamiliarity in the market. In response many NGOs have positioned themselves in the market. The MFI have proved that the poor can be bankable which may lead to growth and an avenue for development.

While Grameen is admired for pioneering a method for the poor to get a chance to move out of poverty, international development finance institutions find it impossible to support replication of program around the world (Yunus Mohamed). This query propelled Britain through ODA in giving US$ 50 billion in support of MFIs world wide notably Bangladesh, Kenya, Tanzania. ODA is involved in various international initiatives to boost support for micro-finance.

Too much money from donors given on easy terms end up weakening MFIs and this will discourage commercial sources in investing. This may be exaggerated as only three major bilateral donors have joined summit council of donors. International funds for new MFI activities such as that set up by the world bank under consultative group to assist the poorest (CGAP). There are strict eligibility criteria that require beneficiaries of MFI to demonstrate self sufficient over time. These checks tend to put a brake on over funding. The World Bank set up (CGAP) in 1995 in an effort to systematically increase in micro-finance and ensure their success. The portfolio of MFI today US$ 2.5 billion which
indicates potential growth for micro-finance sector. CGAP can play a major role in leveraging resources and diverting more private resources to help bridge the gap say the bank (CGAP, 1996). For one to be eligible for the CGAP funds, they must show that they reach the poorest and operate sustainable.

Studies have shown that BKK and SANASA have all demonstrated that they can improve incomes of the poor people and for a proportion number of cases, move the incomes of significant members of the poor household above official poverty lines.

Hulme D (1996) found in a research that where interest rates were subsidized by state or aids with belief that they can not pay have failed. The fact that they pay high interest rates to shyloks shows that the poor people need credit no matter what price they have to pay for it. Most MFI charge interest above commercial bank rates to cover higher administration cost for advancing similar services.

Large MFI schemes have experienced extremely rapid growth in clientele, ranging from 25% to 100% per year. The BKK program in Indonesia, despite being only a decade old has 1.8 million borrowers and 14 million savers.

The World Bank case study in West Africa on MFI program in the mainstreaming of best practice in the field of micro-finance. In their sustainability in terms of lending to MSEs the studies give high marks on the following; near their client and catchment areas, using
technologies that are simple, well tailored to the cultural environment and inexpensive for both lender and client, use effective techniques and high repayment rates.

2.4 Failures of MFIs in promoting MSEs

Various studies cast doubt whether businesses of micro-finance loan have actually invested in business (Amenomori, 1999, Goetz and Sen Gapta, 1996, Faulu, 1999). According to Gibbons (1997) when a poor person borrows for income generation and/or asset acquisition that does not generate additional income in time for all the repayments, then the latter still have to be made out of his or her cash flow. This often requires self-denial and/or postponed gratification of basic needs of survival like food, shelter and clothing.

In another study, Oketch et al (1991) differs with the studies above. They found that borrowers repaid their loans well and still increased the value of their assets only small amount (5.8%) of the loans were diverted from their intended uses.

The danger of micro credit monoculture has been identified by the donor committee for small enterprise which has popularized the notion of BDS (Gibson, 1997). The concept as part of a menu of input which can then be tailored to individuals needs. Amongst these, education and training are increasingly factors which are being given attention in the promotions of micro and small enterprises, particularly on motions such as ‘learning organization’ exercise a fascination in northern research.
Despite policy environment on micro-finance, many countries remain unfavourable for sustainable growth in MFI operations for example, China, Thailand, The ceiling on interest rates limit the ability of MFIs to provide permanent access to increasing demand.

The government's intervention in perceived market failure through channeling micro-credit which target groups that are considered vulnerable with subsidized interests rates and poor collection loan rates. This interaction undermines sustainable development of MFI. As a result most MFI are crowded with poorly performing governments MFIs that distort the market and discourage private sector institution from entering industry.

Most governments have focused on creating institutions to disburse funds to the poor with little attention to building financial infrastructure that support, strengthens and ensures the sustainability of such institutions that promote participation of private sector institution in MFI. Financial infrastructure includes legal, information and regulating and supervisory systems institutions and markets.

MFIs and micro-credit portfolios can not be safely funded with commercial sources in the long term especially public deposits unless appropriate standards and regulations and supervision requirements are developed, and enforced and measures are introduced to protect public deposit.

Most MFIs do not have adequate capacity to expand the scope and outreach of services on a sustainable basis to most potential clients because they have no access to public deposits, they are unable to provide a range of products compatible to clients needs. A
number of institutions do not have adequate delivery machinery to effectively reach the poorest of the poor particularly those concentrated in assumed poor areas with low population density.

Virtually all state owned MFI are nurtured by a distorted policy environment with degrees of financial repression. They do not have a business culture that provides quality services and can not expand or service a sustainable basis.

Quite a big proportion of NGOs are characterized by high level of inefficiency and have limited capacity to serve increasing market on a continuing sustainable basis. They suffer from governance problems mainly because they ‘lack owners’ in traditional sense of the term and their managers assume a great deal of power. Easy access to donor money have increased governance problems in NGOs.

Some programs such as ROSCAS or BWAPA a Bangladesh credit program do not use imported finance but solely rely wholly on rotating or on lending the savings of the membership. IFAD has assisted in soft loans to Grameen to the tune of $163 million for on lending of 4 to 6%. This money is invested and interest is paid in turn by borrowers. Hence it stays in the country and more people benefit (Kane, 1996)

Aid programs often fail to reach the poorest 20% of the world people as the micro-credit Summit Draft Document admits that in Bangladesh 75% of Aid receive since 1971
according to Grameen Yunus leaked back to donor countries as payment for the services of their consultancies, advise, commodities and equipment (Yunus, 1991, 1994).

Giving credit to the poor can be expensive in this aspect MFI target the poorest run risk of drifting away from original target if they increase the average amount of their credit to strengthen their viability ("The evaluation of credit and survey project co-financed by the European Commission with NGO" November, 1994)

NGOs are less concerned about covering costs use of credit as part of an integrated development program for example a project in Zimbabwe co-financed by the EC aimed to bring war veterans back into conventional banking systems through credit distribution. They acknowledge that it can never be self sufficient but aims to make individuals supported to be independent. To do this uses a range of instruments include credit. As poverty does not hinge only on material needs but also about special vulnerability to basic and everyday difficulties, many observed the fact that micro-finance needs to be 'protectional as well as promotional (Hulme, 1996).

Some MFI provide means of services for different needs many of them unrelated to self employment or business. The poor with immediate expenses such as hospital fees, seasonal venture income or food supply, household repairs or fulfill obligations such as wedding.
Women’s income may be increased as a result of micro-finance but there are doubts about how much of this income benefits or is controlled by the women. Some surveys indicate that a significant number of loans given to and repaid by women are in fact used by men (Goezt, 1994).

Finding out who controls the loan funds is very complex and micro-finance (like any other intervention) has to be analyzed within a given social-economic and cultural context. Investment micro-finance can still empower women in several ways even if they surrender all the amount to the husbands. In Bangladesh women who give to their husbands had empowerment rating of 36% compared to 9% of those who are not involved in MFI activities (Hashemi, 1996). The larger the loan amount the more men seem to control them. Men often have easier access to business markets, this may be the best way of managing the loan of households.

Most MFIs give clients considerable freedom over the uses to which to put their loans. The client is assumed to know the market and such skills as assessed before disbursement. However, some organizations may have aims, which may limit the choice of the business (Opportunity Trust Publication “micro-finance and promotion of autonomy”, June 1996).

Micro-credit has had a massive appeal over recent years as the most appropriate tool for alleviating poverty through intervention in micro- enterprises. However, it also increasingly generated counter literature whether or not it had led on occasion to
increased indebtedness; it has been argued that it has not significantly enhanced production and productivity (Jeans, 1998). It might be said that the micro-credit has been too much about poverty alleviation and too little about growth enhancement.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This section outlines the methodology that was used in the study. It is divided into five parts viz research design, population of the study and sampling instrumentation, data collection and data analysis.

3.1 Research design

in the study descriptive survey approach was used. Various beneficiaries of MFIs in Kisumu City were identified and a sample of them selected for interview. A sample of entrepreneurs were interviewed to establish constraints that hinder the growth of their enterprises.

3.2 Population study

The population of study comprised of all MSEs in Kisumu town who have benefited from any MFI credit programs.

3.3 Sampling

The population investigated consisted of all SME in Kisumu town. However, due to resource and time constraint, the scope of the study was only limited to a sample of 60 respondents drawn from manufacturing and service sectors.
The sampling form was obtained from MFI records and then stratified sampling technique was used to select a representative sample. The five MFIs are KIE, SMEP, KADET, PRIDE KENYA and RECA. From the 60 entrepreneurs who form the study sample 12 will be selected from each MFI. The study sample was done with the assistance of credit officers of the said institutions.

3.4 Instrumentation

Questionnaires were the main instrument for data collection. The researcher administered the questionnaires to the sampled respondents. The questionnaires contained both open and closed ended questions. Open ended questions were used to solicit qualitative data and suggestions while closed ended questions sought to obtain quantitative data for statistical analysis. Questions asked focused on both entrepreneurs and their business characteristics, which formed the core of the study. The questionnaires were dropped and picked later. Where the respondents were illiterate questionnaires were administered orally.

3.5 Data collection

The study relied on two types of data namely primary and secondary. Primary data was obtained from the sampled respondent while the secondary data was available from existing literature. The primary data was collected by the researcher assisted by a research assistant who was trained before the actual work.
3.6 Data analysis

The data collected was analyzed by using statistical package for social sciences software (SPSS). Descriptive statistics such as frequency tables and percentages were used, multiple regression, correlations and cross tabulations were also used. Multiple regression was used in order to determine the magnitude and direction of the relationship between dependent variable and independent variables.
CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

This chapter presents and discusses the research findings. In the study, 60 questionnaires were administered of which 50 responded representing 83% and 10 (16.6%) declined. The first section consists of descriptive results. The second section will look at multiple regression results to determine the direction and magnitude of the predictor variables.

4.1 DESCRIPTIVE RESULTS

Education and Business expansion

<table>
<thead>
<tr>
<th>Education</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary collage</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded</td>
<td>13 (20%)</td>
<td>19 (38%)</td>
<td>9 (18%)</td>
<td>0</td>
</tr>
<tr>
<td>No Expansion</td>
<td>3 (6%)</td>
<td>7 (14%)</td>
<td>1 (2%)</td>
<td>1 (2%)</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>26</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>%</td>
<td>26</td>
<td>52</td>
<td>20</td>
<td>2</td>
</tr>
</tbody>
</table>

The above table reveals that majority of the respondents 52% had secondary education followed by primary, tertiary and university who had 26%, 20% and 2% respectively. 13 out of 16 (20%) of respondents who had primary education had their businesses expanded as a result of loan acquisition. In secondary education category, 19 out of 26 (38%) of respondents had their business expanded while 7 (14%) of the respondents had not expanded. Of the 10 entrepreneurs with tertiary education 9 (18%) had their business expanded while one did not expand. So it coincided that the highest level of expansion
and none expansion was in secondary education category where there was 38% and 14% respectively. The level of education is taken to be the measure of potential to develop skills and entrepreneurship and the secondary education is taken as a cut-off level of education. They are easily trained to develop skills and entrepreneurship necessary to support industrial and business development in the city. This can be explained by the fact that majority of young city dwellers have at least completed secondary education and are unemployed. As a means of survival they engage in MSEs to support themselves and their families. However, this is not sustainable in the long-term as the undertaking is viewed as stop-gap measure while they search for better jobs elsewhere. In the university category, there was only one respondent who represented 2% of entrepreneurs and did not record any expansion. This may be due to his perception of expansion as opposed to others. To him expansion has to be substantial whereas other categories regarded marginal growth as expansion.

**Training in business related courses and expansion**

<table>
<thead>
<tr>
<th>Training</th>
<th>With training</th>
<th>No training</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded</td>
<td>19 (38%)</td>
<td>15 (38%)</td>
<td>38</td>
</tr>
<tr>
<td>Not expanded</td>
<td>5 (10%)</td>
<td>7 (14%)</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>26</td>
<td>50</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>48</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 4.2 above, 19 (38%) of the entrepreneurs with training their business expanded and similar percentage that had no training their business expanded. Of the 24
entrepreneurs who had training 5 (10%) their business did not expand and 7 respondents who had no training did not experience expansion either. In overall 52% of the respondents had no training while 48% had some kind of training either from the MFIs or from NGOs on basic business management. On further inquiry most of entrepreneurs affirmed that business training was necessary. Using chi-square test of significance at 0.05, the P value of 0.614 is not significant.

Domestic responsibilities and business expansion

<table>
<thead>
<tr>
<th>Domestic responsibilities</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion</td>
<td>18 (37.5%)</td>
<td>19 (39.5%)</td>
<td>37</td>
</tr>
<tr>
<td>Not expanded</td>
<td>5 (10.4%)</td>
<td>6 (12.5%)</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>2.5</td>
<td>48</td>
</tr>
<tr>
<td>Percentage</td>
<td>47.9</td>
<td>52.1</td>
<td></td>
</tr>
</tbody>
</table>

47.9% of the respondents confirmed that domestic responsibilities hindered the expansion of their businesses while 52.1% were not affected. Two respondents were indifferent to the question. 18 out of 23 (37.5%) entrepreneurs, businesses expanded despite domestic responsibilities. Also, 19 out of 37 (39.6%) entrepreneurs who did face domestic responsibilities their businesses registered expansion while 6 out of 11 (12.5%) who did not face domestic responsibility problems did not expand. Using the chi-square test of significance at 0.05 the p value is 0.835 is not significant.
22 out of 28 (45.8%) of entrepreneurs were faced with low demand of their products yet their businesses still expanded though marginal. The expansion is attributed to ploughing back previous retained earnings to expand the business with expectation that the demand will pick up with improving economic performance. Only 5 out of 20 (10.4%) of respondents who were not faced with demand problem for their products did not register business expansion. The reason cited for low demand is that in the recent years the economy has been performing poorly. This has led to many firms going under and massive retrenchment from the public sector. Subsequently this has left few people in employment that supports very many dependants. Using chi-square test of significance at 0.05, the p value of 0.712 is not significant.
Working capital and business expansion

Table 4.6 business expansion and working capital

<table>
<thead>
<tr>
<th>Capital</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded</td>
<td>16 (32%)</td>
<td>22 (44%)</td>
<td>38 (76%)</td>
</tr>
<tr>
<td>Not expanded</td>
<td>1 (2%)</td>
<td>11 (22%)</td>
<td>12 (24%)</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Percentage</td>
<td>34</td>
<td>66</td>
<td>100</td>
</tr>
</tbody>
</table>

34% of the entrepreneurs complained that availability of working capital was a constraint to their business expansion. 22 out of 33 (44%) said their business had expanded and no problem with working capital. Only 32% of the entrepreneurs who had problem with working capital had expansion in their businesses. In the short run to in order to cope up with the working capital inadequacy they sort to short term financing and laying off excess workers. The main reason for financial problems in MSEs is that owners do not have enough equity to run their business at desired level. Owing to this insufficient equity base, they are unable to obtain adequate financial loans to meet their needs. Due to the nature of their businesses and the pressure to repay their loans weekly, they resort to borrowing from shylocks who charge exorbitant interest rates. Thus, business tends to operate within the limitations set by the financial constraints. Using chi-square test significance at 0.05, the p value of 0.031 is significant. This implies expansion is significantly related to the working capital available. If working capital is readily available and applied in the business leaving other variables constant chances are that growth will occur.
Diversion of loan funds and business expansion

Table 4.7 business expansion and diversion of funds

<table>
<thead>
<tr>
<th>Level of diversion</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded</td>
<td>22 (44.0%)</td>
<td>16 (32%)</td>
<td>38</td>
</tr>
<tr>
<td>Not expanded</td>
<td>9 (18.0%)</td>
<td>2 (4%)</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>18</td>
<td>49</td>
</tr>
<tr>
<td>Percentage</td>
<td>52</td>
<td>36</td>
<td>98</td>
</tr>
</tbody>
</table>

52% of the entrepreneurs admitted that they diverted use of loans funds in one way or another to other uses not intended for in the loan application. The implication is that less was put into intended business and this negatively affected the growth. For example 28%, 2%, 42% of the entrepreneurs diverted the loan funds into household expenditure, other investments and into saving respectively. Once money is received in the household regardless of the source it has to be spent on the immediate needs and this has a direct bearing on the growth of business. 22 out of 31 of the entrepreneurs constrained by diversion of funds expanded while nine did not. 16 out of 18 of the entrepreneurs who did not divert loan did expand and only 2 did not experience any expansion. Using the chi-square test of significance at 0.05 the p value of 0.147 is not significant.
Market information and business expansion

Table 4.8 Business expansion and market information

<table>
<thead>
<tr>
<th>Market information</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded</td>
<td>5 (10%)</td>
<td>32 (64%)</td>
<td>37</td>
</tr>
<tr>
<td>Not expanded</td>
<td>3 (6%)</td>
<td>8 (16%)</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Percentage</td>
<td>16</td>
<td>80</td>
<td>96</td>
</tr>
</tbody>
</table>

Only 16% of the respondents, cited market information as a constraint to their business expansion. While 80% were not affected by lack of market information. 5 out of 8 (10%) entrepreneurs who were faced with market information, business expanded. While 32 out of 40 (64%) entrepreneurs who did not face market information problems expanded. Marketing is often the factor that limits the expansion and competitiveness of MSEs. Most firms lack this expertise due to inability to raise adequate funds for the activity like sales promotion and might not able to attract manpower because its beyond reach or owners have no time for time it. With the kind of scenario MSEs find it difficult to sell their products in the domestic market, worse still in foreign. To the respondents market information is not a big problem if they can be access working capital when they need it to make purchases and be able to sale their commodities.

Other findings

The majority of the respondents age ranges between 34-45 which is 48%. This is most productive stage of live and most of the respondents are assumed to have set clear targets to achieve. They have commitment to their businesses and hence possibility of expansion.
Retail was the most popular undertaking among the respondents. It comprises 54% of the enterprises interviewed. The reason for this is that one requires little capital to start and easier to manage without prior training or any special skill required.

44% of the entrepreneurs cited insecurity to as a major hindrance to their expansion. This is because most MSEs occupy premises made of timber and iron sheets that are prone to constant fires that destroy their businesses coupled with thefts. This is a common feature in Kibuye Market one of the largest open air market in Eastern Africa which force them to operate at low levels.

High transportation cost affects the prices of their products by being uncompetitive. For them to the have a competitive edge they have to travel to remote markets and this erodes their profit margins. 50% of the entrepreneurs were affected by the transporter costs while 46% were not affected. Much of their profits is spent on transportation hence less is ploughed back in the business.

Loan repayment plays a major role in the stagnation of the business. This is confirmed by 60% of the entrepreneurs, who had problems in paying loan installments. They were forced to borrow from other sources in order to repay hence affecting their cash flow. Only 40% indicated that they had no problems in servicing their loans.

Government regulation particularly local government authority and public health official harass entrepreneurs due to temporary premises and hawking. 40% indicated they were
affected by the government acts in growth of their business. Their wares are constantly confiscated by city councils if found in undesignated areas or have not paid requisite levies. To extreme they are arrested and heavily fined by the courts. The above contributes to capital depletion and as consequence they have to start all over again.

Majority of the entrepreneurs only run one enterprise as a family. 68% of the respondents only run one business. While 32% have more than one business. Those who run more than one business when asked for the reason they intimated that it was not good to carry all their eggs in one basket. In essence, they were diversifying risk. In effect they were not keen on growth but security.

72% of the entrepreneurs interviewed employ workers while 28% do not. 15 out of 50 (30%) of enterprises employ more than 2 employees. However, after acquiring a loan only 9 enterprises increased the number of workers, which represents only 18%. The entrepreneurs cited the reason being their business expanded marginally hence did not warrant extra workers as a result of loan acquisition.

There were high incidences of record keeping for the businesses, which topped 88%. On further inquiry it transpired that it was a condition for the lending institution for their customers to keep daily records however rudimentary they may be. Though they keep the records, they are yet to appreciate their use and hence they have no direct bearing to growth at the moment.
4.2 multiple regression

Table 4.9 correlation of results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Education</th>
<th>Business training</th>
<th>Domestic responsibilities</th>
<th>Demand</th>
<th>Working capital</th>
<th>Loan diversion</th>
<th>Market information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business expansion</td>
<td>0.015</td>
<td>0.071</td>
<td>0.027</td>
<td>0.042</td>
<td>0.304</td>
<td>-0.207</td>
<td>-0.155</td>
</tr>
</tbody>
</table>

The correlation co-efficient between business expansion and education is .015. We conclude that there is a positive relationship between business expansion and education though a weak one. The researcher had hypothesized a positive relationship.

The correlation coefficient between business expansion and working capital is .0304. This implies a positive relationship though a weak one. The researcher had hypothesized a positive relationship. The correlation coefficient between business expansion and loan diversion is -0.207. We conclude that there is a negative relationship between business expansion and loan diversion though a weak one. The researcher had hypothesized a negative relationship.

The correlation coefficient between business expansion and market information is -0.155. We conclude that there is a negative relationship between business expansion and market information. The researcher had hypothesized a positive relationship. The correlation coefficient between business domestic responsibility is 0.027 we conclude that there is a positive relationship between domestic responsibility and business expansion. The researcher had hypothesized a negative relationship. The possible reason for this is that
once the respondents are aware that they are faced with domestic responsibilities, they work had in order to sustain the business and they are likely to withdraw less than what they inject in.

**Table 4.10 multiple regression Results.**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1.167</td>
<td>1.800</td>
</tr>
<tr>
<td>Education</td>
<td>.033</td>
<td>.205</td>
</tr>
<tr>
<td>Business training</td>
<td>.112</td>
<td>.707</td>
</tr>
<tr>
<td>Domestic responsibilities</td>
<td>.096</td>
<td>.625</td>
</tr>
<tr>
<td>Demand</td>
<td>-.089</td>
<td>-.550</td>
</tr>
<tr>
<td>Working capital</td>
<td>.201</td>
<td>1.285</td>
</tr>
<tr>
<td>Loan diversion</td>
<td>-.154</td>
<td>-.983</td>
</tr>
<tr>
<td>Market information</td>
<td>-.129</td>
<td>-.789</td>
</tr>
<tr>
<td>Multiple R</td>
<td>.362</td>
<td></td>
</tr>
<tr>
<td>R square</td>
<td>.131</td>
<td></td>
</tr>
<tr>
<td>Adjusted R square</td>
<td>-.025</td>
<td></td>
</tr>
<tr>
<td>Standard error</td>
<td>.42</td>
<td></td>
</tr>
</tbody>
</table>

From the above result R square is 0.131 meaning that 13.1% of the variability in expansion was accounted for by variables in the model. That means that there are other variables other than those in the model such as competition, loan repayment, insecurity and others, which can influence growth or expansion.
This contrast with earlier research of baseline survey of 1999 where market and working capital were cited as the major hindrance to growth of micro and small enterprises. This result may be so because of the small sample size and the limited area covered. It should also be noted that baseline survey was conducted throughout the country whereas this research only covered only those entrepreneurs who have secured loans from MFIs in Kisumu city. Results could have been also influenced by the kind of answers from the respondents, which may be inaccurate, by either omission or commission.
CHAPTER FIVE

5.0 RECOMMENDATIONS AND CONCLUSIONS

The chapter presents the recommendation and conclusions that are derived from the findings of the study.

5.1 CONCLUSIONS

The study analyzed factors hindering growth of MSEs. From the study, the regression analysis concludes that variables in the model only accounted for 13.1% of the variations in the expansion. That implied that there are other factors outside this model, which influence growth. Hence, it can be deduced that variables in the model do not adequately explain expansion.

The results exhibited a positive relationship between education, business training, domestic responsibility, and demand for products and working capital with expansion. While loan diversion and information had a negative relationship. Domestic responsibilities and market information did not conform to the researcher's hypothesis.

The other findings of the study are that most entrepreneurs with exception of KIE clients were not happy with the amount advanced to them. The reason being they have to graduate with the amount advanced to them based on their savings rather than business proposal. This kind of amount advanced cannot bring any immediate impact to the business as a result much of the amount is diverted into other uses.
Loan repayment was a serious problem to majority of the entrepreneurs. The weekly repayment does not allow the money to effectively circulate in the business. The implication here is that they end up paying the loan from the principle and not the profit. This affects negatively the expansion of the business. They were of the opinion that they be given adequate time to repay the installment for example monthly repayment. Most of the respondents actually repaid their loans from other sources other than from the businesses applied loan for.

Insecurity has greatly hampered the growth of the businesses. Most of the respondents operate in temporary structures, which are prone to constant fires and theft. Therefore, the businesses are always struggling to stay afloat. They fear increasing stock, as they are not assured of security. They said since their businesses are small hence they cannot justify insurance premiums and in any case Insurance companies do not insure businesses in temporally buildings.

Competition was also a major factor that hinders growth. Since most of this businesses are small they cannot benefit from the economies of scale from purchases, hence, people prefer purchasing their products from supermarkets in Kisumu city. Because of little capital outlay they use simple technology and with little training particularly clothes they cannot compete with quality and cheap mitumbas.

Though the MFI are recording high loan recoveries, this has not translated to growth of the businesses. Majority of the entrepreneurs actually repay due to peer pressure from the
groups regardless of the performance of the businesses. One pays in order to avoid embarrassment that he or she can cause to the group members. A member is more concerned in the loan repayment but not expansion of the business.

5.2 RECOMMENDATIONS

The researcher recommends that MFIs advance loans to MSE according to their needs not the arbitrary the way currently done since under or overcapitalizing is equally bad for businesses. If this is not properly done it might lead to cases of default. Entrepreneurs’ views should be taken into consideration when designing credit products.

The duration of paying installments should be critically evaluated. This will give businesses time to circulate the money and make impact in the operations. Reasonable period should be allowed. Monthly installment will be ideal so that the entrepreneurs are not concentrating most of their time worried how to make a weekly repayments. Its paramount therefore that credit delivery strategies have to be reviewed taking into consideration the plight of the customers other than focusing only on the supply side i.e the loan recovery aspects.

On the insecurity, the researcher recommends that the government ensures that local government authorities conform to the plans formulated by physical department with respect to urban development in matters of land allocation and premises. This can then be leased to deserving cases depending a specified criteria. The government to acquire land and give it specialised agencies build business premises. Care should be taken to avoid the pitfall of industrial sheds, which were build by KIE Ltd and Ministry of
Applied Technology for entrepreneur but were allocated to wrong people. At the moment most of them are under-utilized or totally idle.

Training has been identified as one of main component of business growth. Therefore, the researcher recommends that training be done to areas that are relevant to the businesses. Needs assessment should be carried out to identify specific need for specific sectors. Training and education programmes in the city should be frequently conducted both for actual and actual entrepreneurs. Such programmes should be short, comprehensive and inexpensive to minimize diversion of the entrepreneurs efforts and resources from their business activities. Technical and business education to be increasingly re-emphasized at all levels of education and training. Most entrepreneurs cited working capital management, as their impediment to growth therefore financial management should be emphasized in their training. In addition, quality control should also be included in their syllabi. All the stakeholders (MFIs, MSEs and business trainers) should be consulted in designing the curriculum. The Ministry of Industry and Commerce should co-ordinate such training with the help of Chamber of Commerce and Kenya Small Scale Traders Association and ensure they are regularly conducted to update the entrepreneurs’ latest ideas.

The researcher recommends that the government set information centers in every district modeled like Investment promotion centers to readily avail information on areas for investment or market for the products. This will enable the entrepreneurs to produce beyond the local consumption, which will widen their market scope and hence lead to
reasonable profits hence expansion of business. The MSEs can improve their ability to identify target customers, using trade fairs and exhibitions.

The cost of raw material is also a stumbling block to growth. Therefore the researcher recommends that the government to reduce VAT charged on textiles materials and lift the ban on logging to avail timber for furniture. This will increase the profit margin and hence more will be pumped into business. Raw materials bargain association should be started and processes for dissemination of both raw materials and product prices information should be established. Furthermore, the government should streamline procurement procedures to stop monopolistic tendencies, which frustrate small scale enterprises.

5.3 SUGGESTIONS FOR FURTHER RESEARCH

The research only involved MSE in urban set up. Research should be on both rural and urban areas should be carried out. Research on other credit related issues such as loan repayment, installment payment, interest charged management, profit should be carried out to determine the level of significance, as they were not included in the model.

Comparative study to be carried out to compare growth rates between MFIs and conventional financial institutions. (Development Financial Institutions and Commercial Banks)
Limitations of the study

Some organization like WEDCO and KOLPING refused the researcher permission to interview their clients claiming that the information sought was sensitive to the organization and clients. They refused to give some details terming them as sensitive to the organization. The respondents had very limited records hence most of the questions were answered from their heads which might not be correct. Another serious issue was some of respondents chose to skip some of the questions asked or they were evasive particularly the number of people they support and income levels. Where the respondents were not giving correct answers inference could be made from previous answers or discard the question altogether.
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INTRODUCTION

The objective of this study is to investigate the constraints that hinder the growth of small and micro-enterprises, hence this questionnaire is expected to collect data that will enable this analysis.

All the information gathered through the questionnaire will be treated as confidential and only used for the purpose of this study. The success of this exercise entirely depends on your co-operation, which is highly appreciated in advance.

Interview date ..............................................
Interviewer ..............................................
Location ..............................................

1) Indicate age in years ..............................................................

b) Marital status

   Single ( )  Married ( )  Divorced/Separated ( )

   Widow ( )

c) Household size

Children ____________, spouse ____________ and others living with you ____________

Total ____________

d) Gender  Male ( )  Female ( )
2a) What is the highest level of education attained

Primary ( )

Secondary ( )

College ( )

University ( )

b) Have you attended formal training related to your business?

Yes ( ) No ( )

c) Was the training relevant to your business?

3. Business formation

a) Which business do you have as a family?

b) For which business did you borrow for?

c) What type of business are you involved in?

   Manufacturing ( ) Service ( ) Retail ( )

4a) What were the sources of the set up capital?

   Own savings ( ) Family members and relatives ( )
   Co-operatives/banks ( ) NGOs/MFIs ( ) Others (Specify)

b) If you borrowed how much was advanced?

c) Was the amount adequate for your business?

   Yes ( ) No ( )

   Explain your answer.
5a) has your business expanded as a result of loan acquisition?

Yes ( )
No ( )

Explain your answer

6a) How long will you hold the loan before using it?

Amount held | Time period held | Where the money was kept

b) Indicate how you used your current loan and why it was used that way?

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Estimated amount</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>For business in loan application</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Started another business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used in other business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>House rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other investments (eg plots)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (Specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7 Loan repayment

a) What is your monthly loan repayment?

b) Indicate below where you got the money to pay.
<table>
<thead>
<tr>
<th>Source</th>
<th>Estimated Amount per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>The loaned business</td>
<td></td>
</tr>
<tr>
<td>Other businesses</td>
<td></td>
</tr>
<tr>
<td>Merry-go-round</td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td></td>
</tr>
<tr>
<td>Spouse</td>
<td></td>
</tr>
<tr>
<td>Children</td>
<td></td>
</tr>
<tr>
<td>Others (Specify)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

c) Have you faced any problems in raising your monthly loan repayment?

Yes ( )  No ( )

If yes, indicate how you solved the problem

8. Household expenditure

Approximately how much do you spend per month?

9. Household Income

List your approximate amount of income from various sources per month.
10a) Do you employ any workers?

   Yes ( )   No ( )

If yes, how many ________________________________

b) Has the number of workers increased since you acquired the loan?

   Yes ( )   No ( )

By how many? ________________________________

11a) Do you keep records for your business?

   Yes ( )   No ( )

b) What was the value of the opening stock? ________________________________

c) What is the value of the current stock? ________________________________

12. List some of the factors other than capital that contribute to the slow growth of your business

13. For the problem identified in 12 above, how can you solve them.