

**MICROFINANCE SERVICES AND GROWTH OF SMALL AND MEDIUM
ENTERPRISES IN NAIROBI CENTRAL BUSINESS DISTRICT, NAIROBI CITY
COUNTY, KENYA**

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DECLARATION

The project is my original work and has not been submitted for a degree course or any other award
in any other University

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The project has been submitted for examination with my approval as the university supervisor

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DEDICATION

The project is dedicated to my wife Vanevola Detta Otieno and my son Jani Kimanthi.

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ACRONYMS AND ABBREVIATIONS

CBD	Central Business District
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
KPMG	Klynveld Peat Marwick Goerdeler
MFI	Micro-Finance Institutions
MSE	Micro-Small Enterprises
OECD	Organization for Economic Co-operation and Development
SASRA	Saving, Credit and Cooperative Society Regulatory Authority
SMEs	Small and Medium Enterprises
SPSS	Statistical Package of Social Sciences

OPERATIONAL DEFINITION OF TERMS

Micro Credit	Microcredit are micro loan offered by micro finance institutions to small and medium enterprises who could not afford huge loans with collateral requirements.
Micro Finance Institutions	A financial institution that offers small loans to individuals that might not otherwise have access to credit.
Microfinance Services	These services are delivered by microfinance institutions such as banking services, micro credit, micro savings, micro insurance among others services.
Financial Skills	Possession of the ability and knowledge required that enables a person with all financial resources to take informed and successful decisions.
Micro Saving	Ensuring there is savings deposits services to offer significant leverage for economic development and self-sufficiency. Natural logarithm of total savings by SMEs was used.
Growth of SMEs	The process of enhancing some measure of the performance of an enterprise. Growth of SMEs was measured sales level overtime
Small and Medium Enterprises	Companies involving 50-99 personnel involve a variety of companies in almost all sectors of the economy; they operate formally or informally, seasonally or year round and are located in a number of area and there sales levels is less than 5M in a year.
Micro Insurance	It provides low premium and low restricted or low coverage insurance coverage, is offered under a common risk pooling and marketing structure and is intended to benefit low-income individuals and organizations that do not use traditional social or business schemes.

ABSTRACT

SMEs in the Nairobi Central Business District, Nairobi County, Kenya, saw a significant drop in their net profit margins. The year-on-year decrease in net income in 2015 was 7%, the decrease in net income in 2016 was 15.6%, the decrease in net income in 2017 was 21.3%, and the decrease in net income in 2018 was 25.6%. Decreased profit margin also affected liquidity for the 2015-2019 period. When borrowing from microfinance institutions in 2018, only 21.23% was due to SMEs, compared to 37.25% in 2017 and 2016. In Nairobi Central Business District, Nairobi City, the penetration of microfinance services for SMEs is not yet well established. The main purpose of this study was to assess the impact of microfinance services on the growth of SMEs in the Nairobi Central Business District, Nairobi County, Kenya. The study objectives were; to determine the impact of micro credit, micro savings and micro insurance on the growth of SMEs in Nairobi City County, Kenya. The study was guided by the Information Asymmetry Theory, Financial Growth Life Cycle Theory, Stages of Growth Theory and Sustainability Theory. Causal research design was used. Primary data was collected from SMEs in 37, 101 target groups in the central business district of Nairobi using a semi-structured questionnaire. The stratified sample was used by 395 small businesses. Quantitative and qualitative analysis was used and data was generated using the Social Science Statistics Package. The significance test was performed with a 95% confidence interval. Studies show that SMEs need to be content with small loans due to the lack of collateral to secure huge loans, skills and personalities. It was clear that the majority of SMEs embraced the culture of saving in savings accounts at various financial institutions and saving through mobile banking platforms. All SMEs contacted have stated that they have been insured by a financial institution once in the last five years (2016-2020). The micro insurance clearly shows that small business owners want cheaper insurance. It's also clear that most people can't afford high insurance because they can't cover the liquidity and operating costs of the company. The majority said the insurance paid were beneficial, but the time it takes to make up for the loss is quite long. The study concludes that microcredit services are having a significant negative impact on the growth of SMEs. The study concluded that micro-savings and micro-insurance services have a significant positive impact on the growth of SMEs. The survey recommended that the government create an atmosphere in which SMEs can prosper and develop. Both SMEs and MFI need to be involved in the policy to avoid future disputes between the two companies. With more employment opportunities and more cash flow in the economy, this provides a window for growth and economic development.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium-sized companies (SMEs) have a significant economic role to play in many countries. The role of the small business sector in achieving economic growth over the last 10 years has been realized by economic planners. According to Buro and Simiyu (2017), as stated by Ismail (2011), particularly in developing countries, development is considered a key Strategy to support economic growth, jobs creation and alleviate poverty, the contribution of small and medium-sized enterprises world-wide (SMEs) is indisputable. Many governments and development organizations focused on encouraging more private sector participation to support small and medium-sized enterprises (Ayyagari, 2011).

Ayyagari (2011) asserted that adoption of microfinance when motivated portends positive results for small businesses and this is supported by Kimanzi (2016) who also noted that in India the saving culture is a reason for business growth. Ruiz, (2010) in a study in Mexico also noted that access to loans by small businesses was a measure of how far the business would go in the long run. Another experiment of the same caliber done in Nepal, Katua (2014) also showed significant impacts of increasing access and cultivating adoption of financial services to savings option for women entrepreneurs. According to the Business, Enterprise and Regulatory Reform Department (BERR) Enterprise Directorate, the British economy accounts for 99 percent of small and medium sized companies employing 14.23 million employees out of around 30 million jobs. Sterling income and Gross Domestic Product (GDP) for UK SMEs amounts to 1.48 billion (British Pounds). In spite of its limited capital, little funding and large scale ignorance, SMEs (with at least 1 employee) outperform the larger UK companies on their productivity.

Large UK companies with 250 staff and over 52% but less than 50.8% of UK turnover support SME performance in the United Kingdom, and increased performance would greatly positively impact the UK economy as a whole (Hilgert & Hogarth, 2012). Similarly, according to Greener (2017) small and medium-sized enterprises (SMEs), which make up 47% of GDP and generate 62% of the available jobs, are the backbone of the Singapore economy.

China with more than 10 million companies representing 99 percent of all business enterprises, has the world's largest group of SMEs. SMEs make up 60% of the amount of production in industry and 40% of the tax collected (Katua, 2014). The formal company of South Africa is calculated at 91% to be SMEs (Quartey, 2017). SMEs account for about 90% of business activities in Africa, leading to 50% of African employment and GDP (Berg, 2015). SMEs make major contributions in developing countries to the development of jobs, an average of 70% of them and about 60% of the countries' gross domestic product (OECD, 2014).

As stated, small and medium-sized companies are largely dependent on work, so their growth has a positive impact on macro employment. In the global economy and in particular in rising revenue levels, creating employment and productivity, small and medium businesses (SMEs) play an important role. The gross domestic product (GDP) and jobs are a significant contribution. The world business scene is dominated by the number of SMEs. Although up-to-date statistics are hard to gain, figures show that over 95% of businesses around the world are small and medium-sized enterprises and account for about 60% of private sector employment (Kimanzi, 2016). A World Bank survey of 47,745 companies in 99 countries found that companies with 5 to 250 workers constitute 67 per cent of total full-time permanent jobs (Ayyagari, 2011). The survey also found that small and medium-sized businesses contributed 17% more workers than big companies.

Between 2002 and 2010, SMEs account for an average of 85% of total job growth. Recent studies demonstrate that SMEs are at least as critical for gross and net new employment as large firms (Ayyagari, 2011).

The global concern of small and medium-sized enterprises is development. Statistics show that small and medium-sized enterprises' loss is strong at a global level. In South Africa, a study has shown that there are between 50% and 95% of SMEs who struggle in their fifth year (Amsi, Ngare, Imo & Gachie, 2017) and around 75% of the new SMEs do not establish themselves as one of the world's highest statistically based companies. Many writers have established barriers to access to SME finance, but it is clear that inadequate studies have been conducted, in particular from the Kenyan Microfinance Services on the growth of SMEs (Twala & Phaladi, 2015; Al Berry, Magalí, Rashad, Kesper, Rajaratnam & Dirk, 2012; Mboniyane, 2016).

According to the Economic Survey (2016), more than 50 per cent of new jobs generated in 2015 were contributed by the informal sector in Kenya. In addition to their role in job growth, small businesses play a role in the economic sector, contributing 33% of the value added to Kenya's production and retail trade (Onyango & Tomecko, 2018). Despite their value, historical figures indicate that three out of five firms fail within the first few months of operations (Kenya National Bureau of Statistics, 2013). In general, Kenyan small and medium-sized enterprises face specific problems affecting their growth and profitability, thus reducing their capacity to contribute to sustainable development effectively. Lack of access to credit, lack of management and technical skills, low educational level, poor market information, inhibitory regulatory environments, and lack of technology access are all concerns (ILO, 2014). Bokea, Dondo and Mutiso (2013) indicate that the growth of the SMEs has been significantly restricted by the provision of access roads, adequate power, water, sewerage, and telecom facilities.

1.1.1 Microfinance Services

Microfinance programs include the provision of financial services to people from either poor low-income families or very poor self-employed people (Kalui & Omwansa, 2015). Microfinance was created to fill the gaps banks left in lending to individuals and small businesses, and grew during this time (Rogg, 2016). Kinyua (2016) is an attempt to make large-scale use of small cash deposits and small loans for poor households, where microfinance is essentially overlooked by traditional banks almost indefinitely. Insisted. Providing microfinance services includes providing microfinance services and products such as microloans, deposits, micro-rentals, micro-insurance and cash benefits to help the poorest businesses develop or start (Waithaka, 2018). Year). Specifically, the microfinance program offers micro-savings, microcredit, payments, and micro-insurance. Therefore, in this study, we will use microcredit, micro-savings, and micro-insurance services as a substitute for microfinance.

Microcredit contains only small loans, often provided by MFIs. Microcredit is also a microfinance portion, as it includes providing loans to poor and low-income earners (Ombongi & Long, 2018). Access to microcredit increases the risk-bearing ability of SMEs; improves risk-copying strategies; and allows overtime use to be smoothed. Waithaka (2018) argues that the performance metrics of microcredit schemes, namely the high rate of repayment, outreach and financial sustainability, do not take into account the effects on micro-enterprise operations. Microcredit has a positive effect on sales from micro-enterprises, business jobs and household income (Kisaka, 2015). Alhassan and Hoedoafia (2016) support the argument that micro credit can help boost or build household well-being, potentially making the difference between poverty alleviation and economically healthy living. Some of the microcredit measures used by different researchers include; loan size,

loan interest paid, loan acceptance frequency, loan procedure. The current analysis would use microcredit proxies, the frequency of loan acceptance, the loaning process and the amount disbursed.

The existence of formal saving opportunities will influence the economic condition of the poor in different ways (Kisaka, 2015). First of all, it will allow low-income households to gain leverage over their income sources by saving money in a safe position while still earning interest, which can in turn lead to better spending protection against economic shocks. Alhassan and Hoedoafia (2016) suggested that certain small and medium-sized businesses living near to micro-saving institutions are far less likely to suffer from major business failures. Micro-saving will make a positive contribution to potential small and medium-sized enterprises' capacity to self-finance their own investments, accumulate assets to be taken to secured future credit, and afford significant costs (Kibet, Achesa & Gedion, 2015). The proxies mostly used by many researchers on micro savings services include; yearly savings limits, withdrawal limit and procedure, type of saving account and purpose for saving. The current study will use annual savings limits, withdrawal procedure and purpose for saving as the proxies of micro savings.

Micro insurance is distinguished by low premium and low caps or low coverage limits, offered in traditional risk pooling and marketing structures and intended to benefit individuals with low income and organizations other than social or company insurance schemes (Rotich, Lagat, & Kogei, 2015). Micro insurance is somewhat unlike conventional insurance, with the exception of a particular population group being targeted. In fact, however: new, simpler goods, alternative delivery networks, marketing instruments, and an emphasis on efficient operations (the World Bank) are radically different ways of thinking about Insurance (2016). Micro-insurance is a financial scheme that is proportionate to the probability and expense of risk in order to cover low-

income companies from particular risks in return for daily premium payments. Micro-insurance measures are not limitable to the size of the risk-taker (some are small, even informal, some very large companies), risk scales (the risk itself is by no means "micro" to small and medium-sized businesses that are aware of it), the supply channel: they can be supplied by different networks, including small-scale community schemes, loans or other forms, premium amount annually, claims settled in a year and number of insurance product (Kibet, Achesa, & Gedion, 2015). The current study will utilize premium amount paid annually, claims settled in a year and number of insurance product as the proxies of micro insurance.

1.1.2 Growth of Small and Medium Enterprises

Business growth is typically defined and measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. Therefore, sales growth need not correspond to or underpin other dimensions of growth in which policy makers might also be interested; for instance, sales can increase while employment and/ or profits fall (Pisa, 2013). This is partly related to contextual or structural issues such as sector or age of business but also to the strategic choices made by principal decision makers in the firm. Growth includes creation or growth in size; an increased value of importance; an improvement in quantity, value or economic activity (Fatoki, 2014). SMEs have assets and all that a SME has left is their prestige when assets are taken away, such as inventory and intellectual resources. Moreover, the growth of SMEs involves extending their goods and services, their target markets or both. This calls for knowledge and experience in terms of quality and value development. However, development and opportunities worry the entrepreneur more than the business (Akerley, 2017).

In order to prevent growth being measured, growth may be estimated either subjectively or objectively (Miller, 2013). Subjective metrics more rarely used involve the evaluation by owners

of their development goals, their objectives and their desire for effectiveness. The most common priorities are measured on the basis of statistics on labor force, revenue and profits (Miller, 2013). Although some 1 million small businesses are founded annually, it is also noted that at least 40% of them are shut down in a year's time, while 80% shut down in five years and 96% will be shut down in 10 years (Akerley, 2017).

Growth is considered as the second essential objective of a company, the most crucial one being firm survival. Common indications used in the measurement of growth of SMEs are sales or turnover development, number of employees, number of products, Increase in time, asset value, market share, profits and production of jobs. The metrics for production and market share differ greatly depending on the sector, so comparisons are difficult to use, although benefit is not important unless used over a long period in trend analysis and since SMEs do not keep good books of account it will be hard to get that information (Akerley, 2017). Sales level, asset level and number of products will be used as proxies of growth of SMEs.

1.1.3 Growth of SMEs in Nairobi Central Business District

Small and Medium Enterprises (SMEs) are commonly define as registered businesses with less than 250 employees. Mustafa and Saat (2017) define SMEs as engine of job creation and growth in emerging markets that are central to the larger equation of development. SMEs can be key part of thriving globally competitive industries, creating the large numbers of jobs needed to reduce poverty. In the right business environment, SMEs can grow into large firms, changing the game locally, carving their niche globally. But even if remaining small or medium-size, they can create significant income opportunities for their workers and generate new tax revenues for government services. They do so by boosting their productivity and sales, and supplying increasingly valuable goods and services. However, throughout the world the efforts of SMEs are inhibited by lack of

access to financial services such as deposit and credit facilities and other financial services (Eissa, 2016).

Kenya has both the historic challenge and potential to get the millions of people from the conventional economy, including the informal economy, out of survival (Oketch, 2010). Recognizing the crucial role played by small enterprises in Kenya's economy, the government is planning to improve SMEs by improving production and innovation, in line with Kenya's 2030 Vision. Nairobi's small and medium enterprises face unique growth and profitability challenges to minimize their ability to make an effective contribution to sustainable development. A number of challenges for SMEs, among them the ability to build innovation, collateral, limited sizes, lack of expertise, lack of management training and experience, inadequate education and skills, technological transformation, poor infrastructure, scarce market knowledge, and insufficient access to loans have been identified by the International Finance Corporation (2011).

In the past five years, both formal and informal small enterprises in Kenya have not been medium-sized enterprises (Ferrand, 2018). In less than one year, more than 10% of the companies have stopped operations, 25% stopped operations between one and two years and 20% shut doors during their third to five year cycles (Wanjohi, 2019). SME owners, however, have incredible insights into business access from developing countries to microfinance facilities in other parts of Europe and the U.S. (Madsen, 2016).

The commodity value of SMEs has fallen from Kshs1.7B to Kshs.0.62B in the year from January to December 2017, according to the Faulu Bank's 2018 financial year survey. The survey also indicates an alarming declining trend of sales level growth from 16.7% in 2016, 13.2% in 2017 to 8.9% in 2018. Although KNBS (2018) estimates show that SMEs accounted for just 21.23 percent of microfinance institutions' loan uptake in 2017 compared to 34.17 percent, 37.25 percent

respectively in 2016 and 2015. The Faulu Bank Report (2017) shows that 18.74% of the cumulative SME loans requested have been approved, 32.10% of the loans have been applied and 49.16% of the Small and medium enterprises loans have been delayed. This trend is worrying and the downward trend has been attributed to different challenges, such as access to credit facilities, poor working conditions, high taxes and lack of business training, which continue to impede the growth of Kenya's SMEs (Marlow, 2014). As a consequence, business owners find it hard to expand their businesses within Nairobi City County. Government initiatives have gone a long way in creating a prosperous business condition through tax incentives, market development for SMEs, and SMEs have still been struggling to create a foothold for sustainable growth (Kimuyu, 2018).

1.2 Statement of the Problem

According to KNBS (2018), a total of 2.2 million SMEs have been closed in the five years from 2014 to 2018. Due to the decline in sales, SME wholesale and retail, automobile and motorcycle repairs accounted for approximately 73.5% of total downtime. The majority of SMEs in these sectors lacked a sufficient and effective asset base to support sales growth and innovate the number of products and services. A Faulu Bank study (2018) shows that revenue growth is surprisingly declining from 16.7% in 2016 and 13.2% in 2017 to 8.9% in 2018. Many factors are due to the failure and slow growth of SMEs. These factors include, but are not limited to, lack of collateral, poor management skills, lack of training, access to microfinance services, and government regulation. Despite the importance of SMEs (SMEs), there are few empirical studies on the impact of microfinance services on the growth of SMEs in Kenya, especially between 2013 and 2019.

A study conducted by Wasim and Khan (2014) in Small- and Medium Enterprises Malaysia and Pakistan: past, present, and future scenarios. The factors included, the lack of intellectual capital and infrastructure, financial services and political instability and electricity crises are the primary

and significant challenges to SME survival and stability in Pakistan. The study was conducted in Pakistan, so policy practices and recommendations in Kenya may not be relevant. Furthermore, the existence and intensity of the variables relationships were not identified through correlation and regression analyses. The Wasim/Khan survey revealed a shortcoming in context and methodology. Kisaka (2015) researched on the effect on the growth of small and medium enterprises in Machakos County, Kenya. The results showed that microcredit, micro savings and education together contributed to the growth of small and medium-sized enterprises. However, it was not statistically necessary to detect the effect of preparation.

The impact of microfinance lending on SMEs' financial performance in Kenya was assessed by Amsi, Ngare, Imo and Gachie (2017). It was found that the effect of the interest rate, the collateral requirement and the repayment period had a negative effect on the financial performance of the SMES, but had a positive effect on the entrepreneurial orientation and the amount of the loan. The study findings contradicted the findings by Kisaka (2015) despite the two studies having the similar objectives. This could be attributed to diverse operationalization of study variables thus presenting a methodological, conceptual and contextual gaps. The studies reviewed presented conceptual, contextual and methodological knowledge gaps as a results of diverse operationalization of variables and diverse methods used in collecting data, collection instruments and analyzing of data. The current study used primary data, data was collected from SMEs owners, descriptive, correlation and regression analysis was used to describe variables and establish the nature and strength of relationship between microfinance services and growth of SMEs in Nairobi City County, Kenya.

1.3 Objectives of the study

1.3.1 General Objectives

The general objective of the study was to establish the effect of microfinance services on growth of SMEs in Nairobi City County, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were;

- i) To establish the effect of micro credit on growth of SMEs in Nairobi CBD, Nairobi City County, Kenya.
- ii) To determine the effect of micro savings on growth of SMEs in Nairobi CBD, Nairobi City County, Kenya.
- iii) To evaluate the effect of micro insurance on growth of SMEs in Nairobi CBD, Nairobi City County, Kenya.

1.4 Research Hypothesis

The research hypothesis below guided the study;

H₀₁ Micro credit has no significant effect on growth of SMEs in Nairobi Central business district, Nairobi city County, Kenya.

H₀₂ Micro savings does not affect the growth of SMEs in Nairobi CBD, Nairobi city County, Kenya.

H₀₃ Micro insurance has no significant relationship with SMEs growth in Nairobi central business district, Nairobi City County, Kenya.

1.5 Significance of the Study

For small and medium-sized enterprises, this study was beneficial, as it helped to make proper use of savings and manage finance properly. The owners of SMEs would gain awareness of the value of the microfinance services needed to boost their financial efficiency. It adds Knowledge to SME managers to help them participate in continuous quality enhancement, thereby ensuring business development and maintaining a safer and healthier atmosphere that would boost their public profile.

The study provided economic policy developers with insight into the activities of small and middlemen and provide a realistic guide to designing new broad policies that could encourage the growth of small and medium-sized enterprises' ventures. This would help them to define or review strategies and recommendations for small and medium-sized businesses in general. The Government would benefit from the study findings and recommendations for policy implementations relating to SMEs turn over tax payment, regulations of SMEs, incentives to be provided and subsidies to support their growth.

The results of this study would contribute to existing SME sector awareness and further studies on micro-finance services for small and medium-sized enterprises. The results of this study would help future researchers, they would use it as a guide for their own studies. The findings would help them build and develop their research gaps.

1.6 Scope of the Study

The purpose of this study was to evaluate microfinance services for the growth of SMEs in the Nairobi CBD in Nairobi City, Kenya. The independent variables considered in the study include; micro-credit service, micro savings service, micro-insurance. The dependent variable was small business growth. A descriptive study design was used. At Nairobi CBD, the analysis targeted 33,701 operating SMEs. 395 samples were taken by stratified simple random sampling. Data from 2016 to 2020 were included in the survey. The area of interest was the Nairobi CBD in Nairobi City County. This is because all forms of SMEs exist in the county and there are numerous services from microfinance institutions. An interesting time was due to the downtrend in which sales growth was recorded (KNBS, 2018).

1.7 Limitations of the Study

The research envisaged some drawbacks that were noteworthy. Firstly, some of the respondents were reluctant to spare their time and encountered a delayed response. The researcher convinced them to complete the questionnaire in time, and within a span of 14 days, regular reminders were made. Secondly, due to their location, some of the SMEs were not easily accessible. To ensure accessibility of respondents, the researcher used a research assistant who helped to carry out data collection. Thirdly, some respondents were unwilling to answer questions sensitive questions for fear of the information leaking to their competitors. To mitigate reluctant respondents, the respondents were assured of the confidentiality of their identities. Kenyatta University graduate school authorization letter and NACOSTI permit were attached together with the questionnaire to give enough assurance that the data collection process was for educational purpose only.

1.8 Organization of the Study

Chapter one presents the background information related to microfinance services; micro credit, micro savings and growth of SMEs in Nairobi City County. It also presents statement of the problems, objectives of the study, significance, scope and limitations anticipated by the researcher. Theories and empirical literature reviewed are presented in chapter two. Conceptualization of the study variables was also done in chapter two. Chapter three presents methods and processes of choosing the targeted population, sampling techniques, collection procedures, analysis of data and data presentation. Chapter four presents the research findings and discussions and chapter five culminates with summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents the reviewed literature on theory supporting the variable. The empirical reviewed literature related to microfinance services and growth of SMEs. Theoretical review presented theories explaining the interrelationships between the study variables. The empirical literature presented the scientific findings from the related studies. Conceptual framework presented the ideological conceptualization of the study variables.

2.2 Theoretical Review

The study was guided by information asymmetry theory, financial growth life cycle theory, sustainability theory and stages of growth theory.

2.2.1 Information Asymmetry Theory

Akerlof and Stiglitz established this theory in the 1970s. Information asymmetry is when the owner is more aware of business opportunities and threats than the lender. Knowledge asymmetry creates negative choices and moral risks that widen the financial gap, as financial institutions are reluctant to lend to volatile SMEs. The main partnerships do not suffer from market asymmetry in the right market environment, all parties have access to complete and inexpensive knowledge, and there are no uncertainties about current and future trading terms.

But real-world knowledge is neither ideal nor expensive. In addition, risks and uncertainties about future situations are characteristic of SME financial markets (Lean and Tucker, 2001). The risk category of Altman (1968) reflects this. SMEs are primarily interested in profitable businesses where they mistakenly reject credit. The prevalence of such errors creates a funding gap (Lean & Tucker, 2001). This reduces the risk of liability for information asymmetry to micro insurance.

Therefore, the theory of information asymmetry represents the interaction between micro insurance and SME growth.

2.2.2 Financial Growth Life Cycle Theory

Berger and Udell (1998) developed the theory of the financial growth cycle. This theory demonstrates a large business and explains the variety of financing options available in the business. Theory requires a change in access to knowledge and ensures that a company can understand its financial resources over time. Berger and Udell (1998) conceptually focus on information opacity and financial order in a company's lifecycle. A smaller, but more informative and opaque organization to the left of the early insider finance, trade credit and angel finance continuum. As a company progresses along the continuum, it gains access to expanded sources of external debt and capital. In the long run, businesses will have access to higher levels of equity and government debt. This model does not define an age range for each stage of development. Also, like the previous approach, it does not take into account the decline at any point in the lifecycle. In addition, it does not define the stage of business growth and includes many sources of foreign equities and liabilities that were not included in the previous model, but the retained utility is not included in the model (Ayadi, 2008).

The theory describes the sources of funding normally available at various stages of business development and the funding issues that may arise at each stage. The financial cycle model includes elements of commerce, agency, and picking theory and defines the sources of funding normally created by financial firms at each stage of a company's growth. It is common practice for start-ups to have difficulty accessing external funding due to lack of knowledge (Huyghebaert & Gucht, 2007). Personal investment from owners and funding from friends and family are the major

and most widely used sources of funding today (Ullah & Taylor, 2007). A company's owner's investment in a start-up is not limited to stocks, but includes assets such as stocks that are typically used as collateral to secure a company's debt (Basu & Parker, 2001). Companies need to raise enough money to trade, but lack of preparation in the early stages can lead to capital shortage problems. In extreme cases, the company may not be able to continue, especially in terms of competitiveness (Cressy, 2006). This theory supports the variable of microcredit services and their impact on SME growth.

2.2.3 Sustainability Theory

Sustainability theory was developed by Eckardt (1992). This theory focuses on the ability of microfinance organizations to offset long-term operating costs while meeting customer needs. In order for a financial institution to exist, a microfinance institution needs to reconcile the interests of the financial institution with the interests of welfare. The financial sustainability of microfinance institutions has two aspects: an internal aspect focused on deposits and savings, and an external aspect focused on the availability of loan loans for future credit (Morduch, 2002). This was an important hypothesis for this study, as SMEs benefit from achieving these social goals. Microcredit, micro-investment, and micro-insurance systems have these advantages.

2.2.4 Stages of Growth Theory

Greiner (1972) developed the stage of growth theory. This theory suggests that a company must go through various stages in order to succeed in growth. Companies have undergone five different stages of growth. Each phase consists of a relatively mild growth phase (evolution) that leads to a management crisis (revolution) (Gupta et al., 2013; Mckaskill, 2010). These growth stages are innovation, management, delegation, collaboration and collaboration. The company features creativity, manufacturing, distribution of products and services to consumers, long working hours

and moderate wages. Sustainable growth and proper management are defined by the path process (Audretsch, 2006).

This theory can be applied to research to save skills, manage budgeting processes, delegations, and documenting teamwork, and to promote innovation as a prerequisite for effective growth of SMEs. Without improving entrepreneurial access to microfinance services, five growth stages cannot be achieved (Mckaskill, 2010). This theory applies to analysis because SMEs go through various stages of growth before they succeed. The growth theory phase supports the micro and microcredit impacts on SME growth.

2.3 Empirical Review

This section presents the studies reviewed which relates to the variables under consideration. The studies reviewed related to microcredit services, micro saving services and micro insurance services and how they affect growth of SMEs.

2.3.1 Micro Credit and Growth of SMEs

The impact of microfinance lending on SMEs' financial performance in Kenya was assessed by Amsi, Ngare, Imo and Gachie (2017). The independent (credit factors) variable (microfinance factors) was operationalized by credit number, interest rate, collateral demand, credit repayment duration and market orientation while the financial output of dependent variable SMEs was operating by using the sales stage. 210 SMEs were targeted by the report. Stratified and basic methods of random sampling have been used. It was found that the effects of the interest rate, the collateral requirement, and duration of repayment had a negative effect on SMEs' financial results. The market orientation and the credit amount however have had a positive effect on SMEs' economic performance. The study findings contradicted the findings by Kisaka (2015) despite the

two studies having the similar objectives. The study's dependent variable was financial performance while the current study's context was on growth of SMEs.

Kisaka (2015) has investigated the effect of microcredit, micro-saving and training on small and medium-sized business development in Kenya's Machakos County. A survey research design was implemented to study 8 types of business categories in Machakos County. A structured questionnaire was used to obtain data from 100 businesses. Multiple regression analyzes were used to evaluate the connections between micro-loans, micro-savings, training and SME growth. The findings showed that micro-credit, micro-savings and training together lead to the growth of SMEs in a positive way. The influence of preparation, however, is not statistically important. Training that is not based on the real needs of SMEs may be due to this. The growth of SMEs was operationalized using qualitative measures; growth in sales, the number of employees, establishment of new branches, new technology and improvement in skills. The study targeted a small portion of 100 SMEs and no clear sampling technique used. The current study will use sales level and asset base as the proxy of growth of SMEs. In addition a large population size was considered and stratified simple random sampling will be used.

Memba (2012). has researched the effects of risk capital on the development of small and medium-sized enterprises in Kenya. 200 countrywide small and medium-sized businesses have sought to access risk capital as a source of risk capital. A sample of 100 set. Data analysis, descriptive and inferential statistics showed that venture capital was not different from bank loans in terms of stringent access requirements, which meant that a shareholding gap was still the key factor in rising small and medium-sized firms' growth. The study has also shown that MFIs have offered training for small and medium-sized enterprises to fill the void but most of them have not included them

in micro insurance. A significant positive relationship was formed between microcredits and SMEs' financial results. The political consequences of the study are that the central government must provide a welcoming atmosphere that supports the growth of microfinance institutions while ensuring that funding at favorable interest is given for a relaxed credit application conditions. Aspect of Kenya's SME growth pattern was not adequately presented and that the operationalization of financial performance was only on profitability measures. The current study used both sales and asset level as the proxies of growth of SMEs

Cooper (2012) examined the MFI's relationship to the achievements of SMEs and identified a clear correlation between microcredit and the performance of SMEs in Nairobi City County. The author claimed that the lending regulations had to be made friendly to the SMEs in order to improve the effect. The shortcoming in the analysis is that other MFI financing components such as micro-insurance and micro-savings have not been focussed. The current study addressed this research gap by determining the effect of micro credit, micro saving and micro insurance on Kenya's SME growth.

2.3.2 Micro Saving and SMEs Growth

Kinyua (2016) conducted a study of 235 000 Youth-owned SMEs in Nairobi City County, Kenya, with the purpose of evaluating the effect of microfinance access on the financing performance of SMEs. A random sample method has been employed in selecting 100 youth-owned companies and collected both primary and secondary data. Inferential statistics to determine the effect of access to microfinance on the output of enterprises with the application of a multivariable data analysis, the multilinear regression model was done. The main findings suggest that most companies are the product of young people's entrepreneurial abilities, Instead of prosperity from parents where they borrow and spend. The study further concluded that accessibility to microcredit had a positive

financial performance effect, with substantial financial performance affected by the key variables, loan access, saving mobilization, and investment training. The politics of the study were that central and county governments had an emphasis on improving entrepreneurship skills and promoting saving culture to initiate training programs with micro finance institutions. The study's findings were based on youth related SMEs while the current study considered SME's growth in Nairobi CBD, Nairobi city County, Kenya.

Rogg (2016) investigated the effects of savings on SME's performance in United States of America. Descriptive research design was used. The independent variables were savings amount and saving skills while the dependent variable was SMEs performance. The indicators of SMEs performance were PBT and sales revenue. The study found that savings increased due to the transition in savings from cash and close-liquid assets to bank accounts with increasing credit access. In addition, the study found that the service charge possibly represents the saving security of saving small and medium-sized businesses. The study was done in Developed country (United states) and policy practice may not be applicable in Kenya. The dependent variable was on financial performance while the current study will focus on growth of SMEs. The current study also used based on local data.

In Kazakhstan (2013) Schrooten and Stephan have been researching rural SMEs and household economies. Data was collected from head of households and SMEs owners. Cross sectional research design was used. The dependent variable was the savings of the SMEs and Households while the independent variables were determinants such as income levels, age, and gender. The findings showed that levels of sales have a positive impact on small businesses while other factors, age and gender have a marginal influence on small and medium-sized businesses and households'

savings. The household savings were the dependent study variable. This study bridged the gap in knowledge by showing the connection between micro-economy services on SME development.

2.3.3 Micro Insurance and Growth of SMEs

Mbithe (2013) has carried out research on the impact and success of MFI institutions SMEs in the district of Machakos. In analyse of the impact of learning, micro-insurance and microcredit microfinance services on financial results calculated by annual sales growth, multiple linear regressions were applied. The main findings of the survey show a substantial impact on financial results of the 3 variables (training, micro insurance and micro-credits). A positive coefficient was achieved with micro credit and training, while the negative coefficient with sales growth was important for micro-insurance. The political consequences were that the three variables have a substantial role for micro-finance services in the development of SMEs. The operationalization of growth of SMEs was through growth of sales while the current study used changes in sales level and asset base as measures of growth of SMEs.

Kalui and Omwansa (2015) analyzed the impact on financial output of small and medium-sized enterprises by microfinance institutions' products; a case in Machakos, Kenya. The research design has been used since the researchers have collected data through descriptions, and this design also helps to define variables and hypothesis. Random stratified sampling methods have been used, and 372 have been calculated as the sample size. Primary data were obtained using surveys from owners and managers of small and medium-sized enterprises. The study found that after the risk event, the time taken to pay affects the business' financial performance. The insurance premiums that the MFIs earn have an impact on the business's financial results. These findings demonstrated the impact on the financial performance of SMEs of provided MFI products (micro savings, micro-credits, micro-insurance and training). The financial performance metrics were: the amount of

business capital and the amount of net profit realized by the company. SMEs will be rising under the current study background. The indicators of growth of SMEs were; sales level and asset level.

The impact of products from microfinance companies in the financial performance of small and medium-sized enterprises in Garissa County was founded by Buro and Simiyu (2017). A descriptive research design was used in the study. The correlation results showed that SMEs have positive and important related micro-credit, micro-economy, micro- insurance, training and success ($r = 0,946$, $p = 0,000$). The results of the regression showed that the relationship between the micro-financial institutions and their success in Garissa County is actually moderated by Islamic financing principles. The study also highlighted future changes in Kenya's microfinance activities. The financial performance metrics were: the amount of business capital and the amount of net profit realized by the company. SMEs was rising under the current study background. SME growth metrics are; level of revenue and level of assets.

Chole (2017) researched the effects of microfinance institutions' services on the success of micro and small enterprises in Nairobi City County, Kenya, in the Kariobangi light industry. This research was carried out in Kariobangi Light Industries, Nairobi City County and targeted MSE operators. The basic objectives of this study were: to determine the impact of the saving services of MFIs on the performance of MSEs in the Kariobangi Light Industry, to determine the impact of the loan services of MFIs on the performance of MSEs in the Kariobangi Light Industry, and to investigate the impact of the micro insurance services of MFIs on the performance of MSEs in the Kariobangi Light Industry. The study followed a comprehensive research design aimed at a full census of 210 MSEs. Using structure questionnaires, primary data was collected while secondary

data from related literature was collected. To gather primary data from the respondents, the study used self-administered questionnaires. To determine the relationship between the research variables, a cross-tabulation of variables was created. To evaluate the effects of MFI on the output of MSEs in the study field, linear regression and Chi-Square tests were performed. The research findings revealed that the performance of MSEs in Kariobangi Light Industries was positively affected by MFI deposits, loan services and micro insurance services. The study suggested that the saving products provided by MFI be diversified to include products such as insurance, shares bought, among others, in order to attract customers. These will go together to resolve the challenge of restricted goods for certain MFIs. The study based on light industry MSEs in Kariobangi in Nairobi, Kenya. The target respondents were small enough to provide Kenya's SMEs with findings and policy recommendations. The current study concentrated on SME development in Kenya.

2.4 Research Gaps Summary

Table 2.1 Research Gaps Summary

Author	Title	Major Findings	Identified Gaps	Gaps to be Filled
Amsi,Ngare,Imoand Gachie(2017)	Microfinance credit effect on Kenya's financial results of SMEs	The financial performance of small and medium-sized companies was influenced by the interest rate, collateral requirements and the repayment period.	The study's dependent variable was financial performance	The current study's context was on growth of SMEs.
Kisaka (2015)	Studied the impact on small to medium-sized enterprises in Machakos County, Kenya of microcredit, micro-saving and training	The findings demonstrated that microcredit, micro economy and education lead jointly to the growth of SMEs.	The study targeted a small portion of 100 SMEs and no clear sampling technique used.	The current study used sales level and asset base as the proxy of growth of SMEs. stratified simple random sampling was used.
Memba(2012)	The study examined the effect of risk capital on Kenya's small and medium-sized companies' growth	The key observations were that the conditions for access to capital funds were different in terms of Venture Capital from bank loans, which meant that capital gaps were the main reason for boosting the growth of SMEs	The aspect of growth trend of the SMEs in Kenya was not adequately presented and that the operationalization of financial performance was only on profitability measures.	The current study used both sales and asset level as the proxies of growth of SMEs

Cooper(2012)	evaluation of the relationship between MFI products and the results of SMEs	The correlation between micro-credit and SME performance has been found to be positive for Nairobi.	The gap in the survey is that other components like micro-insurance and micro-saving MFI financing were not discussed.	This research gap was addressed in the current report by assessing the impact of micro-credit, micro-saving and micro insurance on Kenya's SME development.
Kinyua (2016)	Identify the effect on the financial results of SMEs of access to microfinance.	Significant variables of financial results, access to credit, mobilisation savings, preparation for investment all benefited.	The findings were based on youth related SMEs	The current study considered growth of SMEs in Nairobi CBD, Nairobi city County, Kenya.
Rogg (2016)	Investigated the effects of savings on performance of SMEs in United States of America.	The study found that a change in savings from cash and near liquid assets into depository accounts increases the savings amount with an improvement in the credit access.	The research was done in Developed country (United states) and policy practice may not be applicable in Kenya. The dependent variable was on financial performance.	The current study focused on growth of SMEs. The current study was based on local data.
Schrooten and Stephan (2013)	In Kazakhstan a rural study based on SMEs and households.	Revenue levels have a positive effect on SME saving	The study dependent variable was household savings.	This study helped bridge the knowledge gap by showing the connection between micro economies in SMEs

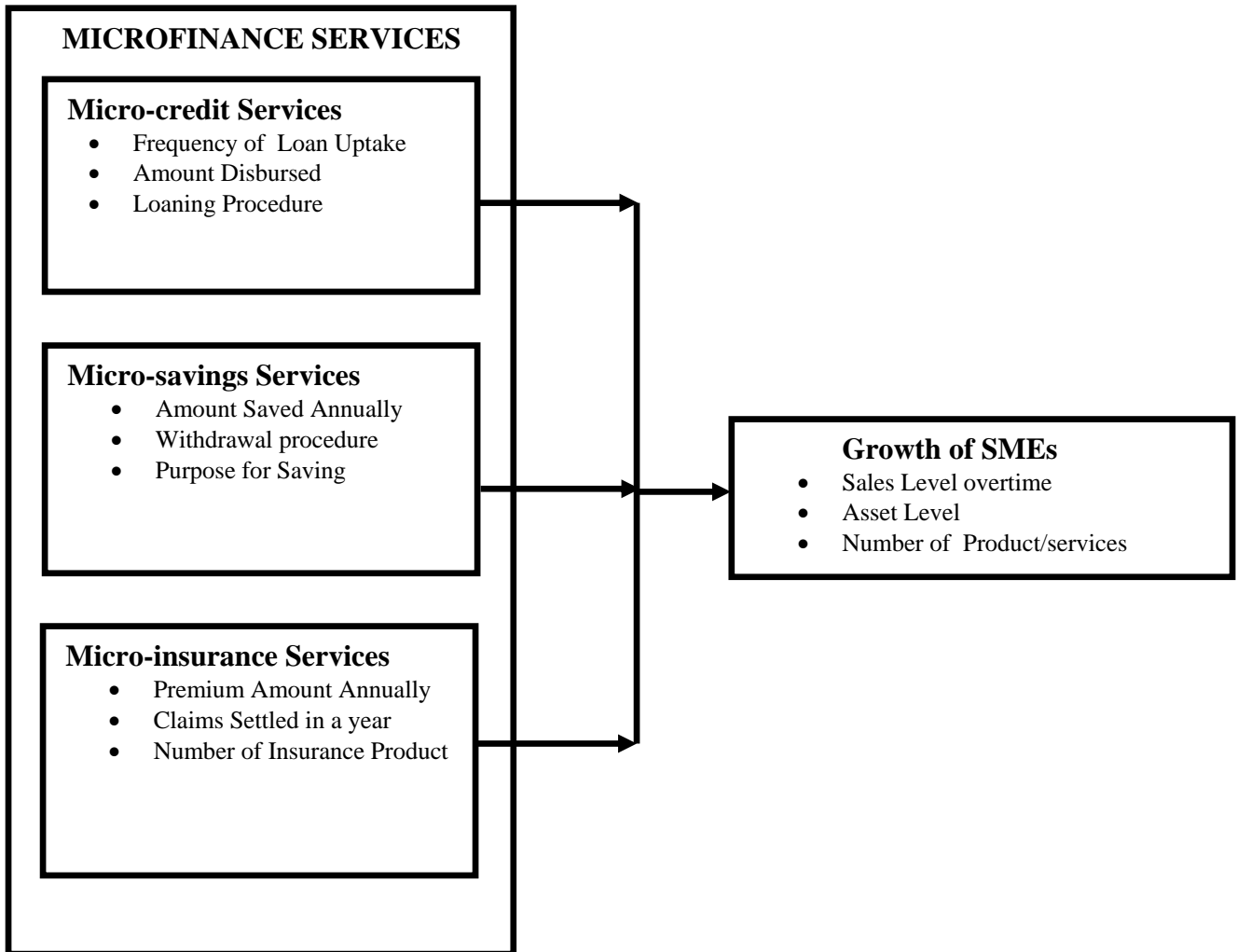
Mbithe(2013)	Research was conducted on the effects of MFI and SMEs in the county of Machakos.	All three variables (training, micro-insurance and microcredit) have major effect on financial results, according to the main study findings.	The operationalization of growth of SMEs was through growth of sales	The current study used changes in sales level and asset base as measures of growth of SMEs.
Kalui and Omwansa (2015)	Studied the impact on the financial performance of SMEs of microfinance institutions; Machakos region, Kenya	The findings have shown that the offered MFI products (micro, micro, micro and training) affect the financial performance of small and medium-size enterprises.	The measures of financial performance were; the amount of business capital and the amount realized by the business for net profits.	The current background of the study focused on SME development. The SME growth metrics were: the level of revenue and the level of assets;
Buro and Simiyu (2017)	The effect of microfinance products has been built in Garissa County on the financial performance of small and medium-sized companies.	The results of the regression showed that the ideas of Islamic finance actually have moderating effect in relation to the production of small and medium-sized enterprises in Garissa County between products provided by micro financing institutions	The measures of financial performance were; the amount of business capital and the amount realized by the business for net profits.	The current study context concentrated on the production of SMEs. The amount of income and the level of assets was the SME growth metrics.

Chole(2017)	Studied the effects on the success of small and micro businesses in Kariobangi Light Industry in Nairobi City County, Kenya, by services provided by microfinance institutions.	The research findings revealed that the performance of MSEs in Kariobangi Light Industries was positively affected by MFI deposits, loan services and micro insurance services.	The study based on light industry MSEs in Kariobangi in Nairobi City County, Kenya. The target respondents were small enough to provide Kenya's SMEs with findings and policy recommendations.	The current study focused on growth of SMEs in Kenya.
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Source: Researcher (2020)

2.5 Conceptual Framework

The conceptual structure presents the relationship between dependent variables and independent variables. Microcredit, micro savings and micro-insurance are independent variables. SME growth was the dependent variable.



Source: Researcher (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In a specific area of analysis, research methodology sets out the approach to inquiry. This section covers important techniques, this includes: design of the study, sampling procedure design, data collection methods, research techniques, and data analysis methods.

The chapter outlines the methodology that the researcher used in undertaking the study. This involved; research design, target population, sampling techniques and sample size, research instruments, validity and reliability, data collection procedure, data analysis and ethical consideration

3.2 Research Design

The design of research includes the preparation of conditions needed for the collection and analysis of field data (Kothari, 2011). A descriptive research design was used in the study. Descriptive approach for analysis focuses on identifying a study phenomenon, where and how (Mugenda & Mugenda, 2013). This approach is acceptable as this study is intended to investigate the effects of microfinance in Nairobi CBD, Nairobi County, Kenya. Descriptive research design was embraced by the study because it makes it easier to generalize the results to a wider population.

3.3 Target Population

The population is the set of measurable elements that can draw inferences from similar properties (Cooper & Schindler, 2006). Population also implies a whole community of individuals, items, events or objects with a common observable feature (Mugenda & Mugenda, 2011). The target population is the part of the population from which a researcher samples, and then assumes that the whole population can be implemented. The research concentrated on SMEs in the central business district of Nairobi City County and formed the unit of analysis.

The unit of observation was the SMEs owners or managers operating those businesses. The boundary used is the consideration of trading licenses for Nairobi City County (NCC), which were only taken from SMEs for this qualification. The researcher targeted owners and managers of CBD-based SMEs from across all sectors of the licensing department for the city of Nairobi in 2020. Nairobi CBD contains around 8 clusters of subsectors, which are divided by NCCs through different sectors using business codes. These include retailance, transportation, lodging, catering, entertainment, medicines and wellness, technology and real estate. These were the main sectors targeted in this survey. The Nairobi department of business licensing (2020) reported that CBD region had 33,701 SMEs by December 2020, from the key sectors mentioned.

Table 3.1 Target Population

SME sectors	Population in NCBD
Jua Kali- Informal Sector	758
Wholesale and Retail trade sector	13,451
Natural resources, forestry and agriculture sector	1,821
Hospitality Sector-catering and hotels	2,953
Technical and professional services	6,240
Entertainment, health and private education	3,936
Communications, storage and transport	2,232
Workshops, factories and industrial plants	2,310
TOTAL	33,701

Source: Department of Licensing in Nairobi City County (2020)

3.4 Sampling Design

The design of the sample involves a sampling frame, sample size and sampling technique. The sample frame is a list of components which draw the sample of the observing units, according to Cooper and Schindler (2006). The sample structure of this study involved management and owners of the 33,701 SMEs operating in the Nairobi Central Business District. The small and

medium-sized businesses from which the sample was taken had a commercial license at least for Nairobi City County.

The method of sampling is the procedure used to classify and pick the entities in an example (OECD, 2004). In this analysis, 8 clusters of categories were used to categorize companies on the basis of stratified sampling. The stratified sampling allows the participation of all constituents of a sample population, according to Kothari (2011). A representative sample can be collected from these clusters and represent all types of companies in the CBD of Nairobi City County, Kenya, can be selected from each individual cluster.

The sub-set of the large population becomes the sample (Cooper & Schindler, 2006). This study included all small and medium-sized enterprises operating in the central business district of Nairobi City which are approved by the city county government. The researcher used Slovin formula to determine the sample size of the analysis.

The Formula of Slovin is as follows:

$n = N / (1 + NE^2)$ where the factors n stands for the sample, N stands for the population, E stands for the error margins which is estimated to be 0.05

$$n = \frac{33701}{1+(33701*0.05^2)} \quad n = 395$$

Table 3.2 Sample size

Category of SME	SMEs (X)	$X/1+(33701*.05^2)$	Sample Size
Jua Kali-Informal Sector	758	8.89	9
Wholesale and Retail trade sector	13,451	157.78	158
Natural resources, forestry and agriculture sector	1,821	21.36	21
Hospitality Sector-catering and hotels	2,953	34.64	35
Technical and professional services	6,240	73.20	73
Entertainment, health and private education	3,936	46.17	46
Communications, storage and transport	2,232	26.18	26
Workshops, factories and industrial plants	2,310	27.10	27
TOTAL	37,701		395

Source: Licensing Department of Nairobi City County (2020)

3.5 Data Collection Instruments

The data collection tool is the tool used in the collection of information for research purposes (Orodho, 2009). In order to collect primary field survey information, the research used questionnaires. The questionnaires were designed with open and closed questionnaires that are helpful in ensuring that respondents had an accurate and convenient response time. A 5-point likert scale was used to obtain data in which 1 is the least satisfying level and 5 the highest satisfying level. In multiple parts, the questionnaire consisted of demographic details in the first section, and subsequent sections cover the study specific objectives. Secondary data was also obtained by means of desk analysis through an evaluation of previously available academic material on microfinance and SME growth services.

3.6 Data Collection Procedure

The researchers requested a letter of approval from Kenyatta University and a NACOSTI permit letter to help persuade correspondents and participants of the validity of the academic exercise of the field survey. The questionnaire were sent in person via a drop and pick later process to all respondents. The questionnaire was completed by respondents utilizing

approximately 10 minutes who were able to answer the questionnaire instantly. The researcher followed up the questionnaires by telephone calls and text messages to allow the respondents to complete the questionnaire in due time for the data analysis. A time of seven days is sufficient for respondents to complete the questionnaire.

3.6.1 Pilot Study

A pilot study was performed so that questions that may be misunderstood or ambiguous by respondents are resolved. In addition, the test allowed the researcher to eliminate typing errors and to assess the validity of the research questions. When doing a pilot test, the researcher used 10% (40) of the sample size. For the pilot test, 40 SMEs was chosen and questionnaire issued. Hertzog (2008) claimed that 10% of the sample size should be used when performing a pilot test. In addition, the group participating in the pilot study was chosen using a random sample.

3.7 Validity and Reliability of Research Instruments

3.7.1 Validity of Research Instruments

The validity of the data collection tool is specified as accurate measurement or definition of an element (Creswell, 2014). During the report, the researcher used both content and face validity. In order to minimize vague or misinterpreted questions, face validity is used. With respect to Kothari's statement (2012), performing a pilot test helps to minimize each question's validity. The validity of content is a measure of all things within a specific social system. The validity of this study was improved by interviewing competent staff, such as the supervisor. In the course of a feasibility study, analysis boosted the pertinence and transparency of the data collection method.

3.7.2 Reliability of Data Collection Tools

Reliability is the data collection tool's ability to produce consistent results when performed in a similar environment or type of subject. The internal coherence of the data collected during

the current study was calculated to determine the reliability of data collection instruments (Kothari, 2009). The calculation of internal consistency was expected to correlate each object in a similar construct with the other. The coefficient of Cronbach Alpha is the correct approach for internal consistency calculation. Typically the efficiency of data collection increases as alpha values increases. The values vary between 0 and 1. If the alpha value reaches 0.7, the data collection devices are regarded as reliable (Creswell, 2014). The researcher therefore ensured that the alpha value of Cronbach's data collection instrument was higher than 0.7.

Table 3.3: Reliability results

Constructs	Test Values	Comments
Micro savings services	0.768	Accepted
Micro credit services	0.842	Accepted
Micro insurance services	0.814	Accepted

Source: Research Data (2021)

A total of 40 participants took part in the pilot study, accounting for 10% of the total sample size of 395 people. This was consistent with the research project's general rule of thumb and qualitative research design methodology. According to the reliability test, the scales used in this analysis were effective in capturing the constructs.

3.8 Data Analysis and Presentation

The questionnaires were organized and prepared for data analysis after the completion of the field survey. Data collected from interviewees was closely checked and confirmed for completeness and consistence before study. The data was analyzed with frequency tables and with several regressions. Analysis of the coded data carried out through SPSS version 23. Highlights from the descriptive statistics showed achievement of central tendencies. Person correlation coefficient employed to determine the strength of linear relationship between the

variable. The F-test and T-test established the probability of the relationship represented by the analysis to have existed. The altered R² tested the presence of moderation in the model. The model utilized Person's r and spearman's rho to show the strength of the relationship in the variables.

3.8.1 Operationalization and Measurement of Variables

The study's independent variable was microfinance services. The proxies of microfinance services were; micro credit, micro savings, and micro insurance. Consequently, the study's dependent variable was sales level.

Table 3.2: Operationalization and Variable Measurement

Variable	Type	Operationalization	Measurements
Growth of SMEs	Dependent Variable	Profitability (profit)	Ordinal
Micro Credit	Independent Variable	Frequency of loan uptake, amount disbursed and loaning procedure	Ordinal
Micro Savings	Independent Variable	Amount saved annually, withdrawal procedure And purpose for saving	Ordinal
Micro Insurance	Independent Variable	Premium amount annually, claims settled in a year and number of insurance product	Ordinal

Source: Researcher, (2020)

3.8.2 Study Model

In evaluating the relationship between the study variables, correlation and multiple regression analyses was used. During the analysis, a confidence level of 95% and a significant level of 0.05 was used. In order to have a significant effect on the dependent variable of an independent variable, its value P should not surpass the significant sum of 0.05.

The model that reflects the variables interrelations was as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Here, the measurements are designated thus:

Y = Sales Level overtime of SMEs

X_1 = Micro credit services

X_2 = Micro savings services

X_3 = Micro insurance services

β_0 = Constant

β_1 , β_2 and β_3 = coefficient of the independent variables X_1 , X_2 and X_3 respectively.

ε = Error term

3.9 Ethical Considerations

The study adhered to Kenyatta University graduate school rules and regulation. The researcher submitted a graduate school authorization letter to the respondents prior to the commencement of the study. The purpose of the study was clearly outlined in the NACOSTI research permit letter. The consent of the respondents was sought through communicating to them directly and through the authorization letter from Kenyatta University. Confidentiality was maintained and a copy of the research results was presented to the research respondents.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The interpretation of results and discussion of the study are presented in this section, which is based on the research methodology. The focus of this discussion is on the pilot study's findings, the response rate, demographic data as a measure of inclusivity, and the interpretation of the different study variables. The key results are presented in order to keep in mind the study's ultimate goal, which was to test the effects of microfinance services on the growth of SMEs in Nairobi County, Kenya.

4.2 Response Rate

The response rate refers to the number of people who complete a survey. The number of actual respondents or participants divided by the total number of targeted participants as determined by the sample size is the response rate (Draugalis, Coons & Plaza, 2008). If the response rate rises, the likelihood of nonresponse bias decreases, enhancing the potential to generalize results to the original target population (Draugalis & Plaza, 2009). A high response rate in a survey helps to ensure that the findings are representative of the survey population. The aim of the study was to determine the overall percentage of respondents who took part in the study versus the targeted respondents. As a result, it was easier to decide whether the study had a sufficient number of participants to draw conclusions and make recommendations.

Table 4.1 Response Rate

Category of SME	Sample Size	Frequency	Percentage
Informal Sector (Jua Kali)	9	7	77.78%
General Trade, Wholesale, Retails, Stores	158	151	95.57%
Agriculture, Forestry and Natural Resources	21	20	95.24%
Accommodation and Catering (Hospitality)	35	33	94.29%
Professional and Technical Services	73	69	94.52%
Private Education, Health and Entertainment	46	41	89.13%
Transport, Storage and Communications	26	22	84.62%
Industrial Plants, Factories and Workshops	27	22	81.48%
TOTAL	395	368	93.16%

Source: Research Data (2021)

A total of 395 people were surveyed using a standardized questionnaire for the report. According to the information gathered, 329 of the 395 questionnaires were successfully administered, representing 93.16 percent response rate. However, for the individual industry categories, Informal Sector had 77.78% response rate, general trade, wholesale, retails, stores had 95.57% response rate, agriculture, forestry and natural resources had 95.24%, accommodation and catering (hospitality) had 94.29%, professional and technical services had 94.52%, private education, health and entertainment was 89.13%, transport, storage and communications had 84.62% and industrial plants, factories and workshops had 81.48% response rate. According to Mugenda and Mugenda (2003), response rates of 50%, 60%, and above 70% are satisfactory, good, and excellent, respectively. The conclusion drawn from this is that the 83.29 percent achieved here is excellent. Self-administered questionnaires and follow-up phone calls encouraged respondents to complete the questionnaires that were left behind, resulting in a high response rate.

4.3 Demographic Statistics

It is necessary to ask the respondents for context details in order to establish a concrete relationship between the respondents and the researcher in order to improve the feasibility

of a sample (Axinn, Link & Groves, 2011). In this regard, the respondents were asked to provide demographic details such as gender, level of education, and how long they have operated the business. Tables 4.3 and 4.4, and Table 4.5, show these.

4.3.1 Gender of the Respondents

The study sought to establish the gender of the respondents. Results presented in table 4.2.

Table 4.2 Gender of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	238	64.7	64.7	64.7
Valid Female	130	35.3	35.3	100.0
Total	368	100.0	100.0	

Table 4.2 shows that males made up 64.7 percent of the respondents, while females made up 35.3 percent. The results suggest that both genders were represented in the sample, but they also support the assertion that men own and/or control the majority of SMEs. This is in line with Abdul's (2019) research on gender gaps in entrepreneurship, which found that women's entrepreneurship rates are lower than men's. Women and men do not have equal access to opportunities around the world, which tends to limit women's ability to start and expand businesses.

4.3.2 Level of Education

The aim of the study was to determine the distribution of respondents' educational backgrounds based on their highest level of schooling. When it comes to education, SME owners are a diverse community. The results are reflected in Table 4.3.

Table 4.3 Level of Education

Kindly indicate your highest level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Phd	1	.3	.3	.3
MBA	39	10.6	10.6	10.9
Degree	44	12.0	12.0	22.8
Diploma	144	39.1	39.1	62.0
KCSE cert	140	38.0	38.0	100.0
Total	368	100.0	100.0	

Source: Research Data (2021)

The results shown in table 4.3 indicate that a majority of the respondents had a diploma level of education comprising 39.1%, closely followed by 38.0% who had a KCSE certificate level of education. The respondents with degree level comprised of 12% of the total respondents, 10.6% had MBA level of education while only 0.3% had a Phd as the highest level of education. The results suggest that all of the respondents had some level of schooling, making it simpler and more reliable to answer to the study questions. However, the findings contradict Ardic et al., (2011) findings that many SMEs are owned by people with low educational backgrounds because many of them are unable to find work and therefore start their own businesses. In general, education is thought to be critical for the success of entrepreneurial activity, with evidence that education has a significant impact on income for at least some groups of entrepreneurs. More significantly, entrepreneurship education is critical for economic development because it unlocks young people's entrepreneurial potential by assisting them in developing a keener eye for entrepreneurial prospects, project management skills, and a willingness to take on responsibility (Moberg, Vestergaard, Fayolle, Redford, Cooney, Singer, & Filip, 2014).

4.3.3 Duration of Business Operations

The aim of the study was to figure out how old the respondents' businesses were. Table 4.4 presents the results.

Table 4.4 Duration of Business Operation

	Frequency	Percent	Valid Percent	Cumulative Percent
less than 2 years	28	7.6	7.6	7.6
2-5 years	85	23.1	23.1	30.7
Valid 6-10 years	94	25.5	25.5	56.3
more than 10 years	161	43.8	43.8	100.0
Total	368	100.0	100.0	

Source: Research Data (2021)

The study results indicate that majority of the businesses 43.8% had operated for more than 10 years. 7.6 % had operated for less than 2 years, 23.1% had operated for 2 to 5 years, 25.5% had operated for 6 to 10 years. The reasoning for the positive effect of length of service on self-employment is based on the idea that as time passes, the amount of financial and human capital that one has and that is required to start and run a company grows. The study discovered that age is a factor in all aspects of industry. Furthermore, older people's social and business networks will assist them in realizing their entrepreneurial dreams.

4.4 Descriptive Study Results

The analysis was led by three independent variables and one dependent variable. The independent variables included microcredit, micro saving, and micro insurance services. The dependent variable was growth of SMEs. The results are hereby provided as per the variables where respondents were asked detailed questions based on their information on the variables.

4.4.1 Microcredit on SME's Growth

The results are hereby provided as per the variables where respondents were asked detailed questions based on their information on the variables. In the past five years, all the SME owners

had at one point used some microcredit facility. The results were presented in tables 4.6, table 4.5 and table 4.6

Table 4.5 Microcredit Loan Amount

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than Ksh:250,000	40	10.9	10.9	10.9
Between Ksh:250,001 - 500,000	120	32.6	32.6	43.5
Between Ksh:500,001 - 750,000	75	20.4	20.4	63.9
Between Ksh:750,001 - 1,000,000	97	26.4	26.4	90.2
Over Kshs.1,000,000	36	9.8	9.8	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The findings in table 4.5 presents that 32.6% of the SME owners had taken between Kshs. 250,001 to 500,000. 26.4 per cent and 20.4 per cent of SME owners had taken 750,001-1000,000 and Kshs. 500,001-750,000 respectively. The minority 10.9 and 9.8 per cent of the respondents had taken less than Kshs. 250,000 and over Kshs. 1,000,000 respectively. It is evident that SMEs take moderate loans of not more than Kshs1,000,000. This is attributed to lack of collateral to secure huge loans which require security and lack of capability and character forces SMEs to settle for lower amounts of loans.

The respondents were requested to indicate the reason for loan uptake. They indicated various reasons, which were summarized in the table 4.6

Table 4.6 Loan Purpose

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Starting up the business	238	64.7	64.7	64.7
Expanding the business	130	35.3	35.3	100.0
Total	368	100.0	100.0	

Source: Source Data (2021)

The results indicate that there were two main reason why the SMEs took loans. The reasons were; to expand their business and to start a new business. Majority of the respondents 64.7%

had borrowed money from MFIs and other financial institutions for purposes of starting a business. The minority 35.3% needed the money for expansion purposes clearly indicating the need for the SMEs to grow their business by borrowing money from various financial institutions.

The owners of the SMEs were requested to comment on statements relating to microfinance loans.

Table 4.7 Micro-credit Loans

	Mean	Std. Deviation
The loan size issued by the banks is able to cater the business needs	1.65	.748
The rates of interests charged is fair and affordable by the business	2.67	1.262
I frequently take loans to expand my businesses	3.06	1.212
Loaning procedure are effective	2.61	.594
The loan size issued by the banks is able to cater the business needs	2.68	1.248
Valid N (list wise)		

Source: Survey Data (2021)

The results in Table 4.7 of the study indicated that loan size issued by the banks were unable to cater the business needs (mean=1.65), the SME owners indicated that rates of interests charged are unfair and unaffordable by the business (mean=2.67), moderately the entrepreneurs indicated that they had taken loans to expand my businesses (mean=3.06) and that they indicated that the loaning procedure are ineffective (Mean=2.61). Additionally, the respondents indicated that the loan size issued by the banks were unable to cater the business needs (Mean=2.68). It was clearly presented that credit services by the SMEs were not effectively accessible and it was costly and unmanageable.

4.4.2 Micro-saving Services and SME Growth

The study sought to determine the average amount of savings done by the SMEs and saving practices done such as friendly money withdrawal procedures, sufficiency of loaned amount, minimum amount saved every month and saving procedures. The results were presented in tables 4.8 and 4.9.

Table 4.8 Average Savings Range

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than KES:50,000	49	13.3	13.3	13.3
KES:50,001 - 100,000	41	11.1	11.1	24.5
KES:100,001 - 150,000	41	11.1	11.1	35.6
KES:150,001 - 200,000	112	30.4	30.4	66.0
KES:200,000 and over	125	34.0	34.0	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The results on average saving for the SMEs as shown in Table 4.8 indicates that majority (34%) of the SMEs contacted had saved more than Kes: 200,000. The results also indicate that 30.4% had saved Kes: 150, 001 to 200,000. The minority of the SMEs, 11.1%, 11.1% and 13.3% had saved KES: 100,001 to 150,000, KES: 50,001 to 100,000 and less than KES: 50,000.00 respectively. It was evident that majority of SMEs embraced the culture of savings in various financial institutions savings accounts and savings through mobile banking platforms.

The respondents were further requested to comment on micro savings level using a Likert scale of 1 to 5. Mean was used to measure the extent of agreement or disagreement level with high mean indicating high satisfaction/agreement level. The results were presented in Table 4.10.

Table 4.9: Micro-saving services

	Mean	Std. Deviation
There is increased amount of money saved annually	4.46	.536
There are friendly money withdrawal procedures	4.33	.509
The saved amount were sufficient to fund the business	1.62	.538
You are required to save a minimum amount every month	2.75	.675
There are simple withdrawal and savings procedures	4.72	.451
Valid N (list wise)		

Source: Survey Data (2021)

The results in table 4.9 indicates that SME owners had increased the amount of money saved annually, they face friendly money withdrawal procedures and that financial institutions and mobile platforms used have simple withdrawal and savings procedures as reflected in high mean of 4.46, 4.33 and 4.72 respectively. However, majority of the SMEs indicated that there is no certain minimum amount saved every month and that the saved amount were sufficient to fund the business as shown by low mean of 2.75 and 1.62. This informs that the amount saved by SMEs are not enough to help fund the SMEs operational costs and expansion needs

4.4.3 Micro-insurance Services on Growth of SMEs

In this section, the study sought to establish in the past five years (2016 to 2020) the insurance services sought and the impact it had on SMEs growth. All SMEs contacted indicated that they had earned insurance cover from institutions at one point in the last 5 years (2016 to 2020). The results on micro-insurance services were discussed and tabulated in the tables 4.10 and 4.11.

Table 4.10 Amount of Micro-Insurance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than KES:1,000	44	12.0	12.0	12.0
Between KES:1,001- 3,000	127	34.5	34.5	46.5
Between KES:3,001-5,000	75	20.4	20.4	66.8
Between KES:5,001- 10,000	94	25.5	25.5	92.4
Over KES:10,000	28	7.6	7.6	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The results in Table 4.10 presents that 34.5% of the SME owners pay a premium of between KES: 1,001 to 3,000, 25.5% pay a premium of KES:5001 to 10,000, 20.4% pay KES: 3,001 to 5000, 12% of the SMEs owners pay less than KES: 1,000 and 7.6% pays more than KES: 10,000. The micro insurance premium is a clear indication that the SME owner prefer lowly priced insurance covers. It is also clear that majority cannot afford highly priced insurance covers due to the liquidity levels and inability of the business to meet its operational costs.

The SME owners were requested to rate the micro-insurance services received from microfinance institutions. The response from the respondents were summarized in Table 4.11.

Table 4.11 Micro-insurance Services

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Insurance coverage offered by the MFIs affects the growth of the company	368	3	5	4.60	.582
The insurance premiums paid amount are conducive	368	1	5	4.38	.878
The time taken to compensate is fairly considerable	368	1	5	2.56	1.603
Valid N (listwise)	368				

Source: Survey Data (2021)

The study results in Table 4.11 indicates that insurance coverage offered by the MFIs greatly affects the growth of the company (Mean=4.60). Majority indicated that the insurance premiums paid amount are conducive but the time taken to compensate for the losses is fairly extensive as represented by mean of 4.38 and 2.56 respectively. The results clearly indicate the need to shorten the time taken to compensate in consideration of SMEs business continuity. It was also indicated that micro-insurance services greatly affects the business survival in the long run and consequently affects their growth levels.

4.4.4 Growth of SMEs

The growth of SMEs was the study’s dependent variable. The indicators of growth of SMEs were; sales level overtime, asset level and number of product/services, the level of SME growth was presented in tables 4.12, 4.13 and 4.14.

Table 4.12 Growth Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Positive	342	92.9	92.9	92.9
Negative	26	7.1	7.1	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The findings indicate that majority of the SME owners (92.9%) have experienced growth in revenue levels over the past five years (2016 to 2020). The minority (7.1%) have faced a decline in the growth of SMEs in Nairobi CBD. The growth in the last five years could be attributed to decentralization of services and ability of SMEs to match the growth of Kenyan GDP.

The respondents were requested to indicate the extent of growth of sales, assets and more other SME resources. The results are presented in Table 4.13.

Table 4.13. Growth Level

	Mean	Std. Deviation
Increase in sales	3.9185	1.2479
Increase in selling price	4.1929	1.0164
Increased changes in the number of product/services sold	4.7717	1.0773
Improved company image	4.2527	1.0512
Increased number of customers	4.0272	1.0320
The number of assets (Motor vehicle, cash, inventory, debtors, fitting and furnitures, good will, prepayments, receivables) have increased over the last five years	4.3533	.4786
The size of assets (Motor vehicle, cash, inventory, debtors, fitting and furnitures, good will, prepayments, receivables) have increased over the last five years	3.9033	1.1126

Source: Survey Data (2021)

The result in table 4.13 presents that generally the SMEs have experienced growth in terms of sales growth, selling price increase, increased changes in the number of product/services sold, goodwill as a result of company's growth, customer growth, increased non-current and current asset levels and growth in the number and value of the assets. These were supported by high mean rate as indicated in the table 4.13. Therefore, it is reported that there was a huge growth in SMEs in terms of Sales, product and customer level in the years 2016 to 2020.

The SMEs were requested to indicate the average sales for last five years (2016-2020). The results were reflected in table 4.14.

Table 4.14 Average Sale Per Year (2016-2020)

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than KES 1000,000	29	7.9	7.9	7.9
Between KES 1000,001-3000,000	68	18.5	18.5	26.4
Between KES 3000,001-5000,000	27	7.3	7.3	33.7
Between KES 5000,001-10,000,000	103	28.0	28.0	61.7
Over KES 10,000,000	141	38.3	38.3	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The study results indicate that majority of the SMEs 38.3% had an average annual sales of over KES: 10,000,000.00. These SMEs were closely followed by 28% who made KES: 5M to 10M. The minority had made sales less than 5M, who included 7.3% of the SMEs making 3M to 5M, 18.5% of SMEs making 1M to 3M and 7.9% of SMEs making less than 1M. These was a clear indication that the SMEs had managed to grow their sales for the period considered (2016-2020).

The average asset growth level for the 2016-2020 period were summarized in Table 4.15.

Table 4.15 Average Asset Level for last five years (2016-2020)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Below KES 3,000,000	29	7.9	7.9	7.9
KES 3,000,001- 5,000,000	70	19.0	19.0	26.9
KES 5,000,001- 10,000,000	30	8.2	8.2	35.1
KES 10,000,001-20,000,000	105	28.5	28.5	63.6
Over KES 20,000,000	134	36.4	36.4	100.0
Total	368	100.0	100.0	

Source: Survey Data (2021)

The results in Table 4.15 indicates that 36.4% and 28.5% of the SME owners had achieved asset value worth more than 20M and more than 10M respectively. 19% of the respondents had made KES 3,000,001- 5,000,000, 8.2% had asset worth KES 5,000,001- 10,000,000 and 7.9% had asset worth less than 3M. These was a true reflection of the growth in sales level for these businesses needed assets to generate revenues. The growth in assets was directly proportional to the unit changes in sales, indicating the need to finance both current and non-current assets in the business.

4.5 Regression Analysis

Regression analysis presented the linear relationship between variables. The section presents the coefficient of correlation and determination which measures the nature and strength of

relationship amongst variables. The section presents the model summary in Table 4.16, analysis of variance in Table 4.16 and coefficient values in Table 4.17.

Table 4.16 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877 ^a	.769	.751	1.20412

a. Predictors: (Constant), Micro-credit, Micro-saving, Micro-insurance

The results in table 4.16 presents the Pearson's R (Correlation coefficients) which was used to measure how strong a relationship is between two variables. Pearson's R of 0.877 indicates that there was a strong linear relationship between variables. The Adjusted R Square of 0.751 represents the coefficient of determination which is a measurement used to explain how much variability of one factor can be caused by its relationship to another related factor. This correlation, known as the "goodness of fit," is represented as a value between 0.0 and 1.0. The value of 0.751 indicates that 75.1% changes in growth of SMEs was explained by Micro-credit, Micro-saving and Micro-insurance (X₁, X₂ and X₃) and 24.9% changes in growth of SMEs explained by other factors not considered in the model.

Table 4.17 ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	43.788	3	14.596	10.067	.000 ^b
Residual	527.766	364	1.450		
Total	571.554	367			

a. Dependent Variable: Growth of SMEs

b. Predictors: (Constant), Micro-credit, Micro-saving and Micro-insurance

Source: Survey Data (2021)

This is the table that shows the output of the ANOVA analysis and whether there is a statistically significant difference between means. Table 4.17 shows the significance value of

0.000 (i.e., $p = .000$), which is below 0.05. and, therefore, there is a statistically significant effect of microfinance services on growth of SMEs.

Table 4.18 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	17.657	.620		28.478	.000
1 Micro-credit	-.184	.045	-.254	-4.088	.000
Micro-saving	.136	.046	.208	2.954	.003
Micro-insurance	.132	.058	.135	2.288	.023

a. Dependent Variable: Growth of SMEs

Source: Survey Data (2021)

The adopted model was $Y = 17.657 - 0.184X_1 + 0.136X_2 + 0.132X_3 + \epsilon$

Based on the coefficients of the analysis as shown in Table 4.18. The model extrapolates that when microfinance services is zero, the growth of SMEs is 17.657 but a unit change in micro-credit, micro-savings and micro-insurance increases growth of SME by -0.184, 0.136 and 0.132 respectively. Micro-credit services had a significant negative effect on growth of SMEs. As a result of a unit change in microcredit services, growth of SME declines by 0.184 units indicating an inverse relationship between the two.

Micro saving services had a significant positive effect on growth of SMEs in Nairobi CBD. This indicates that a positive unit change in micro-saving results to positive changes in SMEs growth. Changes in micro saving services by a unit results to 0.136 unit changes in growth of SMEs.

The results from Table 4.18 indicates that micro-insurance services had a significant positive effect on growth of Small and Medium Enterprises. This indicates that a positive unit change in micro-insurance results to positive changes in SMEs growth. Changes in micro-insurance services by a unit results to 0.132 unit changes in growth of SMEs.

CHAPTER FIVE
SUMMARY OF THE FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS

5.1 Introduction

The chapter focuses on the discussion of the summary of the study findings, the conclusions and the recommendations based on the findings of the study. The main aim of the study was to examine the effect of microfinance services on the growth of SMEs in Nairobi CBD. Data was interpreted and the results of the findings were correlated with both empirical and theoretical literature available. The chapter specifically presents the summary, conclusion and recommendations systematically as per the research variables which were: micro-credit, micro-saving and micro-insurance.

5.2 Summary of the Findings

As a result, it was found that SMEs are lending to SMEs under \$ 1 million. This is due to the lack of collateral to secure large loans that require collateral and the lack of skills and character that SMEs are forced to make small loans. As a result, we found that there are two main reasons why SMEs provided loans. The reasons are as follows: To expand their business and start a new business. According to the survey, bank-issued loans could not meet business requirements, SME owners said the interest rates charged were not unfair and affordable for the company, and the loan process was ineffective.

The purpose of the survey was to determine the average savings by SMEs and the savings practices implemented, such as: It was clear that the majority of SMEs embraced the culture of saving in savings accounts at various financial institutions and saving through mobile banking platforms. As a result, SMB owners have increased their savings each year, faced amicable cash withdrawal procedures, and the financial institutions and mobile platforms they have used

have been able to easily withdraw and save. All SMEs contacted at said they had been insured by the institution at some point in the last five years (2016-2020).

The micro premium clearly shows that small business owners want cheaper insurance. It's also clear that most people can't afford high insurance because they can't cover the liquidity and operating costs of the company. The majority said the premiums paid were beneficial, but the time it takes to make up for the loss is quite long. It has also been suggested that micro-insurance services have a significant impact on a company's long-term survival and, as a result, on its growth. Growth over the last five years has been driven by service diversification and the ability of SMEs to keep up with Kenya's GDP growth. As a result, SMEs generally have increased sales, higher selling prices, increased changes in the number of products/services they sell, goodwill due to company growth, customer growth, and long-term and short-term asset growth.

5.3 Conclusions

The study concludes that microcredit services are having a significant negative impact on the growth of SMEs. As a result, changing units of microcredit services slow down the growth of SMEs, suggesting the opposite relationship. The survey concluded that micro-savings services have a significant positive impact on the growth of SMEs. This shows that a positive change in the unit of micro-saving leads to a positive change in the growth of SMEs. The survey concluded that micro-insurance services have a significant positive impact on the growth of SMEs. This shows that a positive unit change in Micro Insurance will lead to a positive change in SME growth.

5.4 Policy Recommendations

The study recommends the following;

MFIs should come up with innovative ways to finance SMEs for successful growth. This would enable MFIs play a great role in economic empowerment of SMEs in Nairobi City County.

MFIs should also collaborate with self-help groups and pyramid schemes in generating startup capital for SMEs. SME owners should be made aware on loan interest rates, grace period in repayments to have confidence in approaching MFIs for capital.

MFIs should support SMEs in promoting their products and making financing available to them at a reasonable cost. Second, MFIs must offer flexible loan payback terms and collaborate with other MFIs to assist SMEs by providing information about new products. This will help SMEs to take advantage of the incentives while also diversifying their investment portfolio. Finally, the government should enforce regulations and policies governing the microfinance industry. This law should guarantee that MFIs charge SME's for their goods at affordable and competitive interest rates. MFIs should be required by law to accept a wide range of paperwork in order to obtain a loan as security.

The government should create an atmosphere for small and medium-sized businesses to thrive and develop. Both SMEs and MFIs should be included in policy in order to avoid future disputes between the two entities. As a result of greater employment possibilities and increasing money flows in the economy, this will offer a window for growth and economy development.

Financial institutions should do a better job of teaching SMEs on good financial management practices. This will assist SMEs in accounting for borrowed funds, making better financial

decisions, and, as a result, growing in the long run. They should also decrease SME loan rates and provide risk management training. To raise awareness of the availability of microfinance services to SMEs, MFIs should collaborate with county governments and other important players.

5.5 Suggestions for Further Study

This study used primary. Unlike secondary data which is usually first hand from respondents, secondary data is usually already obtained. The study adopted a multiple regression model with three variables: one dependent variable which was growth of SMEs and three independent variables that included micro-credit, micro-saving and micro-insurance. Results and findings may be drawn by future researchers if they adopted a similar model but investigate other variables that may have an effect on financial performance of SMEs. This study was carried out within a limited time frame and resources which constrained the scope and depth of the study. Therefore the study recommends further investigation on other factors influencing growth of SMEs other than micro-credit, micro-savings and micro-insurance. Studies also should focus on other counties other than Nairobi County.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Josam Munyao
Kenya University

Dear Respondents,

I'm a KU student, graduating in MBA finance. I am a KU student. The research on the impact of Microfinance services on the growth of SMEs in Nairobi (CBD), Nairobi City. I invite you to participate in the data collection process. This analysis is purely for academic purposes and therefore your interaction with the researcher is of great importance. The data collected shall be treated with the utmost confidentiality during the collection process. Any questions given in the questionnaire should be answered. Kindly learn, understand and then take the give your answer to each question. You are also required to, write a brief reply in the given space.

I appreciate your time,

Josam Munyao
0724-826294

APPENDIX II: LIST OF QUESTIONS

This survey is designed to increase the collection of data on the effects of microfinance services on the growth of small and medium-sized enterprises. Any information supplied by each respondent shall be treated as confidentially as possible. Please complete each question in the best possible way.

PART A:Bio Data

1. Respondent's Gender

Male

Female

2. Kindly tick your current education level

Doctor

MBA

Degree course

Diploma course

KCSE Certificate

3. Please state how much time you have operated the business

Less than 2 years

2-5 Years

6-10 Years

More than 10 Years

PART B: Microcredit on SME's Growth

2. In the past five years, you have ever used some microcredit facility?

Yes []

No []

5. If your answer is yes, How Much on Average?

Less than Ksh:250,000 []

Between Ksh:250,001 - 500,000 []

Between Ksh:500,001 - 750,000 []

Between Ksh:750,001 - 1,000,0000 []

Over Kshs.1,000,000 []

6. What was the purpose of getting the loans?

Starting up the business []

Expanding the business []

7. How are you in agreement with the following comment on microfinance loans? Using a 1-5 scale where 1- strongly disagree, 2- disagree, 3- moderate, 4-agree and 5- strongly agree, 3- moderate.

Statements	1	2	3	4	5
The loan size issued by the banks is able to cater the business needs					
The rates of interests charged is fair and affordable by the business					
I frequently take loans to expand my businesses					
Loaning procedure are effective					

SECTION C: Micro savings on growth of SMEs

8. In the last five years you've had some savings from the MFI?

Yes []

No []

9. On average, Kindly indicate the savings range?

Less than KES:50,000 []

KES:50,001 - 100,000 []

KES:100,001 - 150,000 []

KES:150,001 - 200,0000 []

KES:200,000 and over []

10. How much do you agree with the below micro savings statement? Take the key 1-5 where 5 =Very Much; 4 Much; 3 = Moderate; 2 = low and 1 = Very low.

Statement	1	2	3	4	5
There is increased amount of money saved annually					
There are friendly money withdrawal procedures					
The saved amount were sufficient to fund the business					
You are required to save a minimum amount every month					
There are simple withdrawal and savings procedures					

SECTION D: Micro Insurance Services on SMEs Growth

12. In the past five years, have you ever earned any sort of insurance cover from the institution?

Yes []

No []

13. How much did you pay on insurance premium?

Less than KES:1,000 []

Between KES:1,001- 3,000 []

Between KES:3,001-5,000 []

Between KES:5,001- 10,000 []

Over KES:10,000 []

14. If you have ever received from microfinance institutions the above services in question 13, how would you rank them? Use a 1-5 scale where 1- Very low 2- Low, 3- Mild, 4- High and 5- Very high.

	1	2	3	4	5
Insurance coverage offered by the MFIs affects the growth of the company					
The insurance premiums paid amount are conducive					
The time taken to compensate is fairly considerable					

SECTION E: Growth of SMEs

15. Over the past five years, your company has experienced growth in revenue levels?

Yes []

No []

16. Please use the response scale 1-5 to calculate the general increase in your corporate profits in the last 5 years, where 1- 2- very low, 3- moderate, 4- high and five- very high

Growth factor	1	2	3	4	5
Increase in sales					

Increase in selling price					
Increase in goods available for sale					
Increased changes in the number of product/services sold					
Improved company image					
Increased number of customers					
The number of assets (Motor vehicle, cash, inventory, debtors, fitting and furnitures, good will, prepayments, receivables) have increased over the last five years					
The size of assets (Motor vehicle, cash, inventory, debtors, fitting and furnitures, good will, prepayments, receivables) have increased over the last five years					