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The Role of Micro-Finance Institutions to the Growth of Micro and Small Enterprises (MSE) in Thika, Kenya (Empirical Review of Non-Financial Factors)

Paul Munene Muiruri

Department of Commerce and Economic Studies Jomo Kenyatta University of Agriculture and Technology Nairobi, Kenya

Email: munenepaul1@gmail.com

Abstract

Micro and small enterprises (MSE) known as Jua Kali are the biggest employer in Kenya and accounts for 10 million and 8.3 million of this number are in the informal sector. It also continues to employ more each year–at an average rate of about two percent (ICPAK, 2010). This research report present specific insights on the contribution of microfinance service to the growth of MSEs in developing countries. The study sought to investigate the role of microfinance institutions on growth of micro and small enterprise (MSE) in Thika Municipality, Kenya. This was motivated by the need to fill-up the academic gap on contribution of microfinance services left by previous researchers. In order to achieve the study objective, a cross-sectional survey was carried that analyzed both secondary and primary data. Through random sampling technique, two hundred and eighty five MSEs and sixteen MFIs were selected. This included MSEs Owners and MFI managers, it represents 25.8 percent of the total MSE Owners as of 2009 Thika Municipal record was considered representative and reliable for generalization. Data collection was done using questionnaires and interview schedules to the different respondents. After the data was collected it was entered and cleaned before being analyzed using the statistical packages for social sciences software (SPSS windows version 13.0). The findings are presented using both tabular and graphical presentation. Statistics in the study demonstrate that MFIs offer services to customers (MSEs) had contributed growth which has been rapid over the years. Majority of businesses in Thika Municipality (56.8 percent) were owned by married people. Default rate was high while MFI loan was second main source of capital (38.6percent) contrary to (Oketch, 1995). The main reason for their saving was for expansion of and growth of business the same sentiments echoed by (Jagongo, 2009). Finally, 76.9 percent business was initiated with capital less than ten thousand Kenyan shillings. This low seed capital explains why MSEs have stagnant growth. Finally the businesses that received MFI services reported growth in sale, revenue and number of employees employed. The study recommended that government should set policy regarded essential in improving loan repayment period and loan amount. From research it is clear that there exists a large unexploited saving mobilization and utilization potential.

Keywords: Effects, Microfinance Institutions (MFI), Micro and Small Enterprises (MSE), Growth, Non-Financial Factors

Introduction

In Kenya, Micro Finance Institutions (MFI) was pioneered by Non-Governmental Organizations (NGOs) in collaboration with the government. The government aided the development of Micro Finance Institutions (MFIs) by providing the policy framework and platform for donor support; these NGOs include World Bank, USAID (U.S Agency for International Development), UNDP (United Nations Development Programme) and later the commercial banks supported NGOs by financing the operations (Mutua, 2006). Despite the growing number of MFIs, their outreach is constrained, especially in rural areas, because of their limited resource base and lack of institutional capacity to provide a wide range of financial services (GOK, 2004, p. 16.). MFI outreach is predominantly through group-based programmes, which have limited absorptive capacity for financial resources. Although commercial banks have a stronger resource base and wider outreach, they lack expertise in micro finance (MF) lending to the MSE sector. The focus of most MF lending is informal economy MSEs ("Jua Kali'), often women who are conducting trade in small goods or providing services (GOK, 2004).

MSE Growth

As regard vertical growth studies indicate that many MSE donot generally grow as would be expected .They tend to remain within their original size categories (Kibas, 1995 and King, 1996). Specific cases studies have showed that 50% and 60% modern MSE in Asia and Latin America grew from low entrepreneur (Kibas, 1995). Gudda, 2003 cited that few enterprises grew naturally from micro to small and medium in Nigeria only 43.7% and medium grew out of MSE. The situation was found to be worst in Rwanda 10.75%, Botswana 20.7%. However, empirical studies in East Africa are scanty, low rate of growth MSE as result of micro finance services, in additional similarly several studies in Kenya has indicated same (Mwaniki, 2006).

In India, the Micro and Small Enterprises (MSEs) sector played a pivotal role in the overall industrial economy of the country. It was estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country (Graham, 2000). The MSE sector in Kenya has faced several constrains to growth and development one being financial dues to limited access to credit facilities. A number of informal microfinance has come to rescue of MSE in access to credit (GOK, 2005). It was estimated that this MSE sector Constitute 98% of all business in the country absorbing over 50% of all new non-farm employment seekers, contributing up to 30% of total employment and 3% of GDP (KIPPRA, 2002).

The growth of Kenya Micro and small enterprises (MSEs) into Small business enterprises (SMEs) into big companies, with a turn over of one billion, is as low – if not a disheartening statistics. Looking at Business daily and KPMG annual SMEs survey (top 100SMEs) carried in 2008, only four companies "graduated" from SMEs class in 2009 survey by reaching one billion Mark; this represent four percent. Yet, the MSEs (Jua kali) are biggest employer in the country, accounting for 10 million and 8.3 million of this number are in the informal sector –Jua Kali .It also continues to employ more each year–at an average rate of about two percent .However Kenya government is slow to recognize this . However, the policy that would be seen as incentive to help grow MSEs (informal) to SMEs (formal) and then big companies is slowing coming (ICPAK, 2010). "In Kenya, MSE continue to suffer the most poor business environment" Said Kenya finance Minister Uhuru Kenyatta, during his National budget presentation on June 10, 2010.

In the 1970s and early 1980s, these services were delivered through an integrated support programmes. Despite the growing number of MFIs, their outreach is constrained, especially in rural areas, because of their limited resource base and lack of institutional capacity to provide a wide range of financial services (GOK, 2004, p. 16.). MFI outreach is predominantly through group-based programmes, which have limited absorptive capacity for financial resources. The focus of most MF lending is informal economy MSEs ("Jua Kali'), often women who are conducting trade in small goods or providing services (GOK, 2004, p. 24). Despite the significant role played by the MSE, it has contributed to experience many binding constraints that have inhibited it full potential these include poor access to market, financial services and unfavorable policy (Jagongo, 2009).

The MSE face biggest constraints in accessing market, energy, transport, security, legal services and not least to investment finance. The biggest headache of all is still the lack or limited access of much needed credit to start or grow their businesses despite having created funds worth billion provided by Kenyan Government through Youth and women funds. The small business community feels that the bank and microfinance institutions that are meant to disburse Government funds are charging high interest rates between 15 to20 percent. Other have gone even further and asked for collateral in order to qualify for bank loan. Nevertheless, not working with these financial institutions will mean a high default rate, which rocked youth enterprise fund. As of last 12 month of 2009 the portfolio of non performing loans according director youth Enterprise Funds, stands 40 percent and is about eight percent of 738bilions of the commercial loans defaulters (ICPAK, 2010).

Literature Review

Introduction

This chapter presents a reviewed of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The research drew materials from books, journal articles, Newsletters, internet, newspapers and other dailies books with relevant information and which were closely related to the theme and the objectives of the study. The chapter also describes the conceptual framework. The study content framework was the cornerstone upon which it forms base for the study. The chapter finally concluded with the review of research by identifying the gap other researcher had left which was examining the contribution of microfinance services on the growth of Micro and small enterprises in Thika Municipality.

Theoretical Literature Review

Developments in the Theory on MSEs

The last 50 years have seen important growths in the conceptualization of the main issues relating to the MSE sector and subsequent theoretical work. The main theory, which goes back to the seminal work by Lewis (1955), is the labour surplus theory. It is argued that the motivating force behind MSE development is excess labour supply, which cannot be immersed in the public sector or large private enterprises and is forced into MSEs in spite of poor pay and low productivity. Arguably, the MSE sector develops in response to the growth in unemployment, functioning as a place of last resort for people who are unable to find engagement in the formal sector. MSEs are expected to grow in periods of crisis, when the formal sector contracts or grows too slowly to absorb the labour force. However, when formal occupation develops, the MSE sector is assumed to contract again and thus advances an anti-cyclical relationship with the formal economy. Particular consideration has been paid to the behaviour of the MSE sector before and after the introduction of structural adjustment policies; examples include (Daniels, 1994).

Schumpeterian Theory on MSE growth

Schumpeter's (1934) theory of innovative profits highlighted the role of entrepreneurship and the seeking out of opportunities for innovative value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro-active by the enterprise leadership and innovation which aims at nurturing opportunities through intellectual capital of entrepreneur to exploit the potential profit and development. Schumpeterian growth theory goes beyond economist theory by differentiating explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It deduces that technological progress comes from innovations carried out by firms driven by the pursuit of profit, and that it encompasses what Schumpeter called "creative destruction". That is, each innovation is aimed at generating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Endogenous growth theory challenges this neoclassical view by proposing channels through which the rate of technological progress, and hence the long-run rate of economic growth, can be influenced by economic factors. It starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. For example, because firms learn from experience how to produce more efficiently, a higher pace of economic activity can raise the pace of process innovation by giving firms more production experience. Also, because many innovations result from R&D expenditures undertaken by profit-seeking firms, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R&D (Dinopoulos and Thompson, 1998).

Schumpeter, as cited by Swedberg (2000), pointed out economic behavior is somewhat automatic in nature and more likely to be standardized, while entrepreneurship consists of doing new things in a new manner, innovation being an essential value. As economics focused on the external influences over organizations, he believed that change could occur from the inside, and then go through a form of business cycle to really generate economic change. For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000).

MSE sector in Kenya

The definitions used to describe the MSE sector in Kenya are based on employment size (include both paid and unpaid workers). A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium/large enterprise with more than 50 employees (GOK, 1999). Farm holdings are excluded from the definition of MSEs, except those farm-based enterprises that involve some sort of processing before marketing. For example, a farmer who goes to market to sell roasted maize at the marketplace or at the roadside is seen as operating an MSE. Thus, the term micro and small enterprise covers the range of establishments, including informal economy activities that include one or more persons and enterprises in the formal economy employing up to 50 persons. These are also firms contained in the Central Business Register for covering formal sector data (MLHRD, 2004). According to 2003 economic survey indicated MSE sector increased from 4.2 million people in 2000 to 5.1 millions persons in 2002 accounting 74.2% of total person engaged in employment. The sector contributes up to 18.4% of country gross Domestic product (GOK, 2008).

Overview of MFI in Kenya

Microfinance refers to all types of financial intermediation services (savings, credit, funds transfer, insurance, pension remittances etc.). Provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed (Rosengard, 2000). The Micro-finance institutions has played major role in the development of MSEs as an industry was 'discovered' as a development instrument in the late eighties because some NGOs development workers had found that something essential was missing in the services the government. From numerous impact evaluations made as well as direct observations of practitioners, and it is clear that access to financial services is necessary, but not sufficient conditions for growth of MSEs (Hospe *et. al*, 2002). Micro finance is as an industry a relatively new phenomenon in Kenya, with a few agencies starting about 20 or so years ago but the sector gaining the status of an industry only in the last 10 years. The Government of Kenya (GoK) has indirectly provided a boost to the microfinance sector. Various institution provide variety of service to support MSE sector these include finance (credit), handicraft, training and technology expert support institutional support and advisory support (GOK, 1995).

According to session paper NO.1 2005, the government had recognized that access to credit and finance service is key to growth and development in any enterprise and more so to MSE. In this regard government plan to promote development of financial services by providing incentive to attract saving and investment and development of venture capital (Jagongo, 2009). There are a variety of financial services provided MSE these include loans, savings cash transfers, insurance. The key principle for financial service delivery by MF to MSE are: customers who can save, are able and willing to pay price for goods and services and who honor obligation and repay loans (Cull et al., 2004). (The theoretical literature on microfinance has been dominated by two strands. In the first strand, a generic theoretical model of microfinance activities tends to feature three sets of agents: households (potential borrowers), formal lenders and informal lenders (such as money lenders, relatives, friends and ROSCAs). These markets are characterized by high lending transaction costs and lack of collateral when farmers do not own their own land, as indicated in (Cook & Nixson, 2005).

Empirical Literature Review

Growth of MSE in Kenya

Micro and small enterprise are important for raising economic efficiency of a country, owning to their flexibility, low production. They are breeding ground for entrepreneurship, innovation hence reservoir for employment and therefore sustainable job create income which in turn reduce poverty (Kathure, 2005). The MSE sector is fast growing, the 1999 MSE baseline survey found the number of enterprise in the sector had growth from 910,000 in 1993 to about 1.3 million in 1999 (GoK, 1999). It is estimated that this sector Constitute 98%

of all business in the country absorbing over 50% of all new non-farm employment seekers, contributing up to 30% of total employment and 3% of GDP (KIPPRA, 2002).

The growth of MSE is part and parcel of a dynamic growth process in the corporate sector, as argued by (Alabi et al., 2007). As noted by Lepi (2005), although a number of measures have been used to identify and describe MSEs, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. In addition The MFI services provided to MSE has impact on sale turn over, profitability, capital investment and number of employees hence growth of MSE (Lepi, 2005). It is revealed that that women status in society at large effort by women in enhancing their development has multiplier effect for benefit families' members in area, education, medical and clothing later contributing to MSE growth and development since dominant service is credit (Frank, 2004). Further, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labour intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises .This dramatic increase was due largely to retrenchment in both the public and private sectors (GOK, 2004).

Contribution of MFI Non-financial products to MSE growth

Non-financial services includes all the of additional capacity building services to MSEs, social and economic services, management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer and business linkage promotion (ILO, 2004). They also include other non-business services such as literacy training and in innumeracy training, nutrition and self esteem classes, public health, civic education and support for people with HIV/AIDS. All enterprise regardless of their size operate in a large economic system where liberalization is expected to open up market, increase business opportunities and increase competition between firms and alternative supply networks (Cook and Nixson, 2005).

Non financial services can be provided by commercial, profit agencies, or by institutions that are not-for-private-profit organizations. Those services provide on a commercial basic include the services made available by private consultants and consulting firms, as well as those provided under contract in the context of commercial transactions with suppliers, contract or firms offering specialized services. The fees applied in these cases cover the full cost of the services. Making profits is the main motivation of these services providers these services are demand- driven and client satisfaction plays an important role in the growth of these services providers (UNDP, 1999).

Furthermore, MSEs are often discounted by banks from applying for finance, and available credit services usually only reach a small proportion of the total population of MSEs. It can also increase the impact of existing financial services and improve the capacity to repay loans the impact (UNDP/ILO, 1999).Business development services (Non- financial product) provide by MFI to MSEs boost the growth and competitiveness of the enterprises .It can also increase the impact of existing financial services and improve the capacity to repay loans . However the impact of business Development services depends on the proficiency of the services provider and on the use made by MSEs of other services (ILO, 2004). linking credit and non-financial services is important to focus on the enterprises receiving the services and the interests of the providers .For MFI to link services to MSE , either in-house or through partnerships, it is necessary that the new approach be used (ILO, 2004). MFIs offered a wider range of services to their clients by linking with existing non-financial services providers, without taking on the risk and cost of providing these services themselves. Often, after giving advice on how to prepare a business plan or makes a new investment, non- financial services providers realize that their clients are not able to access the necessary finance to realize their plans (CGAP, 2006).

In essences, poor borrower s from micro finance institutions often do not graduate to higher and higher loans, and consequently to productive small enterprises. While credit may initially be the ruling constraint for micro-enterprises, for them to grow beyond a certain size, other constraints come into play, for example of markets and managerial capacity. Micro-enterprises are therefore unlikely to grow significantly without inputs that can address these additional constraints (ILO, 2004). Papers presented at the recent Micro credit Summit suggest that MFIs are interest in new products and that the combination of credit and educational services, including BDS, can be an effective tool for fighting poverty. In addition, the non-financial services debate on how to reach a larger number of the micro and small firms is continuing (CGAP, 2006).

Conceptual Framework

The researcher conceptualized in the study relationship between growth of MSE and MFI services. In the framework, the growth of MSE was the dependent variable and it was indicated by sale turn over, number of employees, capital investment and profitability. Concerning independent variable literature review it revealed that non-financial) (business development, marketing and capacity building some non-financial service) provided by MFI was included conceptual frame work. The non financial product was measured in terms of accessibility and adaptability of the products and their likely influence to the growth of MSE. Finally intangible security with legal and regulatory frameworks was proposed to moderate the relationship between the independent and dependent variable. The mandatory depository regulation set by central bank for MFI in short run on the loan amount given to MSE and in long run growth of MSE was affected.

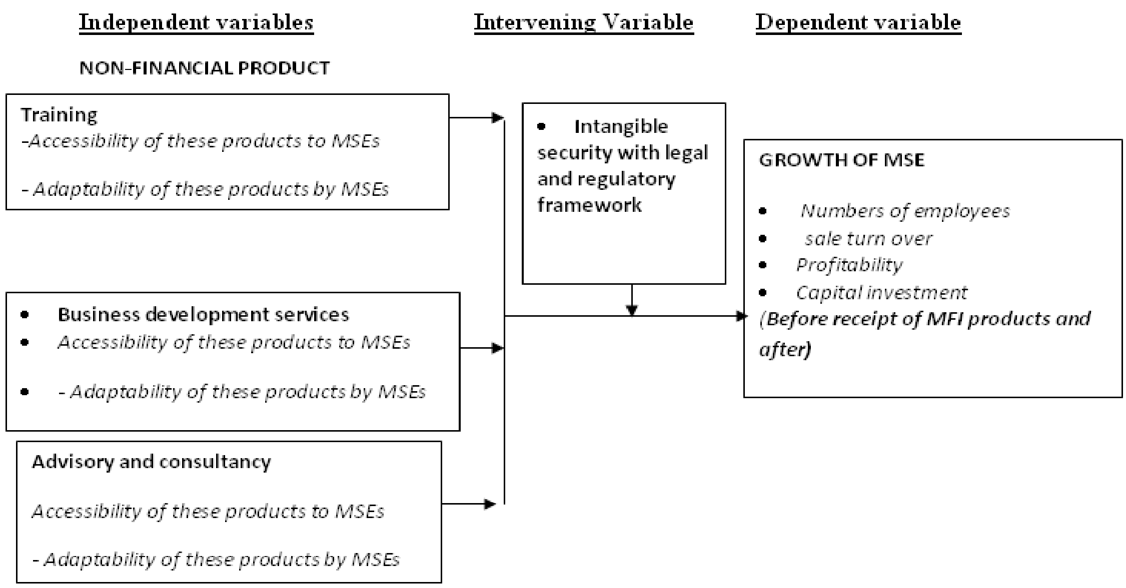

Figure 1. The conceptual framework

Methodology of Research

Research Design

The study adopted a descriptive survey that sought to examine the contribution of Microfinance services to the growth of MSE. The study was being conducted in Thika Municipality to MSE owners and MFIs. The study considered accuracy as a major consideration and minimizes bias and maximizes the reliability of the evidence collected. The Descriptive survey was used because it describes and explains the present status, situations, events and trends (Kothari, 2004). The focus of the study was on MFIs delivering services to MSEs and MSE who are their clients. The study was to determine the availability of the services and their social –economic, cost and benefits to MFIs and MSEs.

Target Population

Thika municipality was selected for study because it has a large representation of MFIs in Kenya. Secondly, reason was because the municipality had a large number of MSEs participating in credit programs. Target population involved in the study consisted of the all MSEs in Thika Municipality business. Business is the activity of providing goods and services involving financial and commercial and industrial aspects. This category is a fair representation of the study since they regularly interact with customers, suppliers, and the products. Information obtained from Thika trade office and the Thika town council licensing department on trade register indicated that there were one thousand one hundred and four micro and small enterprises businesses registered by the council to operate in the town operators in the town of this figure and sixteen microfinance institution. These businesses had the following characteristics selling farm produce, horticultural, vegetables, cereals, retailers, and wholesalers of assorted goods and services related business, operating either in fixed location i.e. in established premises.

Sampling Design

Sampling is the process of selecting a few cases from a large population of cases for purpose of studying these few cases and generalizing on the large population. The target population refers to all the members of a real or hypothetical set of people, events or subjects to which we generalize the results of our research (Mugenda, 1999). Sampling units was business units i.e. shops, sheds and workshops. The researcher targeted the population based on case study what happens in MSEs in Thika municipality reflected what was happening other MSE in the country. Stratified sampling method was used to come up with the above population strata (Wimmer and Dominick, 1991). From the above target population of 1,104 MSE above, the researcher picked a sample of 285 MSE. This was sample was 25.8% of targeted population according Saunders (2005) a sample is considered adequate if sample is greater than 30 and more than 10% of the population.

Data Collection

Mugenda (1999) suggests that the use of questionnaire surveys, an interview or observation forms on undertaking research. For the purpose of the study it recognized that collection of primary data was essential in order to achieve the objectives of the study. Two instruments of data collection were used together to gather information for the research. These were the questionnaire (structured and open ended) and oral interviews. Questionnaire is a research instrument that gathers data over a large sample. Questionnaires capture all the necessary data for the objectives of the study to be achieved. Questionnaire was developed to address a specific objective, research question of the study. Interviews schedules structured and unstructured were also applied, these are questions asked orally, are face to face encounters. The questionnaires were used because the respondents were busy and were issued with questionnaires to complete on their own. Secondly it gave the respondents time to respond to the items during their free time. The researcher administered the questionnaires personally to the respondent for the purpose of confidentiality. In addition the secondly reason for using the method was to get the informants to open up, and to produce more information (Kombo and Tromp, 2006).

Data was collected using primary (field research) and secondary (library) sources. A primary source is a document, speech, or other sort of evidence written, created or otherwise produced during the time under study. Library research involved both published and unpublished materials in both public and private libraries. Information to this study came from the field of research to supplement the information already in published and unpublished literature. Information obtained from primary source was treated with high confidentiality. Where indicated or requested by informants, anonymity was guaranteed. The informants were explained the relevance and usefulness of the study before informing it. All cited works was rightly accredited. The researcher got the authorization letters from the concerned authority before starting the actual research.

Pre-testing

Before the actual study, the researcher carried out piloting MSE, which was not be included in the actual study. Pre-testing of the instruments was carried out on 28 members from MSEs randomly sampled outside those sampled for the study. Pre-testing was done to enhance consistency and dependency, accuracy and adequacy of the instruments. Consistencies of the test items were measured by the degree to which the test items attracted similar and related responses from the samples in the pilot testing exercise.

Validity and Reliability

Validity

Content validity was determined by pre-testing. This determined whether the items were correctly worded in order to avoid misinterpretation when they are finally administered to the samples in the main study. After pre-testing, the instruments were adjusted.

Reliability

The reliability was measured so as to find out the degree to which the measuring items gave similar results over a number of repeated trials. A test – retest method was be used to estimate the degree to which the same results could be obtained with a repeated measure of accuracy of the same concept in order to determine the reliability of the instrument. The selection of the pilot MSE was done using purposive sampling.

Data Analysis

Once the data was checked for completeness ready for analysis, the data from the field was first coded according to the themes researched on the research. This enabled the use of computer in the summarizing of data in tables. The refined data was analyzed using descriptive statistics involving percentages and frequency. Frequency distribution, tables and pie-charts were used to organize and give a summary of the data and display in a meaningful and understandable manner so as to aid in describing and interpreting the outcome of the research. This gave the distribution of responses in the questionnaire in Frequencies and percentages form that was presented in terms of graphs, table and pie-charts in the course of discussing the findings. Conclusions were drawn and recommendations for the study made.

Results

Response Rate

The researcher administered the 285 questionnaires out of which 277 were returned having been duly filled. The respondents were given a time frame of two weeks to enable them respond. Telephone calls were made to remind them after every four days to fill the questionnaires and return them. The response rate was 97.2 percent rate which was within Mugenda and Mugenda's (2003) prescribed significant response rate for statistical analysis which they established at a minimal value of 50 percent.

Demographic characterization of respondents by marital status, age and gender

The actual sample of 277 respondent was made up of 222 (80.1 percent) female and 55 (19.9 percent).Among these 158 (57.04 percent) of respondent were married 47(16.97 percent) were single, 51 (18.41 percent were windowed and remaining only a small percentage 21 (7.58 percent), were separated/divorced. This suggests that majority Thika businesses are owned by married; this could be attributed to increase in responsibility particularly the need to provide for their family. Kibas and Kaol (2001) argued those entrepreneurs who are married become motivated to proceed from their spouse and children hence continue to provide highly subsided labour for household. Those that were windowed ,divorced or separated comprises over 24.55 percent of sampled population which was similar to Jagongo (2009) who stated these type was over 20 percent. This type of groups are urged into entrepreneurship to cope with social displacement in their lives is positive contribution to their perception desirability and feasibility of mobilizing saving (Jagongo, 2009). The age of entrepreneurs have some influence on performance and management of individual enterprises. The statistical result in the study showed that majority of entrepreneur in Thika Municipality in the sample was between aged 20 and 59 years which was almost similar to Jagongo (2009) who recorded that majority of his respondent were aged between 33 and 55.The average age of the study respondent was 34.93 years .In addition the mean age was consistent with that registered by Ondiege and Aleke-Dondo (1995) of 36year and Jagongo (2009) of 34.8 years.

The population of the highest respondent's falls within the age of 30-39 years comprising of 135 respondents represented by 48.74 percent followed 76 (27.44 percent) aged 40-49 years 29 (10.47 percent)aged 0-20 years, 23 (8.3 percent) aged 20-29 years, 14 (5.05 percent) aged 50-59 years, none was over 60 years . Based on the result, it showed that the entrepreneurs in this study were youthful .This youthful age group is consonance with global known fact most meaningful businesses are started by those people between age 24 and 44 (Bwisa, 2002). This age group is entrepreneurial due to increased responsibilities that push the MSEs to look out for source of income to Upkeep of all family chores (Jagongo, 2009). This is finding is in agreement with Shapara and Sokol (1982) who agree that age could be considered a trigger factor in entrepreneurship event process. This age group maximizes all factors of production to bring about growth and expansion of the enterprise.The researcher learnt that at early age most young school leaver's had-not realized the potential of small-scale business sector in creating employment opportunities.

Demographic characterization of respondents by highest level of education and professional skills (N=277)

The level of formal education together with post school training may affect the overall performance of MSEs especially in terms of management, productivity and sustainable development of an enterprise. 37 (13.36 percent) had no education, 72 (26 percent) primary education, 105 (37.9%) secondary education and remaining 63(22.74 percent) had completed post secondary education. Post secondary includes middle level colleges, Universities offering certificates, diploma and degrees awards level of education. This indicates that, the exposure of respondent to education helped them to seek for assistance from MFIs to develop their business. Those who had no education at all fear to get involved in these institutions because they think they are incapable of comprehending what happens while who have attained higher level of education are mostly in formal employment and most likely borrow from the banks. The finding revealed that majority of respondents is literate. These entrepreneurs identified and made use of business management information such as the print and electronic media. It further revealed that MSEs are venturing in entrepreneurship are increasing as more educated this could be attributed to lack of formal jobs opportunities and the today perception that business are more projectable therefore they bring formal employment in the so called" white-collar Jobs'' (Jagongo, 2009). Another explanation could be that it is due negative displacement when they get bored with bring employment or they get push to business by role model, investor or entrepreneurial partners as postulated by Shapiro and Okol (1982) in their entrepreneurship event process. Finally, as noted Gudda (2003a); Kinyanjui (1992); Oketch (1995), entrepreneurs with higher level of education are more aware of the diverse financial institutions that provide financial and non-financial services to MSE. Moreover Commercial banks and public sector institution require.

MSE Growth Measure

Average Business Monthly Sale

The small business performance measurement criteria were sale, profit, income and stock .The study based performance of MSEs on sale and profit growth, finally head count in the number of employees, From study findings, 89.1 percent of respondents indicated that average monthly sales of below thirty thousands Kenyan shillings while 10.9 percent had average monthly sales of over forty thousand Kenyan shillings.

Employment Level at Start of Business

The study considered size of employees as measure of performance and growth and identified three levels and terms of employment as fulltime/regular, part-time, casual and volunteerism. Employment at start-up is measure of number of work that MSEs Entrepreneurs engaged when business was started. The study established that all (100 percent) the MSEs had no fulltime employees when they started business, while 75.9percent respondents said they had no part time employees,24.1percent had either one or two employees. 54.2percent of respondents had one or two casuals at start of business, while 45.8percent had no casual employees. The findings further revealed that 78.3percent had either one or two employees while 21.7 percent no volunteer or relative at start of business.

Employment Level at Time of Study

Employment level at time of study is the measure of number of workers that MSEs engage at the time of this study, 26.4 percent of respondents had no fulltime basis employees

45.8 percent had either one or two employees, 27.8 percent had 5 or six employees on fulltime at time of study. 47.7percent of respondents did not have any part-time employees while 18.4 percent respondents had one or two employees and 33.9 percent of respondents had more than five part-time employees at time of study. The study further revealed that all the respondents had casual employees, 35.7 percent had one or two casual, 64.3 percent of respondents had more than five this was same to volunteers and relatives employees at time of the study. This results correlates with findings of Butter (2001); Jagongo (2009) studies that suggested that majority of MSEs start-up at micro level with more volunteers or relative as service providers compared to contractual part-time and casual employees .The wage cost is low at start and this is precipitated by the low savings. In general the findings were supported ESCAP (2003) study where it was suggested that MSEs provide bulk of employment opportunities in developing countries.

Non-Financial Products

Type Non-financial Service

Non financial product provided by MFIs in Thika included business development Services, advisory and consultancy services, training, marketing of products, health services. According table 4.14 above show that more than half MSE (52.8percent) had not received non-financial services while 44.8percent reported they had received non-financial services which was confirmed by 93.75 percent MFI respondent reported to offer non- financial services. The study further revealed that 56.25 percent MFI respondents reported to be offering training, 12.5 percent business development services, health services, and 6.25 percent advisory consultancy, marketing of products and others. The findings further revealed that MFIs are offering non- financial services, and in addition 93.75 percent MFIs respondents reported to offer at least a training, business development services, health services, advisory consultancy, and marketing of products the same sentiment echoed by MSE owners who reported nearly half of the had received non- financial services from their MFIs.

MFI Support to MSE

MFI support to MSE in areas of business counseling, management tips, finance and stock the respondents, views were rated on the given Likert scale (1-4) based on the respondent's opinion where 1 represented always and 4 none . Percentage response, for each statement were computed and the results presented, result show that majority of respondent 37 percent had received business counseling always while 2.2 percent had not received any counseling 69 percent had received finances always,31percent had received finance sometimes. 40 percent of respondents reported had received management tips always, 20 percent sometimes 28 percent hardly12 percent had not. Majority 77.3 percent had not received stock while 22.7 percent hardly received stock.

Discussions

The study found out that majority of 213(76.9 percent) started their business with capital less than Ksh10, 000. This low seed capital that this explains why MSE growth stagnation .This will translate to little profit .If profit is deducted needs of owner and other expenses leave nothing to boost growth of business. This makes business to remain small where network of business do not grow. This finding was congruent with those of other studies (CBS/ICEG/K-REP, 1999; Hospe, 2001; Gudda, 2003). On demographic characterization on marital status the study revealed that, majority (56.8 percent) of business in Kenya are owned by married .This indicates that married people have increased family demands which push them to initiate business (MSE) and force them to participate in Micro credit. From qualitative data from credit officers of MFIs and success MFI clients the study also revealed that MFIs services have mainly improved the MSEs Capital base. The MFIs cited that default rate has been high which is major problem facing MFI since the customers are not faithful to repaying loan.

Do non-financial products offered by MFI contribute to MSE growth in Thika Municipality?

Most MSEs, MFI manager, credit officer agreed that the services offered by MFI contribute to growth of MSEs. Majority of MFIs (93.75 percent) reported that they provide non-financial services; to MSE (their) clients. This response is in agreement with the MSEs, Where the study found only 52% had access to non-financial services from the MFIs. This indicates that nearly of the client of MFIs borrows loan with little or no skills to utilize the money for business. From focus discuss it was established that reasons why Non-financial service should continue being included together with financial services by MFIs is because these services are affordable, simple and flexible in their services delivery, and officers from MFIs commonly known as “Teachers” by the clients are familiar and used to staying with them .Most of the traders argued that these credit officers understand their problems better.

The study further established that the MSEs had receipted non-financial services from MFIs as it was reported 37 percent received business counseling, 69 percent had received finances, 40 percent of respondent had management tips always and 77.3 percent had not received stock. It was important to note that 22.7 percent MSEs reported to have-not received any non-financial products from MFIs. The service the MSEs reported they had received trainings on business management, record keeping, business starting, marketing and customer care. Other trainings included farming production skills such as yoghurt making, modern jikos making and fruit juice making. A few of them said they received some training on HIV/AID awareness. These non- financial services were reported as important as credit because it improved MSEs Performance by those who have received the services. Other studies have also shown that credit alone is not enough for the development of MSE. This view is also supported in by the sectional paper No.2 of 2005.

Conclusions

In light of findings it can be concluded that MFI on financial services contribute to growth MSEs in Thika Municipality and MSEs has potential to grow. Indeed those business that were able to obtain MFI loan non financial services reported growth in sale, revenue and number of employees employed. Statistically, there seems enough to suggest that MSEs that received MFI succeeded than those that did not receive. However, growth of MSEs is contributed by irrestible situation of MSEs governed by large and extended household that are committed to religious activities and pay attention to ethnic cultures. In addition those who were married had to submit to their husbands due to cultural and religious predisposition. Kenya entrepreneurship is expanding and offers a great potential for helping stimulate the nation’s declining economy, thus contributing towards poverty eradication through provision of MFI services in Kenya Access to capital to start-up and expansion of business is extremely importantly for small business in Thika. The study established that non-financials services play a circular role on their relationship with the lending institutions. The clients are likely to remain borrowing in the same institution where they are getting other services. This is important to the MFIs who sometimes suffer increase default rate due to multi-funding and problems of client retention.

In summary from study it is clear the value of retaining clients. Typically, retained customers are the ones with extensive credit history and who are accessing larger, higher value loans; whereas new customers require induction training and can often weaken the solidarity of groups. MFIs typically break even on a customer only after the fourth or fifth loan. And yet, many MFIs suffer chronic problems with clients leaving their programmes. Careful analysis of the reasons for these “drop outs” almost invariably points to inappropriately designed products that fail to meet the needs of the MFIs’ clients. Much of this problem is driven by the attempts to “replicate” models and products from foreign cultures and lands (usually Bangladesh) without reference to the economic or socio-cultural environment into which they are being imported. Product development is an essential activity for market-responsive MFIs. More client-responsive products will reduce drop-outs, attract increasing numbers of new clients and contribute substantially to the long-term sustainability of the MFI services and significantly increase the developmental impact of the financial services provided.

In light of findings it can be concluded that MFI non-financial services contribute to growth MSEs in Thika Municipality and MSEs has potential to grow. MFIs has emerged valuable source of capital especially for those segment of mainstream bank on claim of being uncredit worth. However, growth of MSEs is contributed by irrestible situation of MSEs governed by large and extended household that are committed to religious activities and pay attention to ethnic cultures. In addition those who were married had to submit to their husbands due to cultural and religious predisposition. Kenya entrepreneurship is expanding and offers a great potential for helping stimulate the nation’s declining economy, thus contributing towards poverty eradication through provision of MFI services in Kenya Access to capital to start-up and expansion of business is extremely importantly for small business in Thika. This is true because when the borrowers benefit from the loan from MFIs and the business growth, they will continue borrowing loans and graduating to bigger loans thus increasing the sustainability of the lending institution.

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