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Entrepreneurship Development by Micro Finance Institutions Effect on the Growth of Micro and Small Enterprises in Nairobi Central Business District: A case of Jitegemea Credit Scheme Nairobi

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Abstract
Delivery of micro credit to operators of micro and small enterprises (MSEs) is increasingly being viewed as a strategic means of assisting the 'working poor'. Several impact studies carried out on contribution of MFIs in the development of MSEs reveals different observations. There is no empirical study indicating the potential role of improved lending facilities by both formal and informal microfinance institutions in alleviating problems of access to credit to small businesses and accelerating business growth through offering of financial training and instilling financial discipline amongst the small and medium enterprises. Furthermore studies of microfinance institutions have shown that credit markets are segmented and unable to satisfy the existing demand for credit in the small business sectors. The purpose of this study was to investigate the effect of MFIs in the growth of MSEs in Nairobi Central Business District (NCBD). This research problem was studied through the use of a causal research design. The target population comprised of 2956 owners of the MSEs in Nairobi central business district funded by Jitegemea Credit Scheme. This research study used a stratified random sampling method to select 296 respondents. Primary data was collected using questionnaires. The data was analyzed using descriptive statistics. A simple regression model was applied to determine the relative importance of the independent variables with respect to growth of MSEs. The study found entrepreneurial development contributes the to growth of MSEs. The study concludes that entrepreneurship development such as financial and management counselling as well as workshops, entrepreneurial skills and seminars offered by Jitegemea Credit Scheme influence growth in the enterprises. This study recommends that guidelines by microfinance institutions to finance MSEs need to be flexible to accommodate the MSEs only when financial institutions appreciates and give technical assistant to the MSE would be contributing to the MSEs to ensure success in the SME sector.
Keywords: Entrepreneurship development, Micro Finance Institutions, Micro and Small Enterprises, Nairobi Central Business District, Jitegemea Credit Scheme

1.0 Background Information

Despite the substantial role of the MSEs, they are denied official support; particularly credit form institutionalized financial services organizations that provide funds to businesses. According to Afrane (2002) over the past two decades, various development approaches have been devised by policy makers, international development agencies, governments and non-governmental organizations aimed at poverty eradication through empowerment of the poor, especially through creation of MSEs. One these strategies, which have become increasingly popular since the early 1990s, involve microfinance schemes, which provide financial services in form of savings and credit opportunities to the working poor. MSEs are the backbone of many economies in the world and Sub-Saharan Africa (SSA) and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis. According to Asman and Diaymette (2006) MFIs have become increasingly involved in providing financial services to MSEs focused on economic improvement of the poor. There is continuing and quite rapid improvement in understanding how financial services for the poor can best be provided. As part of this learning process, microfinance practitioners, donors, and governments have been interested in knowing to what extent these credit interventions impact the beneficiaries.

Consequently, a number of impact assessment studies on the performance of microfinance projects have been undertaken in recent years, with varying and revealing results (Amyx, 2005).According to Santo (2003) in a study on financing small, medium and micro enterprises in Democratic republic of Congo, findings indicated that MFI in the context of the study generally referred to the provision of financial services to poor and low-income households, which are deprived of access to mainstream financial institutions. MFIs in this study were involved in technical assistance in specific business sectors, managerial training and accounting techniques. The objective of MFIs was to have a direct impact on poverty alleviation but also on the development of small and micro-enterprises. Findings indicated that there was a positive correlation between MFIs involvement in MSEs and improvement of the small firms' management skills and technical knowhow.

In an empirical assessment study on formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya, Atieno (2001) found that improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy. Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. In addition, there is no empirical study indicating the potential role of improved lending policies by both formal and informal credit institutions in alleviating problems of access to credit. Knowledge in this area, especially a quantitative analysis of the effects of lending policies on the choice of credit sources by entrepreneurs, is lacking. The present study intends to fill in this gap by carrying out the present study and looking into the impact of MFIs on credit access among MSEs in Kenya. Bowen, Morara and Mureithi (2009) argue that as with many developing countries, there is limited research and scholarly studies about the MSEs sector in Kenya. The 2009 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of MSEs in Kenya. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there is need to conduct an empirical enquiry to investigate the contribution of MFIs in the growth of MSEs in Kenya. The present study therefore targets those enterprises within the Central Business District in Nairobi City. Nairobi is the ideal area of study because of its infrastructure and liberal markets. The CBD signifies modernity, with a state-of-the-art skyline, improved technology, highly educated and trained manpower, and diverse and vibrant market. Nairobi alone contributes 60% of the Kenyan's GDP and houses small firms of diverse nature. Given its contribution to the economy and its diversified nature, the Nairobi CBD forms an appropriate area of study.

2.0 Literature Review

2.1 Micro and Small Enterprises in Kenya

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. The MSE industry in Kenya is characterized by the employment of between 50 to 200 employees and capital assets of a substantial amount of about Ksh. 2 million (excluding property). There is no standard definition of SME in Kenya. Lenders 'definitions vary, but typically they define SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the "missing middle". Their size and credit demand have outgrown the capacity of MFIs, which offer small, short loans via group-lending methodologies, while the capacity of the SME risk profile combined with the lenders' lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking.

According to Kenya Economic Survey 2008 (RoK, 2008), out of the total new jobs created, micro, small and medium enterprises (MSME)s created 426.9 (89.9%) thousand new jobs out of a total of 474.5 thousand 79.9% new jobs out of 543.3 thousand new jobs created in Kenya (Economic Survey, 2009). In the same year, the sector contributed KSh. 806,170 million of GDP which is 59 percent of total GDP (RoK, 2012). The Kenya economic survey 2010 (RoK, 2010) notes that this same sector generated 390.4 thousand new jobs which translated into 87.6 percent of the total jobs generated in 2009. According to the Economic Survey (RoK, 2012), the SME sector contributed 79.8% of new jobs created in that year in Kenya. Consequently, the Kenya's development plans for the 1989-1993, 1994-1996 and 1997-2001 periods put special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 1992, 2010). Job creation in this sector went up by 5.1 percent in 2011. The increase was 445,900 indicating a higher growth in absolute terms compared to the increase of 437,300 registered in 2010. Analysis by province shows that Nairobi County recorded a 5.4 increase (RoK 2012). According to the Sessional paper No.2 of 2005 (RoK, 2008), SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries.

According to Karanja (2011), most MSEs in Kenya are faced with a lot of challenges starting and maintaining businesses in a highly competitive environment in Kenya. Availability of credit remains a daunting challenge with most business expressing their dissatisfaction with financial institutions in making credit available to do business. Lack of information on where to access professional and financial services was a major impediment for growth, among those questioned in a recent survey. Despite availability of products offered by financial and MFIs, the targeted recipients were not informed on where to get them and how to meet requirements. They however said the assistance should come in form of provision of capital and loans to small enterprises as well as access to credit facilities and training. The interest rates on credit facilities offered to MSEs are too high compared to the market rates and that the loan repayment period was short. Bank policies require micro finance clients to be treated like those of commercial banks in terms of the requirements for security or collateral for loan taken and recovery of default loans through means used by commercial banks including repossession of assets.

2.1 Effect of Micro Finance Institutions in the Growth of MSEs

Microfinance has been seen as a tool for growth and ensuring the welfare of MSEs. Microfinance (MF) reaches 74% of all poor individuals in the world and therefore, is a great potential empowerment channel (The Micro credit Summit Campaign -2002) emphasizing on the necessity of empowering individuals. A majority of microfinance programmes target MSEs with the explicit goal of empowering them. There are varying underlying motivations for pursuing MSEs growth. Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty. Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for a small business enterprise, to fix a leaky roof, to pay for health care, or to send more children to school. Microfinance also helps safeguard poor households against the extreme vulnerability that characterizes their everyday existence. Loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods (Brockhaus, 2001).

Various writers have indicated microfinance as means of MSEs growth. Bengston states that micro financing for individuals aims to make their micro enterprises more financially rewarding this should contribute to a measure of economic empowerment within the family and in social and political spheres. The rationale for supporting microfinance and the targeting micro finance programs is that microfinance is an effective means or entry point for empowering individuals (Cheston and Kuhn 2002).

2.2 Entrepreneurial Development

In the beginning of micro finance programs, much focus was given on only the credit aspect. However, since few years back, some initiations are made to offer entrepreneurship development programs to micro finance clients. Implementing training programmes and business development services can be used to enhance capacity building among entrepreneurs. Establishing and nurturing business associations so that they can organize workshops, provide support and mentoring programmes, facilitate access to credit and to markets, undertake advocacy, and provide best practice exchanges. However, it is observed that due to the lack of special focus on entrepreneurship development program on the side of MFIs and the insufficient willingness to invest resources, this additional type of intervention has not yet been widely used in most developing countries (Cheston and Kuhn 2001).

Selecting a target market depend on the micro service provider and the perceived demand for financial services. In any country, there are underserved enterprises and households, ranging from the ultra poor who may not be economically active, to small growing enterprises that provide employment in their communities. This range or continuum constitutes the demand size for micro finance services. Often, the supply side does not offer a corresponding continuum services. MFIs need to supply services that fill the gaps and integrate the underserved group into the market (Guérin, 2006).

The goal of MFIs as development organization is to service the financial needs have served and underserved market as a means of meeting development objectives. The importance of microfinance to entrepreneurial development made the Central Bank of Kenya adopted it as the main source of financing entrepreneurship in Kenya. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Kenya. While government and Non Government Organisations (NGOs) have been engaging a number of programmes and policies to encourage entrepreneurship in the country, Kenya is still on the list of the poorest countries in the world with unemployment level rising alarmingly. It is therefore necessary at this junction to undertake an assessment of the extent to which microfinance can impact entrepreneurial development (Cheston and Kuhn 2001).

3.0 Methodology

3.1 Research Design

According to Mutai (2001), the research design refers to the procedures to be employed to achieve the objectives of the research. The research design constitutes the blueprint for the collection, measurement and analysis of data (Cooper & Schinder, 2007). A descriptive cross-sectional design method was preferred for this study. The method is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2004). This research design also portrays the characteristics of a population fully (Chandran, 2004).

3.2 Target Population

A population is the group that the research focuses on (Cooper and Schindler, 2003). Target population in statistics is the specific population about which information is desired. For logistical and budgetary concerns the researcher studied 2956 MSEs in Nairobi central business district. The owners of the MSEs formed the population. This is because most of the MSEs funded by Jitegemea Credit Scheme are based in that area.

Table 3.1: Target Population

	Target population	Percentage
Manufacturing	22	0.74
Trade	2281	77.17
Other sectors	653	22.09
Total	2956	100.00

Source: Jitegemea Credit Scheme, (2014)

3.3 Sampling Design and Sample Size

A sampling frame is the listing of all elements of the population from which a sample was drawn. It is a complete and correct listing of population members only (Cooper & Schindler, 2006). A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population (Siegel, 2003). It is a fraction or portion of a population selected such that the selected portion represents the population adequately. Cooper and Schindler (2003) explained that the basic idea of sampling is, selecting some of the elements in a population, so that the same conclusions can be drawn about the entire population. This results to reduced cost and greater accuracy of results**.** This research study used a stratified random sampling method to select 10% of the respondents. According to Mugenda and Mugenda (2003) a sample size of between 10 and 30% is a good representation of the target population. The researcher therefore selected 296 respondents from the CBD.

Table 3.2: Sampling Frame

	Target population	Ratio	Sample size
Manufacturing	22	0.1	2
Trade	2281	0.1	228
Other sectors	653	0.1	65
Total	**2956**		**296**

Source: Author, 2014

3.4 Data Collection

A semi-structured questionnaire was used to collect primary data. In order to ensure uniformity in response and to encourage participation, the questionnaire was kept short and structured with mostly multiple-choice selections in a Likert scale. The questionnaires were preferred in this study because respondents of the study are literate and quite able to answer questions asked adequately. According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. The researcher obtained an introductory letter from the University to collect data then personally deliver the questionnaires to the respondents and had them filled in and then collect later: the drop and pick later method.

3.5 Data Reliability and Validity

To ascertain the validity of questionnaire, a pilot test is carried out (Somekh, and Cathy, 2005). The content validity of the research instrument was evaluated through the actual administration of the pilot group. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items are sent to the pilot group to obtain suggestions for modification (Mugenda and Mugenda, 2003). Content validity draws an inference from test scores to a large domain of items similar to those on the test.

Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. The acceptable reliability coefficient is 0.6 and above (Siegel, 2003). If the Cronbach alpha is below 0.6 the reliability of the questionnaire is considered too low and thus the research tool should be amended.

3.6 Data Analysis and Presentation

Completed questionnaires were edited for completeness and consistency. The data was then analyzed using descriptive statistics. The descriptive statistical tools (SPSS V.17.0 and Excel) helped the researcher to describe the data. This generated quantitative reports through tabulations, percentages, and measure of central tendency. The findings were presented using tables and graphs for further analysis and to facilitate comparison. A simple regression model was applied to determine the relative importance of entrepreneurial development with respect to growth of MSEs. Other related studies had used similar approach to establish similar characteristics. The linear regression analysis was chosen as the approach to analyse the data. The regression model was as follows:

$Y= \beta_0 + \beta_1 X_1 + \varepsilon$.

where:

Y = Growth of MSEs

β_0 = Constant Term,

β_1 = Beta coefficients,

X_1 = Entrepreneurial development

ε = Error term.

4. Findings

4.1 Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved 25 respondents. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct. Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach's Alpha was established for every objective which formed a scale. The table shows that the access to credit had the highest reliability (α= 0.906), followed by entrepreneurial development (α=0.872), person and access to savings (α=0.848).

This illustrates that all the three scales were reliable as their reliability values exceeded the prescribed threshold of 0.7. This therefore depicts that the research instrument was reliable and therefore required no amendments. Furthermore, the Cronbach's coefficient α, calculated for all items to assess the internal consistency of the model variables, equals 0.875, greater than the generally accepted value of 0.60 (Price and Mueller, 2006). Therefore, the data indicate good reliability and consistency.

Table 4.1: **Reliability Analysis**

Scale	Cronbach's Alpha	Number of Items
Access to savings	0.848	4
Access to credit	0.906	5
Entrepreneurial development	0.872	4
All Variables	0.875	13

Source: Research data, 2014

Table 4.2: Trend of various aspects of growth in the MSEs

	Mean	Std. Deviation
Revenue	3.7589	.77171
Profitability	3.5952	.97127
Customer base	3.5772	.85908
Number of staff	4.0778	.72265
Product diversification	4.3889	.59628
Assets growth	3.9337	.56408
Market share	4.0852	.6824

Source: Research data, 2014

The respondents were further requested to indicate the trend of various aspects of growth in their MSEs. From the findings, the respondents indicated that their businesses had recorded improvement in product diversification as shown by a mean score of 4.3889, market share as shown by a mean score of 4.0852, number of staff as shown by a mean score of 4.0778, assets growth as shown by a mean score of 3.9337, revenue as shown by a mean score of 3.7589, profitability as shown by a mean score of 3.5952 and customer base as shown by a mean score of 3.5772.

The respondents further intimated that other area that Jitegemea Credit Scheme should address to enhance the growth of their enterprises include opening branches/information centres in town, offer customer deposit, introduce personal loans, reduce interest rate from the current 22% to around 16%, increase the amount of loan offered, improve on client education through workshops and seminars in strategic management and financial management, have a customer feedback mechanism, introduce more products such as asset financing and emergency loans, speed up the loan processing and loan repayment period and grace period should be extended.

4.4.3 Entrepreneurship Development

The study further inquired on how entrepreneurship development by MFIs affects the growth of MSEs in Nairobi Central Business District.

Table 4.10: Extent that entrepreneurship development from Jitegemea Credit Scheme affects the growth of the enterprises

Extent	Frequency	Percent
Very great extent	89	40.8
Great extent	73	33.5
Moderate extent	41	18.8
Little extent	12	5.5
Not at all	3	1.4
Total	**218**	**100.0**

Source: Research data, 2014

To the question on the extent that entrepreneurship development from Jitegemea Credit Scheme affects the growth of the enterprises, majority (40.8%) of the respondents were of the view that entrepreneurship development from Jitegemea Credit Scheme affects the growth of the enterprises to a very great extent, 33.5% said to a great extent, 18.8% said to a moderate extent, 5.5% said to a little extent while only 1.4% of the respondents were of the opinion that entrepreneurship development from Jitegemea Credit Scheme does not affect the growth of the enterprises at all. This is consistent with Guérin (2006) who observed that microfinance institutions need to supply services that fill the gaps and integrate the underserved group into the market.

The study sought to establish the extent to which various aspects of entrepreneurial development influence the growth of the enterprises.

Table 4.11: **Extent that aspects of entrepreneurial development influence growth in MSEs**

Aspects of Entrepreneurial Development	Mean	Std. Dev.
Seminars	3.9514	.8131
Workshops	3.9699	.9819
Financial and management counselling	4.1579	.9283
Entrepreneurial skills	3.7925	.8398

Source: Research data, 2014

Majority of the respondents indicated that Financial and management counselling influence growth in the enterprises to a great extent as shown by a mean score of 4.1579, workshops influence growth in the enterprises to a great extent as shown by a mean score of 3.9699, seminars o a great extent as shown by a mean score of 3.9514 as well as entrepreneurial skills as shown by a mean score of 3.7925.

4.4.4 Growth

Table 4.2: Trend of various aspects of growth in the MSEs

	Mean	Std. Deviation
Revenue	3.7589	.77171
Profitability	3.5952	.97127
Customer base	3.5772	.85908
Number of staff	4.0778	.72265
Product diversification	4.3889	.59628
Assets growth	3.9337	.56408
Market share	4.0852	.6824

Source: Research data, 2014

The respondents were further requested to indicate the trend of various aspects of growth in their MSEs. From the findings, the respondents indicated that their businesses had recorded improvement in product diversification as shown by a mean score of 4.3889, market share as shown by a mean score of 4.0852, number of staff as shown by a mean score of 4.0778, assets growth as shown by a mean score of 3.9337, revenue as shown by a mean score of 3.7589, profitability as shown by a mean score of 3.5952 and customer base as shown by a mean score of 3.5772.

The respondents further intimated that other area that Jitegemea Credit Scheme should address to enhance the growth of their enterprises include opening branches/information centres in town, offer customer deposit, introduce personal loans, reduce interest rate from the current 22% to around 16%, increase the amount of loan offered, improve on client education through workshops and seminars in strategic management and financial management, have a customer feedback mechanism, introduce more products such as asset financing and emergency loans, speed up the loan processing and loan repayment period and grace period should be extended.

4.2 Inferential Analysis

To establish the relationship between the independent variables and the dependent variable of the study the study conducted inferential analysis which involved a coefficient of determination and a simple regression analysis. Inferential analysis is utilized in this study to determine if there is a relationship between an intervention and an outcome, as well as the strength of that relationship. The inferential statistics analysis aimed to reach conclusions that extend beyond the immediate data alone between the independent variable in this study which is entrepreneurship development. The main focus was on the effect of entrepreneurial development on growth of MSEs in Nairobi Central Business District, Kenya.

Simple regression is a statistical technique that allows us to predict a score of one variable on the basis of their scores on another variable.

The model summary, r^2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Growth of MSEs) that is explained by the independent variable (entrepreneurship development). From the Table 4.3, the regression results reveal that entrepreneurship development had overall significance impact on growth of MSEs (p-value = 0.000). The regression results also shows that at individual level, there was a statistically significant positive linear relationship between entrepreneurship development and growth of MSEs (β= 0.252, p-value 0.001) in that the p-value is less than α ($0.001 < 0.05$). The regression results also shows that 64.8 percent of the growth of

MSEs can be explained by entrepreneurship development (R square = 0.648).

Table 4.3 Regression Results of entrepreneurship development against growth of MSEs

Goodness of fit analysis

Sample size	R	R Square	Adjusted R Square	Std. Error of the Estimate
218	0.469	0.648	0.527	0.328

Predictors: (Constant) Entrepreneurship development

Overall significance: ANOVA (F-test)

	Sum of Squares	Degree of Freedom	Mean Square	F	Significance(p-value)
Regression	2.208	3	2.208	34.018	0.000
Residual	1.430	215	0.134		
Total	3.638	218			

Predictors: (Constant) Entrepreneurship development
Dependent Variable: growth of MSEs

Individual significance (T-test)

	Unstandardized Coefficients		Standardized Coefficients	T	Significance(p-value)
	B	Std. Error	Beta (β)		
(Constant)	1.340	2.087		3.412	0.040
Means of entrepreneurship development	0.252	0.184	0.734	2.089	0.001

Dependent Variable: growth of MSEs.
Lever of significance, $\alpha = 0.05$

Source: Research data, 2014

Arising from the research results in Table 4.3, a simple regression equation that may be used to estimate growth of MSEs given its existing entrepreneurship development is stated as follows;

$GM = 1.340 + 0.252ED + \varepsilon$

Where:
1.340= y-intercept constant,
GM= is the growth of MSEs
0.252= an estimate of the expected increase in growth of MSEs corresponding to an increase in entrepreneurship development
ED = Entrepreneurship development
ε= the error term- random variation due to other unmeasured factors.

5.0 Summary and Key Findings

The study concludes that entrepreneurship development such as financial and management counselling as well as workshops, entrepreneurial skills and seminars offered by Jitegemea Credit Scheme influence growth in the enterprises. This is consistent with Guérin (2006) who observed that microfinance institutions need to supply services that fill the gaps and integrate the underserved group into the market. Microfinance offered training enables MSEs to become economic agents of change by increasing their management skills and sharpening their ability of accessing markets and information.

5. Conclusions

From the study microfinance institutions are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development of the growth of MSEs and the economy at large. The financial institutions need to put more effort in financing MSEs, their role need to be felt by the MSEs in terms of growth and development. The financial institution whose role needs to be visible in promoting MSEs growth and development is microfinance. MSEs themselves should be more receptive to new ideas and prepared to make financial commitments to ensure growth. This study recommends that guidelines by microfinance institutions to finance MSEs need to be flexible to accommodate the MSEs only when financial institutions appreciates and give technical assistant to the MSE would be contributing to the MSEs to ensure success in the SME sector.

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