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Effects of Micro-credit, Micro-savings and Training on the Growth of Small and Medium Enterprises in MachakosCounty in Kenya

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Abstract
The objective of every micro-entrepreneur is to grow their businesses into large enterprises. To achieve this, most of the micro-entrepreneurs make use of microfinance services and training to improve their productivity and profitability. Many studies have been done in Kenya on SMEs and how they are influenced by microfinance services but none had focused on the effects of microfinance services on the growth of the SMEs. The purpose of this study was to find out the effects of micro-credit, micro-savings and training on the growth of SMEs in Machakos County. A survey research design was applied to study 8 types of business categories in Machakos County. Structured questionnaire was used to collect data from 100 businesses. Multiple regression analysis was used to determine the relationships between micro-credit, micro-savings, training and growth of SMEs. The results show that micro-credit, micro-savings and training jointly contribute positively to SMEs growth. However, the effect of training is not statistically significant. This could be attributed to training that is not based on the real needs of SMEs.

1.0 Introduction

The small and medium enterprises (SMEs) sector has continued to play an important role in the Kenyan economy. The sector's contribution to the gross domestic product (GDP) increased from 14% in 1993 to about 20% in 2007. The (SME) or informal sector provided 78% of total employment and contributed over 57% of the new jobs created in 2005/2006 according to the economic survey of 2007. The Economic Survey of 2012 estimated that the contribution to the GDP by this sector currently stands at over 25%. The sector therefore plays a key role in employment creation, income generation and is the bed rock for industrializing the country in the near future. In Kenya, there are about 2.2million micro, small and medium enterprises (SME banking sector report, 2007) of which 88% are non-registered.

Small SMEs are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated growth and rapid industrialization have been achieved (Koech, 2011). SMEs have been recognized as socio-economic and political development catalysts in both developed and developing economies (Mwangi, 2011).

Maalu, et. al. (1999) discussed the role of Micro and Small Enterprises in Kenya and noted the important role it has played and continues to play. In addition to the employment creation and income generation, the study noted other important roles in the economy such as production of goods and services and development skills. Therefore, there is need to understand factors influencing SME growth locally and globally.

2.0 Literature Review

2.1 Growth of Small Medium Enterprises

One of the most important themes that come up in discussions about business is the subject of growth. Majority of studies on growth have been undertaken based on the law of Proportionate Effects or Gibrat's law. Gibrat's law states that firm growth rate is independent of firm size. The studies have therefore categorized SMEs into three categories: small, medium and large enterprises. The available studies on growth have also used varied metrics to measure growth.

Howard (2006) laid out a framework describing how SMEs grow. While he identifies seven stages of organizational growth, the first three stages are of particular importance and interest to small SMEs. The first stage is that of new venture, which is when a small business is just beginning. Markets and products are being developed in this stage. The second stage is expansion and can focus on increased sales, revenues, market share, and ultimately the number of employees. The third stage is professionalization, and focuses on formalizing the goals, processes and functions of the organization and is considered to be closely related to expansion. Stage four is consolidation, and focuses on issues faced by firms once they have made the transition to professionally managed organizations with working systems in place, focusing more on managing its corporate culture. Diversification is the fifth phase, focusing on developing new products for markets for which the organization is already providing goods and services. The sixth stage is integration, focusing on developing an infrastructure to

support multiple business units. The final stage is that of decline and revitalization and focuses on rebuilding the organization at all levels, to ensure continued survival.

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. 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. Sales and /or employment growth is a better measure of new and small business performance than accounting based measures such as profits, return on investment or market share. Sales dates are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance. In practice, sales growth is also easier compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and therefore growth. Sales may also be considered asa precise indicator of how a firm is competing relative to that market. Business owners themselves often treat sales as key motivator and indicator of performance rather than, for example, job creation (Koech, 2011).

Lack of access to credit is a major constraint inhibiting the growth of SMEs sector (WorldBank,2013). The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SMEs continues to be a constraint in the growth and expansion of the sector. Formal financial institutions perceive SMEs as high risk and commercially unviable. As a result, only a few SMEs access credit from formal financial institutions in the country. Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable.

Several Organizations including business associations, voluntary organizations and other non-governmental organizations have set up programs to enhance the factors that influence development of SME especially as it relates to enterprise growth and development (World Bank, 2013). Despite the large number of assistance programs, the growth and development of SME has not been satisfactory. Ventures have collapsed as soon as assisting organizations pull out of the project and remaining ones have remained small (Memba, et. al, 2012)

2.2 Micro-Finance Services

The concept of micro-financing arose out of the need to provide to the low-income earners who were left out by formal financial institutions. The practice of micro-credit dates back to as early as 1700 and can be traced to Irish Loan Fund System which provided small loans to rural poor with no collateral. Over the years, the concept of micro-finance spread to Latin America, then to Asia and later to Africa. Modern use of the expression micro-financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the micro-finance pioneer Mohammad Yunus, were starting and shaping the modern industry of micro-financing (Yunus, 2007; Wahid, 1994).

In Kenya, micro-finance movement gained momentum in the late 1980s as a result of exclusion of large proportion of the population from the formal financial institution mainly banks. Micro-finance emerged with the aim of filling the gap left by banks in providing credit to individuals, micro, small and medium enterprises which were on the rise during this period (Ogindo, 2006). In the early 1990s with the opening up of political space and ensuing economic disturbances, the need for credit by individuals, micro, small and medium enterprises increased and this led to the recognition of micro-finance institutions in Kenya. Among the pioneer MFIs in Kenya are Equity Building Society (currently Equity Bank), Family Building Society (currently Family Bank), Faulu Kenya and K-Rep (Mwangi, 2011).

Microfinance Institutions (MFIs) in Kenya were established using either an NGO or a Savings and Credit Cooperative Society framework. MFIs have been important sources of credit for a large number of low income households and MSEs in the rural and urban areas of Kenya (Ogindo, 2006). MFIs gained prominence in Kenya due to the fact that the formal banking sector since independence up to late 2000 regarded the informal sector as risky and not commercially viable (Ogindo, 2006). The MFIs developed and offered new, innovative and pro-poor modes of financing low-income households and MSEs based on sound operating principles. Since their inception, MFIs have greatly contributed to social-economic empowerment to the beneficiaries and their dependants (Kamau, 2010).

Robinson (1998) defines microfinance as a development too that grants or provides financial services and products such as very small loans, savings, micro leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their SMEs. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance. The term microfinance can also be defined as provision of financial services to low income clients including the self employed. Financial services generally include savings and credit; however some finance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self confidence and training in financial literacy and management capabilities among members

of a group (Ledgerwood, 1999).
Microfinance activities include: small loans generally for working capital, informal approval of borrowers and investments, collateral substitutes such as a group guarantee or compulsory savings, access to repeat and large loans based on repayment performance, streamlined loan disbursements and monitoring and secure saving products. The services provided to Microfinance clients can be categorized into four different categories. These are financial intermediation, or provision of financial products and services such as savings, credit, insurance, credit cards and payment system which do require ongoing subsidies.
MFIs have the following characteristics: Loans are usually relatively short – less than 12 months in most instances and are generally for working capital with immediate regular weekly or monthly repayments. They are also disbursed quickly after approval, particularly for those seeking repeat loan. The traditional lenders requirements for physical collateral such as property are usually replaced by a system of collective guarantee where members are mutually responsible for ensuring that their loans are repaid (Khan, 2008)

2.3 Microfinance Services and the Growth of SMEs in Kenya

Various studies have been done in Kenya on SMEs and how they are influenced by microfinance services. Mutuku (2010) studied on the impact of microfinance institutions on MSMEs in Kenya and found out that they had a great impact on employment creation and poverty alleviation. Mbugua (2010) examined the impact of micro finance services on financial performance of SMEs in Kenya found that micro finance services enhance financial performances of SMEs. Ngugi (2009), Kioko (2009), and Makena (2011) studied the financial challenges faced by SMEs and found that inadequacies in access to finance are key obstacles to SMEs growth.
Kemei (2011) studied on the relationship between microfinance services and financial performance of SMEs. The findings were that positive and significant relationships exist between MFIs loans and SMEs performance. Kimoro (2011) in a study on the impact of microfinance services on women empowerment found that microfinance has led to expansion of freedom of choice of women.
A survey of the financial constraints hindering growth of SMEs by Koech(2011) found that they include inaccessible capital market, cost, collateral requirements, capital management and cost of registration. Cooper(2012) studied on the impact of microfinance services on the growth of SMEs in Nairobi and found a strong positive impact. No study had focused on the effects of microfinance services on the growth of SMEs in Machakos County. Therefore, this study focused on the effects of microfinance services and training on the growth of SMEs in Machakos County. It answered the following question: how do microfinance services and training influence the growth of SMEs in Machakos County?

3.0 Research Methodology

3.1 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. For the purpose of this study, the researchers employed a survey research design. As a descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Cooper and Schindler, 2003).This approach was appropriate for this study, since the researchers intended to collect detailed information in order to describe the nature of the relationship between micro-credit, micro-savings, training and growth of SMEs.
Descriptive statistics were applied to study the effects of microfinance services on the growth of SMEs in Machakos County. Both quantitative and qualitative approaches to analyze the data were employed. A questionnaire was the main instrument of collecting data. This instrument was preferred because of its low cost even when the population is large, it is free from the biases of the interviewer, and SMEs have more time to give well thought answers (Mugenda and Mugenda, 1999). It also saves time on the part of the researcher.

3.2 Population and Sample Size

According to Cooper and Schindler (2003), a population is the total collection of elements about which we wish to make some inferences. The idea is not far from Mugenda and Mugenda (1999) view as they define a population as the entire group of individuals, events or objects having a common observable characteristic. The target population consisted of the 5,311 SMEs operating in Machakos Municipality. The SMEs in Machakos are not homogeneous and thus stratified sampling was used. The strata are the business categories from which the sample was selected.
Sample size is a given number of members or cases from the accessible population which is carefully selected so as to be a representative of the whole population with the relevant characteristics. Stratified random sampling was applied to pick 100 SMEs that weresurveyed in the study. This number was considered appropriate due to time and cost constraints.The simple random sampling procedure was preferred because this concept allows unbiased sampling.

3.4 Data and Data Collection Instruments

Primary data was used in this study since many SMEs do not have complete and regularly maintained business records. Therefore, the study used ordinal, nominal and rational data to achieve the research objectives.

This study employed a self-administered questionnaire as a sole means of data collection from SMEs. The instrument was based on a five point Likert scale. The instrument was divided into two sections. The first section contained questions on the type business. The second section covered aspects of growth of SMEs.

3.5 Data Analysis

Gay (1992) observed that data analysis involves organizing, accounting for and explaining that data; that is making sense out of data in terms of SME's definition of the situation noting patterns, themes, categories and regularities. Data was analyzed using descriptive statistics and regression analysis. Closed questions were analyzed using quantitative analysis while open ended questions were analyzed using qualitative methods.

3.5.1 Conceptual Model

The conceptual model that was used in this study was in the form of a mathematical expression of the form:

$Y=f(X_1,X_2,X_3)$ (1)

Where Y= Growth in sales, the number of employees, establishment of new branches, new technology and improvement in skillsof each SME; X_1= Micro-credit received from the MFIs, X_2=Micro-savingsmade by each SME, X_3 = Training provided to SMEs by the MFIs.

The variables in the model were measured using the ratio scale. The dependent variable was determined by rate of change of sales per annum from the year 2009 to 2012. Micro-credit was measured by the natural logarithm of the l loans received by the SME. Micro-saving was measured by the logarithm of total savings made. Training was measured as thenatural logarithm of total expenditure on training provided.

3.5.2 Analytical Model

The analytical model that was used takes the form of a multiple linear regression model.

The effect of microfinance services was determined by the equation below:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$ (2)

Where Y = Annual growth in turnover, α= Constant/the intercept point of the regressionline and the y-axis, β= the slope/gradient of the regression line and ε = Error term.

The strength of the relationship between the dependent and the independent variables was measured by carrying out *F*-test and *t*-test at 5% level of significance. The tests were done to determine whether the coefficients β_1, β_2, and β_3 were significantly different from zero. On this basis it wasa conclusion wasmade whether there is a strong relationship between the dependent and independent variables or not.

4.0 Data Analysis Results and Discussion

4.1.Response Rate

Out of the intended 100 SMEs sampled only 66 returned fully completed and returned the questionnaires giving a response return rate of 66%. This return rate is acceptable as recommended by Mugenda & Mugenda (1999). This reasonable response rate was realized after the researchers made personal calls and visits to remind the SMEs to fill and return the questionnaires.

4.2 Demographic Information

Forms of Business Ownership

The SMEs were asked to indicate the form of ownership of their SMEs. The results show that most of the SMEs (49 or 74%) were in sole proprietorship, 8 (12%) were companies, 6 (9%) were partnerships and 3 (5%) were in other forms of ownership.

Location and Age of the SMEs

The SMEs were asked to indicate the location of their business. The study found that most SMEs (79%) have their business at the Central Business District and the rest(21%)are off the Central Business District.

The SMEs were asked to indicate the time when their SMEs were established. The study found that 46% ofSMEs have between operating for 11-20 years, 27% are 6-10 years old, 23% are over 20 years old and 5% are between 0-5 years old.

From the results it seems that at their early years SMEs are enthusiastic to start and struggle to keep in operation. As they survive and become better adapted to the competitive environment they grow faster and reach maturity before they eventually start to decline. Apparently, many SMEs grow to maturity after starting up hence there was a positive skew in the distribution.

Gender and Education Level of the Manager

The findings indicate that most managers (71%) of the SMEs are males while only 19 (29%) are females. Education is one of the factors that influence the performance of managers. Therefore, this study also examined the education level of the managers of the SMEs. The results showthat 1 (2%) of the managers of the SMEs had primary level of education, 24 (36%) were form four graduates,17(26%) were diploma graduate, 20(30%) had basic university education, and 4(6%) were postgraduates. This shows that 62% the SMEs are being manned by personnel of a diploma and higher qualifications.

The Main Business Activity

The study also determined the main business activity of the SMEs. The results show that the majority of the

SMEs(55%) were in products, while only 45% are in services. Among those SMEs that were dealing in products are: Retail, Hawking, Retailing of basic commodities, Sale of agricultural chemicals and veterinary medicine, Sale of basic commodities, Sale of buttons and ribbons, Sale of cakes and bread and Sale of construction materials. Those SMEs that were in services are Accommodation and conferences, Baking and Hotel Services, Consultancy services, Dealing with petroleum products, lubricants and car accessories, Dry cleaning, Educational Services, Financial products, Giving of loans to civil servants, Health Services, Hire Purchase Sales and Hotel and conference services.

4.3 Growth of the SMEs in Machakos County

Savings for the Last One Year

The researchers requested the SMEs to estimate their savings for the previous one year. The results are summarized in Table 1below.

Table 1. SME Savings for the Previous Year

Savings for the last one year Ksh "000"	Frequency	Percent
10 - 100	15	23
200 - 1000	35	53
2000 - 10000	14	21
Over 10000	2	3
Total	**66**	**100**

Source: Authors' Computation 2013

The results in Table 1 show the SME distribution in terms of their Savings for the last one year. From Table 1it can be seen that 53% of the SMEs saved between two hundred thousands and one million shillings, 23% had saved between ten thousand to one hundred thousands, 21% had saved two to ten million shillings and 3% saved over ten million shillings.

Full Time Employees

The number of full time employees of the SMEsis summarized in Table 2.

Table 2. Number of Full Time Employees Per SME

Full time employees	Frequency	Percent
1 - 20	56	85
21 - 40	6	9
Over 60	4	6
Total	**66**	**100**

Source: Authors' Computation 2013

From Table 2a majority (85) of the SMEshad 1-20 full time employees, 9% had 21-40 full time employees and 6% had over 60 full time employees.

Growth in All Areas of Business over the Last Four Years

The SMEs were asked to indicate whether their business/company experienced growth in terms of sales, assets, employees, new branches, size in the last four years of the SMEs. The SMEs' responses show that majority (96%) of the SMEs had experienced growth and only 5% did not experience growth.

Growth in the Specific Areas of Businessover the Last Four Years

The results in Table 3 show the SME distribution in terms percentage of growth in sales, employment, new branches, technology and skill improvement. It is evident that the introduction of new branches/business had highest average at 13%, technology improvement at 6%, skill improvement at 5%, sales at 4% and employment had the least at 4%.

Table 3. Percentage of SMES Which Reported Growth in Specific Areas of Business

Area of Growth	2009	2010	2011	2012	Average
Sales	3.6	3.8	4.1	3.6	**3.8**
Employment	3.7	3.6	3.5	3.4	**3.6**
New branches/business	10	12	15	16	**13.3**
Technology improvement	3.6	4.5	5.2	10	**5.8**
Skill improvement	3.7	3.8	5.5	8.7	**5.4**
Average	**4.9**	**5.5**	**6.7**	**8.3**	

Source: Authors' Computation 2013

Factors Contributing to the SME Growth andOverall Growth of Business

Further data analysis focused on the factors contributing to SME growth.The majority (79%) of the SMEs attributed their growth to accessibility to loans, 9% attributed their growth to re-investing of profit, while 5% attributed the growth to new markets and new products.

The results show that 79% of the SMEs reported moderate overall growth of business, 17% reported high overall growth of business, while 3% reported low overall growth of business and only 2% reported very low overall growth.

Total Expenditure on Training

The SMEs were asked to indicate the total cost spent on training each year as a percentage of Total assets for the four years. The results show that there is an upward trend in total expenditure on training by SMEs rising from 11% in 2009 to 24% in 2012. This means that SMEs are increasingly realizing the importance of training not only to increasing their survival but also their profitability and growth.

4.4 Relationship between Microfinance Services, Training and the Growth of SMEs

Several models were estimated using different measures of SME growth. The results presented here are those of the best fitting model using the number of new branches as the dependent variable. Table 4 presents the results of the model goodness of fit as estimated. The independent variables explain only 27% of the variability in growth. Therefore, the model does not fit the data well.R is the correlation coefficient which was showed a positive correlationship between the study variables with a magnitude of 0.517.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.517[a]	.267	.217	.126

a. Predictors: (Constant), Microcredit, Micro insurance and Training provided by MFIs

Results of Analysis of Variance

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme as or more extreme than that observed by chance alone, if the null hypothesis H_0 is true. The p-value is compared with the actual significance level of the test and, if it is smaller, the result is significant. The smaller it is the more convincing is the rejection of the null hypothesis. Table 5 shows that there is correlation between the predictors variables (Micro-credit, Micro-savings and Training provided by MFIs) and response variable (Annual growth in turnover) are significant since *p*-value of 0.004 is less than 0.05. The ANOVA results indicate that the independent variables significantly explain the variance in SME growth (F=5.110, p=0.011).

Table 5. Results ofANOVA

Model	Sum of Squares	d.f.	Mean Square	F	p
Regression	0.242	3	0.081	5.110	.004
Residual	0.664	42	0.016		
Total	**0.907**	**45**			

Note: d.f. are the degrees of freedom of the regression model.

The values in Table 6 show the estimated coefficients for equation 2, above.A constant term of-0.101 shows that if micro-credit, micro-savings and training provided by MFIs were all rated as zero, Annual growth in turnover rating would be -0.101. The constant term is not statistically significant at 5% level. The coefficient of X_1= 0.374, shows that one unit change in Micro-credit results in 0.374 units increase in Annual growth in turnover. This relationship is statistically significant at 5% level. The coefficient X_2= 0.010, shows that one unit change in Micro insurance results in 0.010 units increase in annual growth in turnover. The coefficient X_3= 0.000, shows that one unit change in training provided by MFIs, results in 0.000 units increase in annual growth in SME thus training does not impact SME growth.This relationship is statistically significant at 5% level. These results were consistent across all the variables used to measure SME growth.

Table 6.Relationship between Microfinance Services and the Growth of SMEs

	Unstandardized Coefficients		*t*	Sig.
	Beta	Std. Error		
(Constant)	-0.101	0.084	-1.205	.235
Micro-credit (X_1)	0.374	0.133	2.820*	.007
Micro-insurance (X_2)	0.010	0.005	2.118*	.040
Training (X_3)	0.000	0.004	0.014	.989

Source: Authors' Computation 2013. *Shows statistical significance at 5% level.

Discussion

The existence of a positive and significant relationship between SME growth and micro-credit and micro-savings has several implications. First, an increased access to micro-credit and micro-saving institutions will improve the cash constraints of the SMEs. This increases their solvency and liquidity hence the observed high survival rates among the SMEs. Access to credit also affords the SMEs the cash that they need to finance the expansion of their business and working capital especially where the cash requirements far outstrip their internal savings. Furthermore, increased savings enable the SMEs to access large micro-loans to increase their working capital and sales revenues. This contributes to the growth of the SMEs.

The result that training has got no impact on SME growth irrespective of the variable used to measure growth is

surprising and counterfactual. One possible reason could be that the training delivered does not address the real needs of SMEs. In this case it is advisable to conduct a needs assessment of the SMEs before the right training is delivered.

5.Conclusion

Based on the findings, the study concludes that the growth in SMEs is due to changes in micro-credit and micro-savings.Therefore, MFIs and commercial banks should find innovative ways of extending credit to SMEs. This sub-sector is very promising not only in terms of potential profits to lenders but also on employment and economic growth. Training provided by MFIs does not impact SME growth probably because it is not based on the real needs of the SMEs.Hence MFIs must carry out a needs assessment survey in order to come up with focused programs that address real needs in the SME sub-sector.

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