EFFECT OF MICROFINANCE PRODUCTS ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

Allan Kibet Kibichii

Master Student (Finance), Jomo Kenyatta University of Agriculture and Technology, Kenya

Dr. Fredrick Wafula

Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 7th October 2020

Published: 14th October 2020

Full Length Research

Available Online at: http://www.iajournals.org/articles/iajef_v3_i6_152_167.pdf

Citation: Kibichii, A. K. & Wafula, F. (2020). Effect of microfinance products on the growth of small and medium enterprises in Nairobi County. *International Academic Journal of Economics and Finance*, *3*(6), 152-167

ABSTRACT

The main goal of the study was to assess the effect of microfinance services on the growth of small and medium scale businesses. The research was focused on small and medium scale businesses in Nairobi County. A descriptive survey research design was used to assess the various business categories in Nairobi County. The collection of data was done through the utilization of a well-structured questionnaire and secondary data matrix. Additionally, a stratified random sampling approach was utilized to select 225 SMEs from a target population of 100,982 registered SMEs by Nairobi County Licensing Department. This was considered to be representative of the whole population of Nairobi County. The findings were offered and explained through the utilization of tables with percentages, frequencies, standard deviations, and means. Furthermore, multiple regression was undertaken to explain the link between the loan provision, insurance provision, and training provision and growth of small as well as medium businesses. Based on the study, the research participants concurred that microfinance institutions have strongly and positively impacted the growth of their enterprises by way of their products. Also, the regression analysis outcomes found that there is a significant relationship between the growth of small and medium businesses and the provision of loans, insurance with r-square magnitudes of 0.83,0.48, and 0.74 respectively. Moreover, the ANOVA outcomes also agree with the presence of a statistically significant relationship between the predictor variables and the dependent variable with an F value <0.05. Premised on the findings of the study, it was determined and concluded that indeed the growth of SMEs in terms of sales, business expansion, and increase in the number of employees is impacted by changes in loans, insurance, and training provision and that relationship is positive. The research also found out that the loans and training provision had the highest impact on the growth of small and medium businesses in Nairobi County as illustrated by the strong positive correlation and relationship. Also, the research recommends that stakeholders and governments need to promote the availability of MFIs products and enrich them. Additionally, future studies should focus on the country as a whole as well as other counties so as the offer more data details about the impact that products being offered by microfinance has on the growth of small and medium enterprises.

Key Words: *small and medium scale enterprises (SME's), financial literacy, financing, microfinance institution (MFI's), growth and development, loan provision, insurance provision, training provision*

INTRODUCTION

The role of Microfinance in the performance, development, and growth of SMEs is imperative to the growth of the Kenyan economy. It is acknowledged that the accessibility of credit is crucial for rapid growth. As the Kenyan economy continues to fairly experience high growth, microfinance institutions (MFI's) continued capability to offer affordable financing in an effective way to moderate and small scale enterprises will be needed to support the nation's continued robust economic growth. Effective Management of resources is facilitated best by MFI's thus they have a crucial role of creating and making financial resources accessible as well as other services to foster the growth and development of SME's (SASRA, 2014).

Microfinance involves the delivery of financial related services, supervision, and products that may encompass a small quantity of money by an extensive range of products and systems of intermediary undertakings targeted towards low-income customers. SME's have increasingly become the center of attention for economic growth, development, and employment across the world. Their significance in economies has been identified by several key international incorporations such as the UN, World Bank, non-governmental companies, and governments. A review was undertaken by Liedholm and Mead (2013) on many African nations that have established that between close to 17%-27% of their working populations are employed in the SME'S sectors, which is twice the number of those employed in public sectors and large scale enterprises.

Regional and Global Perspective

Across the world, MFI products are customized to ensure that SMEs are geared towards enhancing their working capital as well as the social lives of participants. For example, the loan education strategy provided by Freedom from Hunger launched in 1988 in West Africa brought forth solutions to fight against poverty (Sarpong-Danquah et al., 2018). MFI's frequently organize education and training either weekly or monthly to assess businesses. Amid educational workshops or training MFI's need to recommend key solutions to the issues that face SME's owners that can potentially assist in their growth. Furthermore, Poverty reduction is a crucial role being played by SME's in developing nations such as Uganda and Ghana (Abor & Quartey, 2010). Besides, in Ghana, 92% of businesses are considered to be either small or medium scale and has contributed immensely to its GDP and job creation. Globally, it has been established that to have a more successful and vibrant private sector there is the need for mechanisms that can offer easy loans or credits, micro-insurance, micro-savings, and education to SME's that cannot be provided by formal financial institutions to be created and developed (Babajide, 2012).

Growth of Small Medium Enterprises

Growth is the most imperative theme that always comes up in deliberations about companies. The majority of studies on the growth and development of companies have been prepared premised on the law of proportionality whereby a business growth rate is independent of a company's size (Akingunola, 2011). Various indicators that are both non-financial and financial have frequently been suggested as performance measures. Past researchers tended to concentrate on those variables whose information can easily be gathered. Research findings by Santos and Brito (2012), established that there are other potential performances such as market share, employment level, sales volume, physical outputs, and asset base that can be used to determine the growth of organizations. Suggestions by most researchers contend that growth is the most important measure for determining the productivity of small businesses as it's the most accurate and easily available indicator.

Small and Medium Enterprises Setting in Kenya

In Kenya, as mentioned and explained by Nasirembe (2008), MSE has employed more than 2.5 million individuals and generates close to 14% of the nation's GDP. Furthermore, evidence from several studies on MFI's assistance to SME's performance offers mixed outcomes that are unconvincing for developing nations like Kenya. Despite the emphasis past studies have not offered sufficient justification and knowledge when it comes to the connection between microfinance products and services and MSE's performance in countries that are developing such as Kenya. Therefore, the key question of whether MFI's products and services worsens or improves the performance of SMEs is still worthy and in need of more research as the one that is being undertaken in this study. SME's are a crucial subsector to the Kenyan economy as it employs close to 85% of the current workforce. This totals close to 7.5 million individuals. The current legislation structure and the Micro and Small Enterprise Act of 2012 offers guidance on how SME's need to operate (KNBS, 2017). The failure to live up to their means and standards of financial establishments for loan objectives provides an avenue for informal financial institutions to come and bridge this gap. This has promoted the development of products such as insurance, loans, and training by MFI's has ensured that they offer substitute products to SME's. Therefore, more emphasis ought to be placed on these products such as Micro-savings and Micro Credits to foster more savings mobilizations from people to ensure that funds can flow from surplus economic to deficit units (Christen, Lyman & Rosenberg, 2012). Such measures will lead to an enriched financial performance of SMEs.

STATEMENT OF THE PROBLEM

The idea of growth in SMEs remains to be a fertile and grey area that has yet to be concluded regarding definite indicators and approaches of growth being identified even though every entrepreneur strives to have their business operations grow. Therefore, in the Kenyan setting more specifically the county of Nairobi, the subject of business growth is still a fertile and rich area of study (Chole, 2017). The economic role that SME's play in countries cannot be dismissed. In the context of Kenyan, for instance in 2015 SME contributed to 33.8% of Kenya's GDP (KNBS, 2017). Despite their importance, SME's are still faced with the threat of failure with previous statistics indicate that three out of five of SME's still fail with their initial few months of inception. Over the years the number of SMEs collapsing has steadily been decreasing. The Challenges encountered by SME's seem to emanate from various micro and macro-economic conditions (Kemei, 2011). Furthermore, according to the Central Bank of Kenya Banking Sector Annual report of 2018 indicates high levels of credit risks arising from non-performing loans by microfinance institutions over the last five years, a situation that has negatively affected their profitability (Central Bank of Kenya, 2018). This trend not only threatens the feasibility and viability of the microfinance institution but also prevents the attainment of the objectives that they were purposed to offer credit, training, and insurance to SMEs. Several studies undertaken in Kenya have focused on how MFI's affects the growth and development of both medium scale and small scale enterprises. Mutuku (2010) looks at the influence of microfinance on SME's and established that they had an enormous effect on the easing of poverty and job creation but failed to look at how specific microfinance products like credit, training, and insurance aid in the growth of SMEs. Kamweru (2011); Mbugua (2010) and Gichuki, Njeru & Tirimba (2014) studies looked at financial issues and challenges faced by SME's found that insufficiencies in the access of finance was a fundamental hindrance to the growth of SME's in Kenya but failed to look at microfinance products like provision of training and insurance had on SME's. These studies have failed to keenly look at how microfinance products affect the growth of SMEs. SMEs continue to fail from the issues that MFI's claim to be offering solutions to. Ubom (2009) asserts that microfinance institutions provide solutions to SME's by offering products such as loans, insurance, and Education like improvement of self-confidence, strategies of group formation, and training in financial management and literacy abilities among members. A gap exists in the literature review as far when it comes to comprehending the effect of microfinance on the growth and development of SMEs in Nairobi County. Therefore, this study will seek to address and fill this gap by determining the effect of microfinance on the growth of SMEs in Nairobi County.

GENERAL OBJECTIVE

The objective of the research study was to take a gander at the effect of micro-finance, particularly products and services loans, insurance, and training on the growth of SME's in Nairobi County.

SPECIFIC OBJECTIVES

1. To establish the effect of loan provision by MFIs on the growth of SMEs in Nairobi County.
2. To assess the effect of training services provision by MFIs on the growth of SMEs in Nairobi County.
3. To determine the effect of insurance product provision by MFIs on the growth of SMEs in Nairobi County.

THEORETICAL REVIEW

Theory of Financial Sustainability

The theory of sustainable Finance by Emerson (2003) can be considered or seen as an improvement and enhancement of the Traditional Finance Theory. Notably, traditional Financial Theory is chiefly engrained on two narrow sets of tenets that only financial risk and financial return matters. It can be linked to the dependent variable that is the growth and development of SMEs. For SMEs to grow and develop they need to financially stable and sustainable. Recently, the emerging and first rising field of viable or sustainable finance provides a good platform for scholars to come up with more general theories of finance. This indicates that the traditional theory of finance offers a more special case in general theories that tend to incorporate other essential values. The four main present and recent trends that foster the growth of sustainable finance include the idea of blended value by Emerson whereby investing infers to the acknowledging sustainable factors can be linked to systematic risks. Additionally, sustainability factors may be associated with systematic risks and thus there is the need for financial innovation to enhance sustainability (Emerson, 2003). The main focus is on creating an environment that entrepreneurs can be able to cover their costs, improve accountability, to increase their services to capture economies of scale.

Pecking Order Theory

This theory supports the variable of providing Loans. According to this theory, there are three main sources through which financing comes from such as debt and equity. It was initially proposed by Donaldson (1961) and later was modified and made popular by Myers and Majluf in 1984 (De Jong, Verbeek & Verwijmeren, 2011). It postulates that businesses tend to favor finance in the following preference or inclination, first from their retained earnings then debt, and finally external equity with costs such as bankruptcy, agency, and information disproportionateness contributing less in impacting capital structure policies of the businesses (Whonderr-Arthur, 2009). This theory is adopted based on the significance of previous research that indicated that most of SME's premise their financial structure decisions on their rationale (Wilson, Larson, & Jacobson, 2014). Additionally, most SME's adhere to the idea of this theory since its foundations are consistent with the fact that business owners who are also the managers do not want any of their ownership to be thinned by them looking for funds that have the probability to minimize their control and ownership.

Typically, managed-owned businesses often prefer retained earnings as it solidifies their control over operations and assets (Makhbul, 2011). Partiality to utilize earnings infers that owners of such business want to utilize their savings since savings fundamentally implies profits retained after a company has paid off its costs and expenses. Saving services creates internal equity that improves the capital base and maintains control over decision making and assets. (Whonderr-Arthur, 2009). Therefore, access to micro-savings is strategic and crucial to each SME. Furthermore, the preference for Savings by SME's is not only based on keeping up with control but also it's a good way of curbing the costs linked to other forms of financing that several SME's find it expensive and negative to the attainment of their business objectives and goals (Whonderr-Arthur, 2009). The access and availability of savings are thus envisioned and expected to have a positive sway on the growth of SMEs in Kenya.

Game Theory

The Game Theory is consistent with the thought of providing SMEs with Insurance. The development of Game Theory was introduced by John von Neumann, John Nash, and Oskar

Morgenstern in 1920 (Myerson, 2013). They contend that participants in games are solely responsible for the activities that they partake individually, however, their connections to the other participants of the larger groups comprise both takings of risks, competition, and collaboration viewpoints. This idea is also focused on insurance as the Grameen lending model. The model is premised on groups peer pressure wherein loans are given to groups with individuals of about four to eight members. The same can be done with insurance. This theory reinforces the idea of group insurance provision by MFI's. Most of the new methods count borrower groups to collectively impose contracts and monitor their items. Often group members work as a group in repaying loans therefore, insurance can assist clients to safeguard their investments thus they can repay their loans. Kenya's MFI's have competitive rates for individuals in groups to be capable to acquire insurance.

The Knowledge-Based Theory

This theory is consistent with MFI's provision of training services that are targeting group formation, improvement, and inculcation of confidence and training on financial literacy and management. Knowledge-Based Theory is founded by Penrose (1959) and stipulates that knowledge is a strategic and important resource that a firm can depend on (West & Noel, 2009). The author contends that since knowledge founded resources are hard to imitate and can be seen as complex and unique as they are crucial to the sustenance of competitive advantage and high performance of companies. Knowledge ought to be embedded and carried out through companies' organizational culture, policies, routines, documents, and staff. Penrose (1959) argued that knowledge as the basis that explains the differences in the firm's performance for knowledge capability to transform resources (West & Noel, 2009). Besides, education as a service to SME's will ensure that they possess the best information on how well they can use the financial resources that they have acquired.

RESEARCH METHODOLOGY

Research Design

The study utilized a descriptive research design to scrutinize the effect of microfinance on SMEs' growth in Kenya. This was suitable based on the fact that numerous SMEs were sampled. Besides, it will aid in determining the relationship between the products being given by Microfinance and the growth of SMEs in Nairobi County. Silverman's (2013) descriptive research design purposes to establish a relationship between the variables. This design was suitable for the study since it is flexible in establishing the relationship existing between the study variables.

Study Population

The population that was precisely targeted in this study are small scale and medium scale enterprises within Nairobi County. The growth of SMEs is probably going to be influenced by the MFI's in their locale. The target population refers to the sum of elements of which are of interest to the researcher and of which form a specific specification (Mugenda and Mugenda, 2008). The population for this research entailed all the SMEs in the county of Nairobi. According to Nairobi County, there are 100,982 registered SMEs in the greater Nairobi County, they have Nairobi county trading licenses (Nairobi County Trade and Industrialization Department, 2019). The unit of analysis for this study was individual companies with the targeted respondents being the owner or any other member of the company's top management.

Sampling Technique and Frame

Stratified random sampling was undertaken and generated a sample of 225 research participants from the targeted population of SMEs. This approach or method is not a partial or prejudiced sampling process especially when the different target population is assembled in the same or one set and then selected in the sets to certify and ensure that their fair and accurate representation (Bryman &Cramer, 2011). Moreover, this approach was utilized as the population can be classified into dissimilar or unlike strata wherein from each stratum, the contributors were selected through the utilization of simple random sampling. This offers a fair representation of the sample population being surveyed (Brewer, 2010). The units chosen for inclusion in the study were selected through the utilization of probabilistic methodologies, simple random samples ensured that it is conceivable to simplify the target sample population (statistical inferences). According to Kothari (2012), each member of the broader population has the same opportunities to be chosen through a simple random sample.

Data Collection and Analysis

The study utilized primary data to achieve research objectives. It was collected via well-structured questionnaires to be issued to owners of SMEs. Also, secondary data was used on the growth of SMEs obtained from SMEs. The data that was collected was be sorted and coded using the Social Sciences Statistical System (SPSS). SPSS was used due to its broad array of statistical data analysis. Upon the completion of cleaning and sorting of data that comprised of sorting of errors which had occurred amid the process of data entry every quantitative factor as well as the table layouts, descriptive statistics like standard deviation, percentages, mean scores, frequencies were approximated. Moreover, multiple regression was embarked on to determine the effect of microfinance on a small scale and medium scale enterprises' growth and development. The research chose a multiple regression model as it will aid in the establishment of the significance of comparative independent variables for the dependent variable (Bryman & Cramer, 2012). The Beta-weights was purposed to highlight the prominence of their extents and will pursue to indicate the impact that independent variables tend to have on the dependent variable with both adverse and positive effects was shown by positive and negative magnitude correspondingly. This was executed utilizing the multiple regression model shown below.

$$Y = \alpha + \beta 1(x_1) + \beta 2 (x_2) + \beta 3 (x_3) + \varepsilon$$

Where: Y = Dependent variable (growth of SMEs in Nairobi County), a is to the constant, x_1 is the coefficient of the provision of Loans by MFI's to SMEs, x_2 is the provision of Insurance by MFI's, x_3 is the provision of training by MFI's, ε is the error term.

RESEARCH FINDINGS

The researcher sought to establish the effect of loan provision by MFIs on the growth of SMEs in Nairobi County. The study needed the respondent's views and perspectives on the level or degree to which different components of loan provision impacts the growth of their small and medium scale enterprises.

The Extent of Agreements with Statements on Loan Provision

The research respondents agreed that access to loans particularly Asset finance, Biashara, or LPO finance loans for my business was improved with a mean score of 3.68. Furthermore, the respondents did agree that microfinance institutions have some form of flexibility in collateral needs with an average mean score of 3.40. Also, the majority of the respondents agreed that they had received some funding's from MFI's with an average mean score of 3.82. However, the respondents were neither disagreeing nor agreeing on the limitation of their business operations as a consequence of limited financing with an average mean score of 2.84. Regarding the growth of business stock as an outcome of microfinance loans, the research participants agreed with an average mean score of 3.70. The research respondents disagreed in terms of the loan approval process with a mean of 2.74. Lastly, the respondents with an average mean score of 2.50 did not agree that the interest schemes being provided by microfinance institutions were affordable.

The Extent of Agreements with Statements on Insurance Provision

The research respondents agreed that access to insurance particularly MVT, Fire, Accidental Death/injury, or Burglary insurance products for their business was easy with a mean score of 3.92. Furthermore, the respondents did concur that microfinance institutions' insurance products were good for their business with a mean score of 3.89. Also, the participants/ respondents did agree that insurance products offered by microfinance had boosted their business positively with an average mean of 3.40. Additionally, they were undecided on whether microfinance institutions have helped to reinforce the culture of insuring their business with an average mean score of 2.73. With a mean score of 2.49, the respondents disagreed that the premiums that they been required to pay were reasonable and fair. Additionally, the research respondents disagreed in terms of the yearly basis returns on investments on insurance premiums that they receive with a mean score of 2.10. Lastly, the respondents with an average mean score of 3.62 contended that insurance products like MVT, Fire, Accidental Death/injury, or Burglary are worth investing in. Besides, Oscar and Abor (2013) assert that Insurance is a crucial product that insures MFI customers' businesses.

The extent of Agreements with Statements on Trainings Provision

The respondents did agree that they had been trained by a microfinance institution on business management with a mean score of 3.56. Besides, the respondents of the study were neutral when it comes to microfinance institutions organizing for them seminars where they have been able to obtain a lot when it comes to the management of their businesses with a mean score of 3.32. Also, the respondents did agree that microfinance institutions' training has improved the way they handle their business daily activities with an average mean of 3.54. Moreover, they were undecided about whether microfinance institutions have helped improve their financial management skills with an average mean score of 2.82. With a mean score of 3.20, the respondents were undecided that they have effectively been the significance of strategic management. Additionally, the research respondents agreed in terms of microfinance institutions teaching them how to grow their business with a mean score of 3.72. Lastly, the respondents with an average mean score of 3.68 agreed that management skills acquired from the training undertaken by MFI’s did increase their sales. Thus reinforcing Sarpong-Danquah et al., (2018) findings that financial literacy and management skills training assists business owners to make sound decisions that can improve their business growth or development.

Level of Agreement with Statements on the Growth of SME’s

The research respondents agreed that access to MFI loan provision has aided the growth of their businesses with a mean score of 3.94. Furthermore, the respondents did concur that microfinance institutions' insurance products have aided and assisted a lot in protecting and safeguarding their businesses with a mean score of 3.82. Also, the respondents did agree that training offered by microfinance had boosted their business positively with an average mean of 3.73. Additionally, they agreed that MFI products play a huge role in growing their business in regards to sales growth, business expansion, and increasing the number of their employees. Besides, Liedholm and Mead (2013) assert that MFI’s assistance to SME’s performance is undeniable in terms of their products they have been able to ensure that SME’s grow across Africa.

INFERENTIAL STATISTICS

The study undertook both the Pearson correlation and examination of regression. Notably, the regression was utilized to establish the relationship between the variables (dependent and independent). On the other hand, correlation analysis was conducted to investigate the extent of interaction between both the independent and dependent variables.

Correlation Analysis Results

This was undertaken in the study to test the relational degrees between both independent and dependent variables. Notably, a person correlation refers to a number that ranges between -1 and +1 that calculates the extent of the relationship in the variables. Positive correlations show the existence of a positive relationship while a negative correlation refers to a negative association between the variables under study. Besides, Andrew et al., (2013) explain that the sign positive or negative of the correlation coefficient shows the direction of the relationship between the variables. Table.1 below, the obtained correlation results show that there is a positive relationship between loan provision by microfinance institutions and the growth of SME's based on r square value of 0.83 and a p-value<0.01 (less than). Additionally, a significant relationship positive correlation between the provision of training by MFI's and the growth of small and medium enterprises with an r-square value of 0.74 with a p-value less than 0.05. Finally, the provision of insurance by Microfinance indicates a weaker positive correlation with the growth of SMEs with an r-square value of 0.48 however this is a significant relationship of p-value<0.01. This correlation result asserts that Loan, Insurance, and Training provision have a significant/huge effect on the growth of small and medium businesses since the significant levels are less than 0.05.

Table 1: Correlation Coefficients (N=163)

		Growth of SMEs	**Loan Provision**	**Insurance Provision**	**Training Provision**
Growth of SME's	Pearson Correlation	1.00			
	Sig. (2-tailed)	.			
Loan Provision	Pearson Correlation	.83***	1.00		
	Sig. (2-tailed)	0.000	.		
Insurance Provision	Pearson Correlation	.48***	.13**	1.00	
	Sig. (2-tailed)	.000	.014	.	
Training Provision	Pearson Correlation	.74**	.15*	.012*	1.00
	Sig. (2-tailed)	0.040	0.092	0.100	.

Significant level: *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$

Regression Analysis

This analysis was undertaken to establish the relationship between the dependent variable that is the growth of SME's and independent variables loan provision, insurance provision, and training provision. The outcome obtained were presented and highlighted in Table 2, 3 and 4.

Table 2: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of Estimate**
1	0.92	0.88	0.85	0.24

(a) Independent Variables: Loan provision, Insurance provision, Training provision, (Constant)

The model fit Table 2 above results show how the model equation equals the data obtained. The results shown above indicate that the growth of SME's (the dependent variable) has a strong and significant relationship with loan provision, Insurance provision, and Training provision (the independent variables) since the r- square multiple regression value is 0.88. This shows that 88%

of the variance in the growth of small and medium enterprises is explicated or explained by the independent variables.

Table 3: ANOVA (Analysis of the Variance)

Model		Sum of Squares	Df	Mean Square	F	Sign.
	Regression	88.24	2	44.12	580.53	.000
1	Residual	12.28	161	0.076		
	Sum Total	100.52	163			

(a) Independent Variables: Loan provision, Insurance provision, Training provision, (Constant)

The probability value of 0.000 illustrates that there was an effective regression relationship in the prediction of how the growth of small and medium enterprises in Nairobi County was impacted by Loan provision, Insurance provision, and Training provision. The F-measured at 0.05 was 580.53. The p-value was less than 0.05 the significance level of the entire model. The outcome confirms indeed the model is statistically significant since F-value is less than 0.05 at a 95% confidence level.

Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	Beta	Std. Error	Beta		
(Constant)	-0.090	0.008		-12.870	0.004
Loan Provision	0.322	0.021	0.308	16.049	0.000
Insurance Provision	0.256	0.016	0.290	16.934	0.086
Trainings Provision	0.276	0.017	0.434	17.006	0.022

(a) Independent Variables: Loan provision, Insurance provision, Trainings provision, (Constant)
(b) Dependent Variable: Growth of SME's
(c) Significant level: *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$

The multiple regression equation obtained from this results is:

$$GWTH = -0.090+0.322LOAN+ 0.256INS +0.276TRAN$$

Where: GWTH= Growth of SME's; LOAN= Provision of Loan; INSU= Provision of Insurance; TRAN= Provision of Trainings

Based on the results obtained, holding constant the independent variables, the growth of small and medium enterprises may decrease by 9% without the provision of microfinance products. Nonetheless, holding constant the independent variables, a change in a unit of loans results in a 32.2% increase in growth, a unit change in insurance leads to a 25.6% growth of SME's and a change in training increases the growth of SME's by 27.6%. Additionally, the regression outcomes as shown in Table 4 above depicts that at significant level $p<0.05$, loans (β=0.322, p=0.000) and

Trainings (β=0.276, p=0.022). Nonetheless, insurance (β=0.256, p=0.086) is significant at 0.05%. This implies that insurance provision by microfinance institutions is the least products that impact on the growth of small and medium enterprises in Nairobi County.

From the evaluation undertaken above, the provision of loans by microfinance institutions indicates r-square of 88% at significance level showing that it impacts the growth of small and medium businesses in Nairobi country. Furthermore, the regression model outcome indicates a positive significant coefficient (β=0.322, p=0.000) for loan provision. This finding is in line and consistent with a study that was undertaken by Fauster (2014) which established that loan provision positively promotes the growth of small and medium enterprises. Nonetheless, findings undertaken by Thio (2010) found out that loans tend to negatively impact the growth of SMEs. Moreover, the low r-square value of 48% for insurance provision but with a p-value of 0.000 ($p<0.01$) as well as the regression model outcome that shows that insurance is not that highly significant (p =0.086) in comparison to the other variable that showed significant levels of less than 0.05. Hence, at a significant level of 0.05, insurance also impacts weakly small and medium scale enterprises growth in Nairobi County. The provision of training at 0.05 significance level had an r-square of 74% and the result from the regression model illustrates that there is a strong relationship between the growth of SMEs and training being provided by MFI's (β=0.276, p=0.022). This finding is in concurrence with the results and findings found by (Fauster, 2014) that training provision has a positive effect on the growth of small and medium enterprises. Nonetheless, it disagrees with Kisaka and Mwewu (2014) research that established that training as a product offered by microfinance institutions does not have any significant impact on the growth of small and medium scale enterprises.

CONCLUSION

The research concludes that there was a statistically strong significant relationship between the growth of small and medium enterprises in Nairobi County and loan provision by microfinance institutions. The study was able to establish that loan provision is of key significance to business growth and comprises the value of relationships an enterprise has with its customers, but frequently unfavorable interest schemes and collateral needs may limit the access of loans by SMEs. The report also established and concluded that the growth of small and medium businesses in Nairobi County is strongly and positively influenced by the training offered by microfinance institutions. The research concluded that training offered by microfinance institutions entails the effective use of resources, management of portfolio, improvement, and honing of confidence and training of teams. Education requirements to cater to essential aspects of financial literacy and management whereby financial literacy assists business managers and owners to make sound decisions that can improve their business growth or development.

The study was able to establish that insurance provision influences the growth of small and medium businesses in Nairobi County. However, there was a weaker positive correlation between insurance and growth. The research found that insurance was considered to be a good product that aided the businesses in protecting them against uncertainties. The respondents did agree that insurance products offered by microfinance to some extent had boosted their business positively.

RECOMMENDATIONS

Based on the findings of the research the conclusions made, the recommendations suggested aiding in improving a sustained and accelerated growth of small and medium enterprises as well as enhance the products provided by MFI's. First, MFIs should assist SMEs in the marketing of their business products and making credit available to SMEs at an affordable rate. Secondly, MFIs need to create flexible periods of loan repayment; work together with other MFIs in helping SMEs by giving them information about new products. This will allow the SMEs to benefit from the promotions and also expand their investment portfolio. Thirdly, the government should enforce legislation and policy that regulates the microfinance sector. This legislation should ensure that MFI's charge affordable and competitive interest rates to SME's for their products. The legislation should ensure that MFI's accept broad documentation to access loan as security. Stringent requirements need to be reduced or removed.

REFERENCES

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39(6), 215-228.

Akingunola, R. O. (2011). Small and medium scale enterprises and economic growth in Nigeria: An assessment of financing options. *Pakistan Journal of Business and Economic Review*, *2*(1).

Andrew, G., Arora, R., Bilmes, J., & Livescu, K. (2013, May). Deep canonical correlation analysis. In *International conference on machine learning* (pp. 1247-1255). PMLR.

Babajide, A. (2012). Effects of microfinance on micro and small enterprises (MSEs) growth in Nigeria. *Asian Economic and Financial Review*, *2*(3), 463.

Bryman, A., & Cramer, D. (2012). Quantitative data analysis with IBM SPSS (21): A guide for social scientists Rutledge.

Central Bank of Kenya. (2018). Kenya Banking Sector Annual Report of 2018.

Chole, L. (2017). *Effect of Services Offered by Microfinance Institutions On Performance of Micro and Small Enterprises in Kariobangi Light Industry in Nairobi, Kenya* (Doctoral dissertation, KCA University).

Christen, R.P., Lyman, T.R. & Rosenberg, R. (2012). *Microfinance consensus guidelines: Guiding principles on regulation and supervision of microfinance*. Consensus Guidelines, Washington, D.C.: CGAP.

De Jong, A., Verbeek, M., & Verwijmeren, P. (2011). Firms' debt-equity decisions when the static tradeoff theory and the pecking order theory disagree. *Journal of Banking & Finance*, *35*(5), 1303-1314.

Emerson, J. (2003). The blended value proposition: Integrating social and financial returns. *California management review*, *45*(4), 35-51.

Fauster, A. (2014). The Impact of Micro-Finance on the Performance of Small-Scale Enterprises: A Comparison of Sinapi Aba Trust and Maata-N-Tudu Associations in Wa Municipality, Ghana. Ghana Journal of Development Studies, 11(2), 1-13.

Gichuki, J. A. W., Njeru, A., & Tirimba, O. I. (2014). Challenges facing micro and small enterprises in accessing credit facilities in the Kangemi Harambee market in Nairobi City County, Kenya. *International Journal of Scientific and Research Publications*, *4*(12), 1-25.

Glas, A. S., Lijmer, J. G., Prins, M. H., Bonsel, G. J., & Bossuyt, P. M. (2003). The diagnostic odds ratio: a single indicator of test performance. *Journal of clinical epidemiology*, *56*(11), 1129-1135.

Holgersson, H. E. T., & Shukur, G. (2004). Testing for multivariate heteroscedasticity. *Journal of Statistical Computation and Simulation*, *74*(12), 879-896.

Kamau, A. W. (2011). Intermediation efficiency and productivity of the banking sector in Kenya. *Interdisciplinary Journal of Research in Business*, *1*(9), 12-26.

Kamweru, M. R. (2011). Challenges Faced by Small & Medium Enterprises in Accessing Finance in Kiambu Town, Kenya.

Kemei, M. K. (2011). *The relationship between microfinance services and the financial performance of SMEs in Nandi district* (Doctoral dissertation, University of Nairobi).

Kenya National Bureau of Statistics. (2017). *Basic report on well-being in Kenya: based on Kenya integrated household budget survey, 2016/17*. Kenya National Bureau of Statistics.

Kisaka, S. E., & Mwewa, N. M. (2014). Effects of Micro-credit, Micro-savings, and Training on the Growth of Small and Medium Enterprises in Machakos County in Kenya. *Research Journal of Finance and Accounting*, *5*(7), 43-49.

Koech, B. C. (2011). A survey of the financial constraints hindering the growth of SMEs in Kenya: the case of the Kamukunji district in Nairobi County.

Liedholm, C. E., & Mead, D. C. (2013). *Small enterprises and economic development: the dynamics of micro and small enterprises*. Routledge.

Memba, S. F., Gakure, W. R., & Karanja, K. (2012). Venture capital (VC): Its impact on the growth of small and medium enterprises in Kenya. International Journal of Business and Social Science, 3(6), 32-38. Cooper, J. N. (2012). The impact of microfinance services on the growth of small and medium enterprises in Kenya (University of Nairobi, Kenya).

Mugenda, O. M. &Mugenda AG (2008). *Research Methods, Qualitative and Quantitative Approaches*.

Mutuku, P. M. (2010). *Assessment of the impact of microfinance institutions on micro, small, and medium enterprises in Kenya* (Doctoral dissertation, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI).

Mwangi, M. W. (2013). Effect of competition on the loan performance of deposit-taking microfinance institutions in Kenya: A case of Nairobi region. *International Journal of Social Sciences and Entrepreneurship*, *1*(2), 1.

Myerson, R. B. (2013). *Game theory*. Harvard university press.

Nairobi County Trade and Industrialization Department. (2019). Registered SME's within Nairobi County.

Nasirembe, M. (2008). Impact of Entrepreneurial Development: The case of Kenya. *Nairobi: University of Nairobi*.

Ngehnevu, C. B., & Nembo, F. Z. (2010). The Impact of Microfinance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Cameroon.

Master's thesis, Programme/education: Agricultural Economics and Management, Environmental Economics, and Management. Degree thesis, (601).

Ngugi, J. K. (2014). Influence of Intellectual Capital on the growth of small and Medium Enterprises in Kenya.

Ogindo, R. O. (2008). *An assessment of the performance of microfinance institutions (mfis) in Kenya*.

Ong'olo, D., & Odhiambo, S. (2013). Assessment of the regulatory and institutional challenges affecting SMEs development in Kenya. SMEs' development in the devolved governance system. *Policy options for institutional and regulatory reforms in Kenya*.

Oscar, A.J. & Abor, J. (2013). Risk management in the Ghanaian insurance industry. *Qualitative Research in Financial Markets*, *5*(1), 26-42.

Penrose, E., & Penrose, E. T. (2009). *The Theory of the Growth of the Firm*. Oxford university press.

Santos, J. B., & Brito, L. A. L. (2012). Toward a subjective measurement model for firm performance. *BAR-Brazilian Administration Review*, *9*(SPE), 95-117.

Sarpong-Danquah, B., Gyimah, P., Poku, K., & Osei-Poku, B. (2018). Financial Literacy Assessment on Tertiary Students in Sub-Saharan Africa: A Ghanaian Perspective. *International Journal of Accounting and Financial Reporting*, 8(2), 76-91.

SASRA. (2014). The Extent to Which Deposit Taking Sacco's Provide Financial Services to Micro, Small and Medium Enterprises.

Ubom, E. (2009). Entrepreneurship, Small and Medium Enterprises: Theory, Practices & Policies. *Lagos, Sendina Limited*.

Wambugu, T. W. (2008). *The financial and social impact of microfinance lending: a case study of K-rep bank's Juhudi credit scheme in the Kawangware region*. Cooper, J. N. (2012). *The impact of microfinance services on the growth of small and medium enterprises in Kenya* (Doctoral dissertation, University of Nairobi, Kenya).

West, G. P., & Noel, T. W. (2009). The impact of knowledge resources on new venture performance. *Journal of Small Business Management*, *47*(1), 1-22.

Whonderr-Arthur, J. (2009). *Modern financial management theories & small businesses*.

Wilson, A., Larson, C. & Jacobson, S. (2014). *Financing small business enterprises: Sources of information*.