ROLE OF SELF HELP MICRO CREDIT GROUPS ON GROWTH OF SMALL AND MEDIUM SIZED INVESTMENT IN KISII TOWN, KENYA

BY

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DECLARATION

This project is my original work and has not been presented in any other institution in its present form and manner for the fulfillment of the requirement for the award of a degree.

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This research project has been submitted for examination with my approval as the University supervisor

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ACKNOWLEGDEMENT

DEDICATION

I dedicate this work to my beloved dad who encouraged me to start my masters, ensuring it is a success and gave me the necessary support I needed and also all my family members for their support.

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LIST OF ACRONYMS AND ABBREVIATIONS

SMSIs - Small and Medium Size Investments

SMEs – small and medium sized enterprises

MFIs – micro financing institutions

SHGs- self-help groups

ROSCAS- rotating, savings and credit associations

ASCAS- accumulating savings and credit associations

SWFGS- social welfare financial groups

KWFT- Kenya women finance trust

GDP- gross domestic product

OPERATIONAL DEFINITIONS OF TERMS

Self-help groups (SHGs). These may be defined as small group of poor people of between 15-20 members who voluntarily come together to address their poverty and other social issues through easy access to credit

Small and medium sized investments; any business in the private sector which employs not more than 50 employees.

Micro credits; small amounts of money given as loans by self-help groups to small and medium sized investments.

ROSCAs- Rotating savings and credit Associations are defined as a group of people who come together for a defined period of time to save and borrow together. They contribute a fixed amount of money on a regular basis and the total collection is given to one member on a rotational basis until everyone has received it.

Accumulating Savings and Credit Associations- Accumulating savings and credit Associations are similar to ROSCAs in that they are also time limited informal micro-finance groups. The main differences however are that savings can be either fixed or variable and that credit need not be accessed by every member but by only those that need the loans as per need and opportunity

Social Welfare Financial Groups- social welfare financial groups are groups that cover such things as social support of its members in times of need or occasions, imparting of certain knowledge or skills among others

Number of Investment units- refers to a change in investment units in terms of total number

Investment growth- refers to the change in number of employees and/or sales level

Level of Profitability- refers to a return earned from an investment

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CHAPTER ONE

INTRODUCTION

This chapter presents background information, statement of the problem, purpose of the study, research objectives, significance of the study, justification of the study, scope of the study and conceptual framework.

1.1 Background of the study

According to Siegel (2000), an investment is an asset or item that is purchased with the hope that it will generate income or appreciate in the future. According to Jones (1993), Investment can be defined as the commitment of funds to one or more assets that will be held over some future time period. Schreuer (2011) says investment may involve the use of capital, technical and managerial skills, patents and other intellectual property as well as a variety of other assets. Sudarshan (2012) defines investment as the postponement of current spending for the future purpose with the expectation of gain and Festus (2009) defines investment as a flow that increases capital accumulation in the economy. Therefore, investment involves use of funds at the present timein order to gain a favourable return in future like profits, interest and dividends.

Schreuer (2011) asserts that activities that have been accepted as investments include mining operations, the construction and operation of hotels, banking, infrastructure projects, provision of various services, civil engineering and construction projects, shareholding as well as offering financial instruments including loan. Peric and Durkin (2015), explain that Investments significantly affect the intensity of overall economic activity and growth in general. They state that changes in size, structure and purpose of investment may indicate forthcoming conjuncture changes, but also longer-term developmental characteristics of the economy. They add that therefore, investment decisions are of special interest not only to policy makers and researchers, but also to firm managers and owners.

Alexander, Sharpe and Bailey (1993) classify investments into real investments and financial investments; where real investments generally involves some kind of tangible asset such as hand machinery or factories, while financial investments involves contracts written on pieces of paper such as common stocks and bonds. According to Jain (1999), some of the tools used to measure the size of a business include capital invested, value of the products, number of

employees, volume of outputs, and productive capacity among others. Investment therefore can be classified into large, medium and small.

Ambrose and Vincent (2014) posits that the most important factors that influence individual investment decisions are reputation of the firm, firm's status in industry, expected corporate earnings, profit and feeling on the economy among others. According to Festus (2009), the short run investment is positively influenced by three variables namely, real GDP, domestic savings and prime lending rates. However, according to Sudarshan(2012), the capital structure ad average pricing method is one factor that influences the investment decisions, other factors are political and media coverage, belief on luck and financial education and lastly trend analysis. Majid,Issa and Mehdi (2010) say that the most important variable in investment is capital stock; an idea which is supported by Peric and Durkin(2015); who subsequently argue that for firms that invest, a sufficient amount of internal finance is a must, and when a firm lacks its own funds, this greatly restricts the investment activities. Therefore, from the above studies various factors influence investment decisions but the most paramount factor is capital outlay. Capital outlay is significant because according to Festus (2009), capacity of any economy depends not only on labour but also on capital available to produce goods and services. The preceding capitation framework provides a composition of equity and borrowed funds as means to finance investment projects. Different levels and structures of capital composition are required for various levels or types of businesses as supported by Bennet and Totolo (2016), in Financial Sector Deepening trust report, FSD Kenya, who argue that businesses use different combinations of financial instruments including equity finance, debt finance as well as social finance (friends, family, savings groups etc.).

Business capital is normally raised through financial institutions. Subhanij(2016) classifies financial institutions into formal financial institutions, semi- formal institutions and informal financial institutions. He further categorises formal financial institutions to include banks and finance companies, semi-formal institutions to include cooperatives and informal financial institutions to include saving groups and village banks. A report by the committee of accounts (2014), says that large firms often get a tailored one-on-one service while SMEs typically get a relationship manager with a large portfolio of customers which increases distrust and damaged relationships between SMEs and financial institutions; this has led to business not approaching banks for finance due to assumption that they will be rejected. Flynn (2013), reported that the poorest rural people are not attractive clients for banks, formal

micro finance institutions (MFIs) and SACCOS because they save and borrow in very small amounts making informal self-help savings an alternative way for them while according to Tanmoyee (2009), lack of access to financial resources is caused by the fact that the formal credit institutions that function smoothly cannot cater for the credit needs of rural poor due to, among others, lack of information about the borrowers and lack of collateral among the poor. This inspires numerous NGO's and group lending schemes to deliver credit at low cost and reasonable interest to small- scale rural entrepreneurs. According to a report by the secretary general (1998), informal and small scale lending arrangement have long existed in many parts of the world especially in the rural areas, a good example being the merry-go-rounds. Therefore, due to the absence of the much required formal financial services the poor have developed some informal arrangements to fulfil their needs for financing like through the creation of microfinance through micro credit groups.

Hamp (2015), in International Fund for Agricultural Development (IFAD) report, says microfinance took off in the late 1970s when experimental development programs in Bangladesh began lending tiny amounts of money to groups of poor women who invested the money in small income-generating activities and reliably repaid their loans. The report adds that, today, the rural finance sector has moved beyond credit to include savings, money transfers and a variety of insurance products and that the rural poor households are typically excluded from formal financial sector opportunities thus in many areas self-help groups are central to rural finance. Savitha and Rajashekar (2014) also add that microfinance is one of the practical development strategies and approaches that has been discovered and implemented for sustainable development and has been used as a means to foster inclusive growth in the Indian economy. They maintain that this can be achieved with the help of Self Help Group which are playing a very important role in the process of financial inclusion by providing a forum for women to express their views, participate in decision making and interact with each other with the help of micro credit. According to Olusanya, Sufian and Temi(2014), microfinance is an array of financial services available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan. Prakash and Shrotiya (2009), argue that theoretically, micro finance or micro credit or micro lending mean provision of smaller working capital loans to the self-employed or self-employment seeking poor while Kalaisevi (2008), defines Micro credit as the provision of thrift, credit and other financial services and loans of very small value to the

poor in rural, semi-urban and urban areas to enable then to raise their income levels and improve their living standards.

According to Oho, Muli and Milcah (2002), micro finance agencies in Kenya can be categorised into client based micro finance agencies like KWFT and the member based micro finance agencies like ROSCAS and ASCAS.A study by Nokia research center (2007)revealed that merry-go-rounds (MGRs) also called self-help groups are informal groups of people who come together usually for purposes of saving together and borrowing from one another in a rotational manner but also for sharing news, knowledge, ideas, tradition and also helping each other out in times of need. The report adds that in Kenya, informal groups are usually referred to as 'chama' which is a Kiswahili word for 'association' and are classified broadly into Rotating savings and credit Associations (ROSCAs) and Accumulating savings and credit Associations (ASCAs). The report defines ROSCAs as a group of people who come together for a defined period of time to save and borrow together, they contribute a fixed amount of money on a regular basis and the total collection is given to one member on a rotational basis until everyone has received it. ASCAs are similar to ROSCAs in that they are also time limited informal micro-finance groups but the main differences however are that savings can be either fixed or variable and that credit need not be accessed by every member but by only those that need the loans as per need and opportunity. It further says that there are also other types of informal groups referred to as 'other' self-help groups orthe social welfare financial groups which cover such things as social support of its members in times of need or occasions, imparting of certain knowledge or skills among others. Ajay (2012) in his book also categorises financial intermediation through the financial self-help groups or mutual aid savings associations into two—the rotating savings and credit association (ROSCA), and the accumulating savings and credit association (ASCA). Therefore, a self-help group (also called merry-go-round) basically can be categorised into three mainly that is; accumulating savings and credit associations (ASCAs), rotating savings and credit associations (ROSCAs) and social welfare financial groups (SWFGs). The role played by these micro credit groups as stated earlier include fostering financial inclusion which will enable the small and medium sized investments to grow.

Sarmali (2012) found that micro finance through SHGs in the study district not only created additional employment but also increased income to the rural people. Porkodi and Aravazhi (2013), argue that since 1992 self-help groups movement is being implemented to achieve financial inclusion since it is popular and the number of SHGs have increased in number over

the time. This has increased the percentage of financial inclusion which is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups.

Various studies confirm the positive contributions of MFIs loans towards promoting SMEs market share, production efficiencies and competitiveness. Evidence from researches show that, self-help groups have shown an upward growth over the years. A report by the Nokia Research center (2007), shows that there's a rapid growth in numbers of self-help groups from a total of 113,259 self-help groups in 1997 to 347,259 in 2005 in Kenya. Whereas in Kisii, a report by the district gender and social development up to the period ended July 2017 shows that they had registered 44,812 self-help groups in kisii central alone over the years. The report further adds that registration has gone down compared to previous years due to suspension of grants and non- funding of recurrent activities. From the foregoing information therefore, it can be concluded that self-help groups are decreasing in numbers and this could lead to further constraint in terms of access to credit.

Bello (2013) argues that the Small and Medium Scale Industries subsector of the Nigerian economy over the years has been facing problems of slow or stagnating development. Consequently, as cited by Micah and Samuel (2016), notably the study by Kiveu and Ofafa (2014) imply existence of a growing concern about persistent stagnation and decline in SME growth in Kenya. They further added that a survey carried out by CDF (Kisumu) found that three out of five SMEs failed within first few months of operations and according to the Central Bureau of Statistics, 2004 as cited in the Economics essay (2015), there is high rate of failure and stagnation among many start-up businesses. The survey reveals that only 38% of the businesses are expanding while 58% have not added workers. According to the survey, more enterprises are most likely to close in their first three years of operation. This is confirmed by the study conducted by the Institute of Development Studies (2008), which revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth. In addition, Odondo, Nyamao, Ojera, Lumumba and Otieno(2011) argue that up to 40% of the start-up SME fail by year 2 and at least 60% close down by year 4.

Additionally, increase in number of small and medium sized investments is a function of other factors including financing which majorly comes from self-help groups. In Kenya, Mbithi and Mainga (2006) as cited by Fred (2013), indicated that the number of MSEs has over the years risen because of the availability of relatively cheap loans courtesy of Youth

Development Fund, Women Enterprise Fund, microfinance institutions, faith-based organizations and other non-governmental organizations (NGOs) , this is supported by Ranadive(2004) who asserts that there is absolutely no doubt that SHGs have led to an expansion in the economic spaces of members but elsewhere Das, Mitra and Ali (2015), say that self-help groups have failed to cater entrepreneurship among women in West Bengal. As per the gender and social development annual report 2009/2010 FY in Kisii central major economic activities practised in the district are farming and small businesses and this is supported by a report by kisii central district development plan (2008-2012) which says the agricultural sector contributes 60% to the district's economy, the informal sector plays a major role in creation of employment by employing about 85%of the labour force, the report confirms that the sector has grown over time. From the foregoing information, SMEs have grown over the years courtesy of cheap credit available by the SHGs but at the same time there are some researchers who argue that micro credit by SHGs does not include the poorest of the poor; in which case the amounts are at times too small to have any impact, such as starting of income generating activities, and that most people use the money for consumption purposes. This therefore raises questions on the inconsistencies, on whether micro credits through SHGs have any influence on change in number of SMEs.

In relation tothe number of SMEs, majority of the people join self-help groups in order to access credit that will enable them start an income generating activity, according to Sambu (2013), Flynn (2013), Makandar and Mulla (2013), Pandey and Roberts (2012), and Jaya *etal*(2010) among others, participation in self-help groups has led to start and increase in income generating activities but as per Das*et.al.* (2015), SHGs have failed to cater entrepreneurship. Aruna and Jyothirmayi (2011), Ranadive(2004) and in a report by the secretary general (1997) argue that micro credit fails to include the poorest of the poor, their loans are too micro to have any impact and that the very poor are so weak as not to benefit from micro lending. Nuwagaba (2015) adds that it is vital to increase micro financing if you are to increase the number of SMEs. While some agree that micro credit helps in fostering an entrepreneurial spirit and helps one start a business others argue that the amount is micro in magnitude and cannot assist one start a business. Therefore, this leaves the question on the role of SHG micro credits in growth of SMEs; and if it does influence growth in any way. This requires establishment if the decline in numbers of SHG micro credits could lead to SMEs growth stagnating and the high investment attrition as shown by the increasing number of small businesses which fizzle out between the second and fourth year.

In relation to the size of SMEs, according to Ouma and Rambo (2013), Mwema (2013), Ngugi and Kerongo (2014) and Nendakulola (2015) among others, growth in size of a business can be determined by the number of employees i.e. an increase in number of employees implies an increase in size of the business and further posit that micro finance has a positive effect on the growth of SMEs, they say that micro services are essential tools for SME growth and they can assist enterprises to change their status growth from micro to medium size. However Benjamin (2013),Atandi and Wabwoba (2013) and Aruna and Jyothirmayi (2011) argue that micro credit does not guarantee a growth. According to Benjamin (2013) this is because a unit increase in access to micro credit leads to a decrease in enterprise growth due to increased cost which tend to exceed revenue and according to Aruna and Jyothirmayi(2011), the loans are micro in their magnitude and duration of dosages of loans are large to effect any changes. Bailey (2008) says that very few companies develop from small to medium to large and this is supported by Bouazza, Ardjouman and Abada (2015), who argue that there is a high rate of failure among SMEs, implying SMEs fail to grow any further in terms of size or they close down as supported by Odondo*et al* (2011) who argue that up to 40% of the start-ups fail by year 2 and at least 60% close down by year 4. This therefore implies there is a contradiction in the views of various researchers on whether microfinance has a positive or negative effect on growth even though they use the same parameter of number of employees to measure growth, hence, leaving a gap that needs to be researched and answered in relation to contribution of micro credits towards growth in size of an investment in kisii town

With respect to profitability, while Wang (2013), Ekunwe*etal*(2015), Sifunjo and Naomi (2014), Wanambisi and Bwisa (2013) and Ouma and Rambo (2013) consent to the fact that an access to micro credit leads to positive growth in profits, Alhassan, Hoedoafia and Braimah(2016) and Bejamin(2013) disagree and posit that access to micro credits may lead to decline in profitability and even stagnation because access to micro credits increases costs of production and therefore necessitating a look into role of micro credit with respect to Kisii Town to determine the role played by self-help micro credit groups on profitability of an investment

1.2 Statement of the Problem

Availability of a source of capital is a major determinant of growth of businesses. Investment growth can be measured using various aspects such as change in sizes, numbers and profitability. Since their inception, Self-help groups' main aim was to foster financial inclusion through provision of readily accessible finance to start and expand small income generating activities, but despite their increased existence and the fact that they are widely known; investment attrition is still high as shown by the increasing number of small businesses which fizzle out between the second and the fourth year of their inception; growth of SMEs in terms of numbers is in doubt since as new businesses are being set others are collapsing and at times the amounts given as loan are too small to enable inception of a business; and, while some investors say that profits increase with additional credit others argue that additional micro credits increase costs thereby reducing profits, these raises inconsistencies on the role played by additional micro credits on profitability of an investment. From literature available, various researches support the notion that participation in self-help groups and the micro credits from self-help groups lead to increase in number of businesses due to availability of the necessary capital source but some researchers argue that it does not include the poorest of the poor and at times the amounts lent are too small to have any impact especially since most people use the money for consumption purposes. Additionally, while some researchers agree that firms may experience an increase in gross profits after access to micro credits some research results show that the effect is small and in some instances profits decline. Moreover, there is limited information on the role of self- help group Micro Credits financing on small and medium investments in Kisii despite the several studies done on self-help groups' micro credits

1.3 Purpose of the Study

The purpose of this study was to determine the role of self-help micro credit groups on small and medium sized investments in kisii town, Kenya

1.3.1 Objectives of the Study

The objective of the study was to determine the role played by self-help groups' micro credits on investment growth. The specific objectives in this study included;

i. Establish the extent to which self-help micro credit groups influence number of investment units

ii. Determine the contribution of self-help micro credit groups on investment size

iii. Investigate the role played by self-help micro credit groupson level of profitability

1.3.2 Hypotheses

*Ho₁*There is no significant influence by self- help micro credit groups on the number of investment units

*Ho₂*There is no significant contribution made by self-help groups' micro credit on investment size

*Ho₃*Self-help micro credit groups play no significant role on the level of profitability

1.4 Justification of the Study

The study aimed at determining the role that micro credits from self-help groups play on various aspects of investment. The researcher hopes to reveal the disparities on role of micro credit on growth in size, numbers and profitability of investments especially because it is inconclusive why most SMEs collapse after a while even with growth of self-help micro credits. Also, the information may be used by MFIs and SHGs in making decisions especially concerning the amounts of money given on loans and the interest rates charged. The researcher also hopes to contribute to the literature on role of self-help micro credits

1.5 Scope and limitations of the Study

SME is a broad term encompassing general traders, informal sector, transport, store and communications, agriculture, accommodation and catering, professional and technical services, private education, health and entertainment services, and industrial plants, factories and workshops as classified by the kisii county. Kisii town is a wide area with the central business district dealing with large manufacturing and well established organisations hence the region with most SMEs is the industrial manufacturing area which surrounds the CBD. Areas surrounding the CBD include Jogoo, Mwembe, Daraja mbili among others therefore the study was limited to small and medium sized general traders in the industrial manufacturing area

1.6 Conceptual Framework

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

Self Help Micro Credit groups

- Rotating savings credit Associations (ROSCAs)
- Accumulating Savings and Credits Association (ASCAs)
- Social Welfare Financial Groups (SWFGs)

Investment growth

Indicators

- Number of Investment units
- Investment size
- Level of Profitability

Intervening Variables
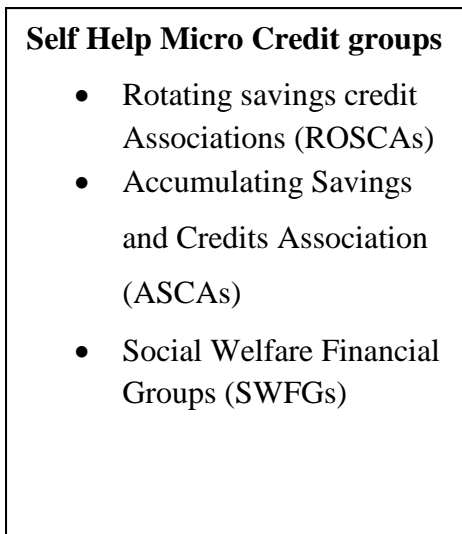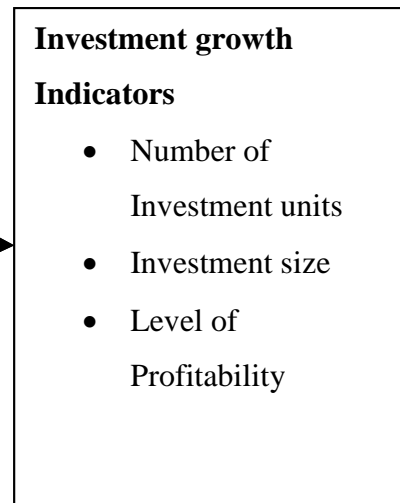
Other Informal Finance Sector Operations
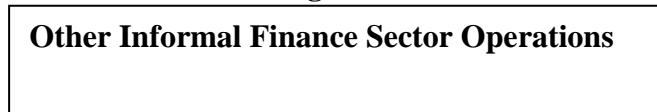
Fig. 1.1 Relationship between Investment Growth and Self-Help Micro Credit Groups

Source:Ajay, (2012)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a detailed reflection of literature review on studies that shows a significant relationship with this area of study. On this account, it introduces the major study variables against what other scholars have established, consequently revealing knowledge gap that the study seeks to fill.

2.2. Theoretical Review

2.2.1. Neoclassical Theory of Investment

The starting point of Jorgenson's (1963, 1967, and 1971) neo classical investment theory is the optimisation problem of a firm. Maximizing profits in each period will yield an optimal capital stock and according to the theory, the desired capital stock is determined by output and the price of capital services relative to the price of output. As a consequence, changes in output or the price of capital services relative to the price of output alter the desired capital stock, hence, investment. This therefore means that the rate of investment is determined by the speed with which firms adjust their capital towards the desired level. The implication of the theory is that capital plays a role in investment hence the need for this study to determine the role played by micro credits as a source of capital to investment.

2.2.2 Passive Learning Model

In the Passive Learning Model (PLM), Javanic (1982), a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rate hence the study will like to establish whether credit by self-help groups plays a role on the growth of SME.

2.3. Empirical Literature Review

2.3.1 Investments

According to a report by International Labour Office (2015), micro enterprises are enterprises with up to 10 employees, small enterprises are those that have between 10 to 100 employees and medium sized enterprises are those with 100 to 250 employees. The report says that there is a strong correlation between the size of SME sector and economic growth. In the study covering 41 upper middle and high income countries suggest that it is large businesses and not SMEs, that exert the more robust effects on growth, the same study also indicates that excessive reliance on large enterprises has negative effects on growth because of the increasing market dominance of these enterprises. The study also indicated that on average countries with a larger SME population experience higher growth rates. This is supported by a report by Dalberg global development advisors (2011) on support to SMEs in developing countries through financial intermediation which says that increased SME growth has a direct effect on GDP growth due to increased output, value add and profits

There are various constraints in establishment and the growth of SMEs which as per a report by Accelerate Consulting and Development (2014), apart from financial constraints MSMEs also face non-financial issues such as cumbersome legal and regulatory framework, highly bureaucratic system, lack of adequate business development services, adequate information, advanced technology and skilled labour which hold back development of the sector. It further says that in most cases MSMEs embark on investments without being equipped with the minimum pre requisites for success like feasibility studies on market. In the same line a report by NFIB research foundation (2011) indicates that impediments to growth include lack of finance, lack of skilled employees, lack of strong management and weak sales.

Bennet and Totolo(2016), in Financial Sector Deepening trust report, FSD Kenya, argue that businesses use different combinations of financial instruments including equity finance, debt finance as well as social finance (friends, family, savings groups etc.). Subhanij (2016) classifies financial institutions into formal financial institutions; include banks and finance companies, semi-formal institutions e.g. cooperatives and informal financial institutions like saving groups and village banks. Flynn (2013), reported that the poorest rural people are not attractive clients for banks, formal micro finance institutions (MFIs) and SACCOS because they save and borrow in very small amounts making informal self-help savings an alternative way for them while according to Tanmoyee (2009), lack of access to financial resources is

caused by the fact that the formal credit institutions that function smoothly cannot cater for the credit needs of rural poor due to, among others, lack of information about the borrowers and lack of collateral among the poor. This inspires numerous NGO's and group lending schemes to deliver credit at low cost and reasonable interest to small- scale rural entrepreneurs. According to a report by the secretary general (1998), informal and small scale lending arrangement have long existed in many parts of the world especially in the rural areas, a good example being the merry-go-rounds. Commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction cost. Zeeshan, Farrukh, Muhammad, Rab and Umm-E-Amen (2014),state that the poor people are excluded from the formal financial system and the range of excluding varies from country to country and differs from developed to developing countries. Due to the absence of formal financial services the poor have developed some informal arrangements to fulfil their basic needs like the creation of microfinance. According to a report by the committee of accounts (2014), large firms often get a tailored one-on-one service while SMEs typically get a relationship manager with a large portfolio of customers which increases distrust and damaged relationships between SMEs and financial institutions; this has led to business not approaching banks for finance due to assumption that they will be rejected.

In the words of Prakash and Shrotiya (2009), the poor do not find the institutional credit delivery system to be sensitive enough to their subsistence credit needs hence depends on money lenders either out of compulsion or choice more so in cases of petty traders, landless labourers etc. Under the circumstances a non-formal agency for credit supply to the poor in form of self-help group (SHG) emerges as a promising option for the SMEs. According to Kajendran (2012), micro finance, by and large contribute to the development of core poor in terms of economic well-being, alleviating poverty and empowerment leading to overall development of rural poor. In her research, Sarmali (2012) found that micro finance through SHGs in the study district not only created additional employment but also increased income to the rural people. According to Olasanya, Sufian and Temi (2014), microfinance is an array of financial services available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan. Prakash and Shrotiya(2009), argue that theoretically, micro finance or micro credit or micro lending mean provision of smaller working capital loans to the self-employed or self-employment seeking poor. Micro credit is the provision of thrift, credit and other financial services and loans of very small value to the poor in rural, semi-urban and urban areas to enable then to raise their

income levels and improve their living standards (Kalaiselvi, 2008). Hamp (2015), in International Fund for Agricultural Development (IFAD) report, says microfinance took off in the late 1970s when experimental development programs in Bangladesh began lending tiny amounts of money to groups of poor women who invested the money in small income-generating activities and reliably repaid their loans. Today, the rural finance sector has moved beyond credit to include savings, money transfers and a variety of insurance products. The rural poor households are typically excluded from formal financial sector opportunities thus in many areas self-help groups are central to rural finance. Savitha and Rajashekar (2014) also add that microfinance is one of the practical development strategies and approaches that has been discovered and implemented for sustainable development and has been used as a means to foster inclusive growth in the Indian economy. This can be achieved with the help of Self Help Group which are playing a very important role in the process of financial inclusion by providing a forum for women to express their views, participate in decision making and interact with each other with the help of micro credit.

According to Porkodi and Aravazhi (2013), one of the ways to access formal banking services has been through linkage of SHG with banks. SHG movement is being implemented to achieve financial inclusion since it is popular and the number of SHGs have increased in numbers over time. A Self-Help group(SHG) is an informal organization of persons from the homogenous poorer section of the society managed and controlled by the members which promotes savings and making credit linkage with credit institutions for performing income and employment generating activities to its members (Sarmali,2012). As per JainandNai (2013), Self Help Groups (SHGs) are small voluntary associations of poor people, preferably from the same socio-economic background who come together for the purpose of solving their common problems through self-help and mutual help. As explained in the report by the Nokia Research Center (2007), broadly there are two types of merry go rounds namely Rotating savings and credit Associations (ROSCAs) and Accumulating savings and credit Associations (ASCAs). ROSCAs are defined as a group of people who come together for a defined period of time to save and borrow together, they contribute a fixed amount of money on a regular basis and the total collection is given to one member on a rotational basis until everyone has received it. ASCAs are similar to ROSCAs in that they are also time limited informal micro-finance groups but the main differences however are that savings can be either fixed or variable and that credit need not be accessed by every member but by only those that need the loans as per need and opportunity. The interest is charged on loans and

this goes into the group's fund which is eventually paid out in bonuses / dividends to members when the cycle comes to an end. There are variations in types of ASCAs hence managed ASCAs and VSLAs i.e. village savings and Loan Associations. A managed ASCA is one that has a designated manager separate from the group who helps train the group members in various aspects of managing the group and its activities and is there to oversee this and basically manage the group operations; he is paid by the group. A VSLA on the other hand is a type of ASCA which has a very specific and very detailed methodology which each specific group takes on but tailor makes to fit their specific need and situation. There are also other types of informal groups which may not fall within the definitions of ROSCAs and ASCAs but which are also significantly present in Kenyan communities hence which we have also sought to include in this study. This category can loosely be referred to as 'other' self-help groups since MGRs can also qualify as self-help. The 'other' category are groups whose purpose of existence varies a great deal but broadly will cover such things as social support of its members in times of need or occasions, imparting of certain knowledge or skills to its members for personal and / or career development and growth or for purposes of developing and implementing certain development projects in the community. The members of these groups therefore may not be saving and borrowing together as would be typical merry-go-round members.

Ajay (2012) also says that One of the important and fascinating traditional means of financial intermediation has been through the medium of different forms of financial self-help groups or mutual aid savings associations—the rotating savings and credit association (ROSCA), and its more evolved form, the accumulating savings and credit association (ASCA). ROSCAs are time-bound associations in which members contribute to a fund that is given in part or wholly to each member in turn. ASCAs need not be time bound and may accumulate their funds through loans at interest to members and others. Profits may be distributed periodically or retained. In addition, there is a variety of groups such as mahilamandals, village development groups, water user groups and youth groups, which are fairly common. Some of these groups have been involved in thrift and credit activity as well. These larger village-based groups were engaged in an integrated development model with health, education and natural resource management as other components.

Therefore this research is going to look into how these self-help groups will influence the various aspects of growth in investments which are number of investments, growth in terms of sizes and profitability due to easy access to micro loans and financial inclusion.

2.3.2. Number of investment units

According to Nicoleta and Ludovica (2011), two thirds of the newly created jobs are owed to the small and medium sector. Sambu (2013) in her research on impact of women participation in SHGs on self-economic empowerment in Nakuru County argues that by participating in SHGs, members have learned the power of leveraging their capital through use of loans. This has enabled them venture into businesses which in turn has led to increase in savings and wider access to loan. Respondents rated embarking on entrepreneurial activities such as farming agro vet, shop, salon, boutique, timber sawing, chemist, etc. as their number one reason for taking loans. According to Flynn (2013),in a case study of rural finance self-help groups in Uganda and their impact on poverty alleviation and development, through borrowing and saving the SHG members were able to improve their living situations and were able to start profitable small businesses including small shops and rearing animals. Almost all the members reported that membership in the groups allowed them to start businesses emphasizing though that they were very small businesses.She concludes that SHGs are an ideal choice because they focus on poverty especially rural poverty and poverty of women, provide the poor with access to savings and loans, and have potential to contribute to development and the development of women. From data collected and analysed by Makandar and Mulla(2013) on self-help groups: A tool for inclusive growth, majority, that is, 38% of the members have joined the SHGs because of the financial facilities for doing their own business. Access to credit has enabled women to undertake income generating activities. This was shown by the fact that while 75% of respondents had no occupation in pre SHG stage, in post SHG stage none of them were occupation less. This was because they had chosen an occupation according to the availability of skills and resources and the demand for the product in the market.

A study on empowerment of rural women through self-help groups by Pandeyand Roberts in a study on empowerment of rural women through self- help groups,shows that most of the poor women use group loans provided to run canteens, catering units, cooking for schools, tailoring, etc and concludes that SHG is a better mechanism for easy availability of micro credit to women which helps them to uplift their social and economic status.According to Jaya, Sandhya, Punjabi and Dangi (2010), on role of self-help groups (SHG) in empowerment

of rural women in Indore Block of Mandya Pradesh, uses random sampling based on survey research design and personal interview technique with the help of semi- structured interview schedule to conclude that SHGs contribute significantly in increasing status and livelihood options of women in the study area through initiating various income generating activities like goat rearing and vegetable selling. They further say that SHGs help in empowering of women by implanting them financial position, decisions pertaining to general welfare of the family and their own development. As per Jain and Nai (2013) on a study on SHG helping empower rural women a well-structured questionnaire is used and the conclusions reveal that the greater the time of association with SHGs greater are the economic benefits like greater possibility of savings, increased scope of self-employment, increase in the living standard, increase in the income and economic empowerment.

Subramanian in the study about a study on self-help groups in Tirunelveli District uses both primary and secondary data to analyse the economic impact of SHGs on the members in terms of their savings, creation of assets, employment generation, income generation and poverty levels among others and concludes that SHG program has a positive effect. Kasthuri, Thamilarasan, Arul and Jayaram (2014) argue that self-help groups have been useful in changing lives of thousands. In a study by Harikesh(2012), on impact of micro finance on poverty eradication through SHGs: A case study of Pratapgarh District (Uttar Pradesh), Microfinance can be one effective tool amongst many for poverty alleviation. However, it should be used with caution, despite recent claims, the equation between microfinance and poverty alleviation is not straight-forward, because poverty is a complex phenomenon and many constraints that the poor in general have to cope with. Therefore to reduce poverty, provision of essential capital to start an income generating activity would facilitate poverty alleviation, and this of course leads to an increase in the number of businesses started.

A study on the impact of women self-help groups (SHGs) on rural entrepreneurship development- a case study in selected areas of West Bengal by Das, Mitra and Ali (2015), using the purposive sampling technique to select districts of study concludes that SHGs have failed to cater entrepreneurship among women in West Bengal although SHGs have mixed responses upon the women members since there are a number of promising women entrepreneurs groomed by SHGs this is supported by Aruna and Jyothirmayi (2011) on the role of microfinance in women empowerment: the study on the SHG bank linkage program in Hyderaband (Andra Pradesh), concludes that through factor analysis and regression, the study empirically supports the positive relationship between microfinance and women

empowerment. The empirical findings of the study suggests that micro finance has a profound influence on the economic status among other things but it fails to include the poorest section and in improving asset position of the participants as loans are micro in their magnitude and duration between dosages of loans are large and as such it is found to be effective in graduating the poor and not the poorest.

In conclusion, therefore majority of the people join self-help groups in order to access credit that will enable them start an income generating activity, according to Sambu (2013), Flynn (2013), Makandar and Mulla (2013), Pandey and Roberts, and Jaya *etal*(2010)among others, participation in self-help groups has led to start and increase in income generating activities but as per Das*et.al.* (2015), SHGs have failed to cater entrepreneurship. Aruna and Jyothirmayi (2011),Ranadive (2004) and in a report by the secretary general (1997) argue that micro credit fails to include the poorest of the poor, their loans are too micro to have any impact and that the very poor are so weak as not to benefit from micro lending. Nuwagaba (2015) adds that it is vital to increase micro financing if you are to increase the number of SMEs. While some agree that micro credit helps in fostering an entrepreneurial spirit and helps one start a business others argue that the amount is micro in magnitude and cannot assist one start a business. This controversy necessitates a research to look into the gap and what may be causing the different opinions

2.3.3. Investment size

According to a report by Goldman Sachs 10000 small businesses UK Programme (2013), an investment growth can be measured in terms of increase in number of people employed and the turnover growth rate; according to survey report by NFIB research foundation (2011), growth is looked at in terms of increase in the number of employees; Farouk and Saleh (2011), typical growth behaviour is in terms of its turnover, number of employees, number of products, annual production capacity and coverage of retailers; As cited by Samuel and Micah (2016) on the major growth strategies adopted by small and medium enterprises in Kenya: A case of Kisumu county, according to Kruger 2004, growth has various connotations, it can be defined in terms of revenue generation, value addition and expansion in terms of volume of the business while from Benjamin (2013) on the effect of micro finance credit on the growth of small and medium scale enterprises in Mwanza region, Tanzania, there are various definitions of growth such as USAID (2002) , the standard measure of growth used in studies of SMEs firms is the change in the number of workers since start up, Acs and Audretch (1990) define SMEs growth as an average change in sales however

Voulgaris et al (2003) says enterprise performance and profitability is not related to growth of sales since some companies may be able to maintain high profits even with declining growth rate. According to Nendakulola (2015) on the impact of micro finance institutions on the growth of micro and small enterprises in Tanzania, sales and employment are the two most important indicators measuring firm's size and growth because studies have found that growth in sales and growth in the number of workers are highly correlated while a report by financial sector deepening trust, Kenya 2016, on financing SME growth in Kenya, growth can be expressed as generating employment opportunities. Ruth, Margaret and Allan (2013) in their report on micro, small and medium enterprise growth and innovation in Kenya, a case study on women enterprise fund, say that growth in number of employees is considered a critical proxy for the other forms of growth in terms of total business worth, turnover and gross profit. Therefore there are various measures that can be used to measure growth but the increase in number of employees and/or sales level is the most commonly used measure of business growth.

Farouk and Saleh(2011), argue that despite the considerable attention paid to SME growth, to date no theories have been able to adequately explain why some SMEs grow and others fail.Based on Bouazza, Ardjouman and Abada (2015), on establishing the factors affecting the growth of small and medium sized enterprises in Algeria, their research reveals that the growth of SMEs in Algeria is hampered by several Interrelated factors but the major challenge to the growth of SMEs is the lack of access to external financing which has accounted for high rates of failure among the SMEs. Other factors include business environmental factors that are beyond the SMEs' control and internal factors of the SMEs. The external factors include the legal and regulatory framework, access to external financing, and human resources capacities. As per a report by NFIB research Foundation (2011), on growth - internal impediments, the impediments to business growth include lack of finance, lack of skilled employees, lack of strong management and lack of market demand. According to Bennet and Totolo (2016), when SMEs find themselves poorly served by financial institutions, their growth can be restricted.

There are various benefits of growth of a business as noted by various researchers. As per a survey report by NFIB research foundation (2011), while researches show that a substantial share of net new jobs is associated with the formation of new businesses, growth of established firms also play an important job creation role. The report further says that this role is most prominent among the youngest businesses. The Goldman Sachs 10000 small

businesses UK programme (2013), says that as well as being the major source of job creation in developed economies, small businesses are critical to driving economic growth through innovation and market expansion. It further says that economies thrive when their most ambitious and productive small businesses are able to grow. This is supported by the report by Dalberg Global Development Advisors (2011) which says Increased SME growth has a direct effect on GDP growth due to increased output, value add and profits. Apart from that, SME growth also impacts GDP indirectly, through increased innovation and macro-economic resilience of the overall economy and increases corporate tax income. Moreover, they stimulate increased indirect taxes (such as value-added taxes). There might also be additional tax income through the taxation of the profits of the investment funds and banks, depending on the local capital gains taxation laws.

Cooper (2012) in his study on the impact of micro finance services on the growth of small and medium enterprises in Kenya, uses questionnaires to collect data and regression analysis to analyse results, he uses sales level as a measure of growth and argues that without the services provided by MFIs i.e. micro credit, micro insurance and training, most of the SMEs would struggle with their growth objective and eventually collapse. He further says that micro finance services have assisted enterprises to change their status growth in sales level from micro to small and from small to medium. According to Ouma and Rambo (2013) on the study on impact of microcredit on women-owned SMEs, Access to microcredit remains instrumental for the growth of women-owned SMEs. The key indicators of growth considered in this study included sales volume, net profits, the number of paid workers, and the trend of liabilities before and after receiving microcredit. The study found that access to microcredit significantly associated with all these indicators of growth. The results suggested up to 95% chance that SMEs experienced higher sales after accessing credit from KWFT. This enabled SMEs to hire more paid workers to support increasing production and to reverse liability trends. The study revealed that access to microcredit is a key determinant of growth among women-owned SMEs. However, the environment in which such SMEs operate may also have significant influence on their financial health and the economic status of women entrepreneurs. More specifically, environmental factors such as taxation policies, competition, and purchasing power of target consumers, demand patterns and utility costs, among others may have significant influence on SME performance regardless of the amount of credit funds invested in a business.

Mwema (2013) on the effects of micro finance services on the growth of small and medium enterprises in Machakos County concludes that there is a strong positive relationship between micro finance services and SMEs growth. Aspects of growth looked at included sales, employment, new branches, business technology improvement and skill improvement. Respondents attributed their growth majorly (78.8%) to loans. According to a report by Dalberg Global Development Advisors, 2011 on support to SMEs in developing countries through financial intermediaries, increased SME growth has a direct effect on GDP growth due to increased output, value add and profits. Every year new SMEs enter the market representing 5 to 20% of the existing number of firms and although nearly half of all start-ups will fail within 5years, a few of them will grow to become large firms this process yields positive structural changes to the economy leading to GDP growth. Olusanya, Sufian and Temi(2014) in a study on can micro financing improve small and medium scale enterprises in Lagos state, Nigeria, concludes that micro finance has a positive effect on the growth of small and medium enterprises. According to Ghoshal, Halm and Moran (2002) as quoted by Anthony (2013), Factors that characterize growth of firms include availability of capital, human capital, viable opportunities for investments and adoption of modern and appropriate management styles. However, for a company to grow it must have resources available at its disposal. Microfinance institutions provide these resources through a structured framework. This is especially so for Small and Medium Enterprise. Ngugi and Kerongo (2014) on the effects of micro financing on growth of small and micro enterprises in Mombasa County, uses income of SMEs, accumulation of business assets, revenue and employment as indicators of growth of SMEs and the research results indicate that micro finance has a positive effect on growth of SMEs where majority of the owners indicated that micro finance has enabled them to expand businesses, build their business assets and enhance the ability of the business to compete.

Tawiah, Ennin, Fosu, Ghansah and Oppong (2013), on the impact of microfinance on small and medium scale enterprises in Ghana, conclude that micro finance institutions have a positive effect on growth of SMEs and this is supported by Garba (2013) who says that services like micro savings and micro credits are essential tools for SME growth in the study on an assessment of the contributions of micro finance institutions on the growth of the small and medium enterprises (SMEs) in Nigeria. Nendakulola(2015), on the impact of micro finance institutions on the growth of micro and small enterprises in Tanzania, uses sales and

employment as indicators of measuring growth and he also agrees that MFIs have a positive effect on the growth of SMEs reason being their credit is client oriented.

However, Benjamin (2013), on the effect of micro finance credit on the growth of small and medium scale enterprises in Mwanza region, Tanzania, who uses average change in accumulation of business assets, profitability level, employment level among others, indicates that a unit increase in access to micro finance credit leads to a decrease in enterprise growth. This is because, the cost of loan tend to exceed revenue obtained from investment and most of SMEs owners tend to divert purposes therefore their status seem not to change from micro to small and small to medium. This is supported by Atandi and Wabwoba(2013), on the effect of credit on micro and small enterprises performance in Kitale town; they use market share, stock levels and level of employment as indicators of growth. They argue that credit availability does not guarantee a bigger market share since they do little or no promotion even if they get the credit and neither does it guarantee employing more employees since employees do not necessarily lead to good performance but may also compromise the performance of the organisation. Aruna and Jyothirmayi (2011) alsoargue that microfinance has a profound influence on the economic status but it fails in improving assets of the participants as loans are micro in their magnitude and duration between dosages of loans are large.Bailey (2008), argues that while it is not unusual for a country with a small population to have so many small SMEs, in a well-functioning economy micro-enterprises develop into small enterprises, some of which develop into medium sized and large enterprises, few Cambodian companies have developed in this fashion and according to Bouazza, Ardjouman and Abada (2015), Lack of access to external financing is considered a major challenge to the growth of SMEs, and it has accounted for high rates of failure among those SMEs.

Therefore, According to Ouma and Rambo (2013), Mwema (2013), Ngugi and Kerongo (2014) and Nendakulola (2015) among others, growth in size of a business can be determined by the number of employees i.e. an increase in number of employees implies an increase in size of the business and further posit that micro finance has a positive effect on the growth of SMEs, they say that micro services are essential tools for SME growth and they can assist enterprises to change their status growth from micro to medium size. However Benjamin (2013), Atandi and Wabwoba (2013) and Aruna $ Jyothirmayi (2011) argue that micro credit does not guarantee a growth. According to Benjamin (2013) this is because a unit increase in access to micro credit leads to a decrease in enterprise growth due to increased cost which tend to exceed revenue and according to Aruna and Jyothirmayi (2011), the loans are micro

in their magnitude and duration of dosages of loans are large to effect any changes. Bailey (2008) says that very few companies develop from small to medium to large and this is supported by Bouazza, Ardjouman and Abada (2015), who argue that there is a high rate of failure among SMEs, implying SMEs fail to grow any further in terms of size or they close down as supported by Odondo *et al* (2011) who argue that up to 40% of the start-ups fail by year 2 and at least 60% close down by year 4. This therefore implies there is a contradiction in the views of various researchers on whether microfinance has a positive or negative effect on growth even though they use the same parameter of number of employees to measure growth, hence, leaving a gap that needs to be researched and answered in relation to contribution of micro credits towards growth in size of an investment in kisii town

2.4.4. Level of profitability

Tulsian (2014) in her research on profitability analysis (A comparative study of SAIL& TATA steel) says profitability is composed of two words namely profit and ability. She defines profitability as the ability of a given investment to earn a return from its use. She further says that profitability can be used to measure the productivity of capital employed and to measure operational efficiency but low profitability is not always a sign of organizational sickness. Don (2009) classifies profitability into accounting profits which can be computed by subtracting business expenses from income and economic profits where opportunity cost is also deducted from income. He says that profitability is the primary goal of all business ventures without which the business will not survive in the long run. Therefore profitability can be defined as a return earned from an invested capital or assets and it can be measured by profitability ratios like ROCE and ROA.

$$ROCE = \frac{earning\ before\ interest\ and\ tax}{capital\ employed} x\ 100$$

$$ROA = \frac{Net\ income}{average\ total\ assets} x\ 100$$

A study by Wang(2013) on the impact of microfinance of the development of small and medium enterprises: the case of Talzhou, China reveals that micro finance plays a crucial role in the revenue and profit growth of SMEs. Ekunwe, Orewa, Abulu and Egware (2015), looked at micro credit access and profitability on crop production in Orhionmwon local government area of Edo state, Nigeria and concluded that the profit margin obtained from the beneficiaries of micro credit was higher than that of non-beneficiaries. According to Kisaka and Mwema(2014) on effects of micro credit, micro savings and training on the growth of

small and medium enterprises in Machakos county in Kenya, results show that they contribute positively to SMEs growth which is measured using absolute or relative changes in sales, employment, productivity, profits and profit margins. Wanambisi and Bwisa (2013), on Effects of micro finance lending on business performance: a survey of micro and small enterprises in Kitale municipality Kenya, the research study established a strong positive significant relationship between the amount of loan and performance of MSE increase in income. It also established that respondents preferred smaller loans since they could repay plus interest. This is supported by Ouma and Rambo (2013) who use among other parameters net profit as an indicator of growth, they conclude that access to micro credits leads to growth in net profits hence has a positive effect on growth. In addition, Rotich, Lagat and Kogei who studied effects of micro finance services on the performance of small and medium enterprises in Kenya used growth in income as a measure of performance. They found that there is a relationship between extent of provision of micro finance and performance, they add that micro finance significantly affected performance and that improvement in provision will increase performance.

However Alhassan, Hoedafia and Braimah (2016), in their research on the effects of micro credit on profitability and the challenges of women owned SMEs: evidence from Northern Ghana concludes that there is a significant increase in the average monthly gross profit over time after access to loans though the effect is small thus the change is of less practical importance to the operation of the enterprises. This was due to the interest rates, loan amounts offered and strict loan repayment schedules. They also conclude that while some enterprises recorded growth in profits after getting loans other enterprises had either a decline or stagnation in their gross profits. This is supported by Benjamin (2013) who did a research in Tanzania and uses profitability level as an indicator of growth, she concludes that access to micro credits leads to a decline in growth. This is so because access to micro credit tends to increase costs which in turn lead to less profits available.Therefore while Wang (2013), Ekunwe*etal*(2015), Kisaka and Mwema(2014), Wanambisi and Bwisa(2013) and Ouma and Rambo (2013) consent to the fact that an access to micro credit leads to positive growth in profits, Alhassan, Hoedoafia and Braimah (2016) and Benjamin (2013) disagree and posit that access to micro credits may lead to decline in profitability and even stagnation. This is because access to micro credits increases costs of production due to interest charged and therefore necessitating a look into role of micro credit with respect to Kisii Town to determine the role played by self-help micro credit groups on profitability of an investment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the general research methodology that was employed in the study. Captured in this chapter are research design, target population, sample size and sample selection. Moreover, data collection instruments, instruments validity and instruments reliability are also highlighted. Included in this chapter are also instrument pre-testing, data collection procedures and methods of data analysis

3.2 Research Design

The study adopted a descriptive research design to investigate the role of self-help groups-micro credits on small and medium sized investments. Descriptive research design according to Gay (1973), involves collecting of data in order to test hypothesis or to answer questions concerning the current status of the subject of the study usually collected through a questionnaire survey, interviews, or observation. The research used quantitative approach, survey design which according to Saunders et al. (2009), as cited by Fred (2013), the survey strategy tends to be important in descriptive and exploratory research because it can collect a large amount of data from a sizeable population in an economical way and it entails description of the affairs as they exist at the present to enables the researcher to establish the relationship between variables

3.3 The Study Area

The locale of the study was the industrial manufacturing area within the kisii town locality in Kisii County Kenya; this area was picked because it had a high number of SMEs and SHGs which facilitated the acquisition of the necessary information. Furthermore, little had been done on role of SHG micro credits on small and medium sized investment in the Kisii region.

3.4 The Target Population

The study targeted the business owners of 4370 general traders in the micro and small enterprises sector in Kisii town registered up to January 2017 by the Kisii County. The sector was chosen because it had a wide range of businesses dealing in a variety of goods and services.

3.5 Sample Size and Sampling Techniques

According to Kombo and Tromp (2006), in their book on proposal and thesis writing, sampling is the act, process or technique of selecting a suitable sample, or a representative

part of a population for the purpose of determining the parameters or characteristics of the whole population and further define a sample as a subset or small part of the total number that could be studied. The target population was the 4370 general traders in Kisii town registered with the Kisii County Offices. The formula by Fisher, Laing and Stoeckel (1983), was used to arrive at the sample

$$n = \frac{Z^2\, pq}{d^2}$$

n = the desired sample size
z = the standard normal deviate at the required confidence level
p = the proportion in the target population estimated to have characteristics being measured
q = 1-p
d = the level of statistical significance set

According to Fisher *et al* (1983), 50% should be used if there is no estimate available of the proportion in the target population with the desired characteristics. Therefore, this study used a proportion of 50%, the z-statistic of 1.96 and a desired accuracy level of 0.05. The sample size was:

$$n = \frac{(1.96)^2(.50)(.50)}{(.05)^2}$$

$$= 384$$

Since the estimated population of small and medium sized investments is 4370 in Kisii town, the final sample estimate was arrived at using the following formula,

$$n_f = \frac{n}{(1+\frac{n}{N})}$$

Where n_f = the desired sample size (when population is less than 10000)

n = the desired sample size (when the population is more than 10000)

N = the estimate of the population size

$$n_{f\,=} \frac{384}{(1+384/\,4370)}$$

$$= 353$$

The desired sample size was 353 and cluster random sampling was used to access the sample.

3.6 Data Collection Instruments

Semi Structured questionnaire was used to facilitate acquisition of relevant data to be used for analysis since the study was concerned mainly with variables that could be directly observed. This involved asking structured questions. Interviews were used in some instances where the respondents were illiterate or needed assistance to fill the questionnaire. Secondary data was obtained from records kept by relevant authorities.

3.7 Validity and Reliability

Reliability according to Mugenda and Mugenda (1999) is used to measure the degree to which a research instrument yields consistent results or data after repeated trials. This study used test-retest technique to test the reliability of questionnaire on a sample of SMEs. A Pearson's product moment formula was used to compute the correlation coefficient to test the reliability.

Validity according to Orodho (2004) is the degree to which the empirical measure of the concept, accurately measure the concept. That is whether the content is measuring what they are supposed to be measuring. Mugenda and Mugenda (1999), define content validity as a measure of the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept. The study employed the help of the supervisor as an expert to assess the relevance of the content to be used in the questionnaire

3.8 Methods of Data Analysis and Presentation

The study was analysed using both descriptive and inferential statistics. Data was analysed quantitatively and qualitatively. The descriptive statistical tools (SPSS) helped the researcher to describe the data. Quantitative data was presented in the form of frequency distribution tables, and quantitative analysis methods like correlation was used in data analysis. According to Muathe (2004), descriptive statistics include frequencies, measures of central tendencies (mean, medium or mode) and measures of dispersion (standard deviation, range and variance). Further, both Pearson's Correlations and regression analyses as forms of inferential statistics were used. Correlations to test for significant relationship between variables and regression to check the extent to which the dependent variables were predicted by the independent variables and this will help to test the hypotheses.

3.8.1 Model Specification

$y_{od} = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + e$

Where the variables are defined as:

Yod-self-help micro-credit groups

X_1- Investment units

X_2-Investment size

X_3- level of profitability

e- Error term

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter deals with data analysis, presentation, interpretation and discussion of the findings of this study. This chapter is divided into the following sections: General characteristics of the respondents; the extent to which self-help micro credit groups influence number of investment units; the contribution of self-help micro credit groups on investment size; and the role played by self-help micro credit groups on level of profitability. It also offers both the correlation and regression analyses.

4.2 General Characteristics of the Respondents

The study was informed by key small and medium scale businesses and KCB staff that are critical in determining the factors influencing loaning of small businesses in Kisii town. There were 353 respondents comprising of the small and medium size investments management. However, only 342 respondents gave their response which is a 96.8% return rate. Respondents were asked to give general information regarding their background.

4.2.1 Gender of Respondents

The respondents were then asked about their gender. The findings are as shown in Table 4.1 below.

Table 4.1 Gender of Respondents

Gender	Frequency	Percentage
Male	202	74.9
Female	140	25.1
Total	342	100.0

Source: Research Data (2017)

From Table 4.1 it is clear that 74.9% of the general traders were male while only 25.1% were female. This implies that The SMEs within the manufacturing area of Kisii town was male dominated. This disagrees with findings from Anyanga and Nyamita (2016) that suggested that the trading pool in most towns had almost an even pool of both genders. However, according to Mungiru and Njeru (2015) Majority of the respondents were male who represented 60% of the sample while 40% were female. In a study by Rotich, Lagat and

Kogei (2015), majority of the entrepreneurs were female representing 66% of the population while male were only 34%. Therefore there is non-uniformity in gender representation in as far as the ownership of SMEs are concerned. However it is important to determine the SMEs orientations that potentially causes the difference.

4.2.2 Age of Respondents

The respondents were also asked about their ages and the results are as seen in Table 4.2.

Table 4.2Age of respondents

Age	Frequency	Percentage
Below 25 years	114	31.3
25-45 years	134	56.3
46-65	94	12.5
Total	342	100.0

Source: Research Data 2017

From the results in table 4.2, majority at 56.3% were aged between 25-45 years followed by 31.3% below 25 years and only 12.5% between 46-65 years. It can thus be implied that the traders were young people who Cowling and Liu (2011) said have vigour and are also eager to involve themselves in innovative measures to help improve their businesses and this may include joining a self-help group to try and improve on assets and profits as the study will later find out. This is supported by Rotich, Lagat and Kogei (2015), who got that 51.3% of the business owners fell in the 31-40 age bracket with the least percentage being of those over 40 years at 23.4%. However, according to Mungiru and Njeru (2015), majority of the SME owners were relatively old employees above 30 years. Hence this shows that most business owners are youths within the age of 25 to around 50 years who are active in business.

4.2.3 Period of Business Operation

The small and medium enterprises respondents were further required to indicate the period their businesses had been in operation. The findings are as shown in Table 4.3.

Table 4.3 Period of Business Operation

Period	Frequency	Percentage
1-2years	138	47.9
3-4years	118	33.3
Over 5years	86	18.8
Total	342	100.0

Source: ResearchData2017

From the results, 47.9% of them indicated that their businesses had been in operation for a period of between 1-2years, 33.3% of period of between 3-4years and the remaining 18.8% of them had been in business for a period of over 5years.This reveals that a significant number of SMEs had been in business for long enough to access credit or engage in credit access in whatever form. Further, it lends credence to the reports by World Bank (2015) that most SMEs were in operation within 1 to 5 years and that most failed within that period and this is supported by Bowen and Makarius (2009), who posit that over 50% of MSMEs continue to have a deteriorating performance with 3 in every 5 MSMEs failing within months of establishment. According to Mungiru and Njeru (2015), majority of the respondents (54%) have been in the operation for 6-10 years, this is in conformity withKinyua (2014) Survey results which showed that 43.5% of the SMEs had been in operation for 6-10 years, 37% had operated for 11-15 years, 14.5% had operated for 1-5 years while 5% had operated for 16-20 years.This therefore implies that majority of the SMEs are in operation below 10 years and very few go beyond 10years unless they are able to change status to large enterprises.

4.2.4Number of years in the self-help group

Respondents were further required to indicate the number of years in the self-help group. The findings are as shown in Table 4.4

Table 4.4Number of years in the self-help group

Years	Frequency	Percentage
Not a member	51	10.4
1-2 years	179	58.3
3-5 years	112	31.3
Total	342	100.0

Source: ResearchData2017

The results show that 58.3%ofthemwerehad been in self-help groups for between 1-2 years followed by 31.3% who had been with self-help groups for between 3-5 years and only 10.4% were not members of any self-help group. This implies that the small enterprises were significantly members of self-help groups and were thus able to answer to questions regarding whether self-help groups had helped their business growth. According to a report by the secretary general (1998), informal and small-scale lending arrangement have long existed in many parts of the world especially in the rural areas, a good example being the merry-go-rounds. Therefore, due to the absence of the much-required formal financial services the poor have developed some informal arrangements to fulfil their needs for financing like through the creation of microfinance through micro credit groups. As per Jain and Nai (2013), the greater the time of association with SHGs, the greater are the economic benefits like greater possibility of savings, increased scope of self-employment, increase in the living standard, increase in the income and economic empowerment. Therefore there are benefits that accrue if members stay in a self-help group for longer hence SME business owners should be encouraged to be in self-help groups to enable them enjoy the benefits.

4.2.5Type of self-help group

Respondents were further required to indicate the type of self-help group they were in the findings are as shown in Table 4.5

Table 4.5Type self-help group

Years	Frequency	Percentage
Missing	51	10.4
Rotating	180	59.3
Welfare	111	30.3
Total	342	100.0

Source: ResearchData2017

The results show that 59.3%ofthe traders used the rotating kind of self-help group and 30.3% used the welfare type with 10.4% missing, indicative of those who had answered not members to any self-help group before. Atandi and Wabwoba (2013) had mentioned that many traders were engaged in rotating or merry-go-round self-help situations where moneys were saved monthly and reverts back to an individual after equal duration of saving. Therefore, the result in this case agrees with literature. According the report by the Nokia Research Center (2007), broadly there are two types of merry go rounds namely Rotating

savings and credit Associations (ROSCAs) and Accumulating savings and credit Associations (ASCAs). Ajay (2012) also says the common types of self-help groups are the rotating savings and credit association (ROSCA), and its more evolved form, the accumulating savings and credit association (ASCA). However in Kisii it is evident that the ASCAs are not common. The most common types are the ROSCAs and SWFAs.

4.2.6 Maximum Amount of Accessible Credit

Respondents were further required to indicate the maximum amount of accessible credit.

The findings are as shown inTable4.6.

Table 4.6 Maximum Amount of Accessible Credit

Loan applied	Frequency	Percentage
1-10,000	92	20.8
10,001-20,000	116	37.5
20,001-30,000	134	41.7
Total	342	100.0

Source: ResearchData2017

From the Table, it is evident that 41.7%ofthem indicated that they had the option of getting credit at a maximum of 30,000kshs followed by 37.5% whose limit was 20,000 and 20.8% whose limits was 10,000 per month. This shows that the small enterprises had applied and had options to receive substantial loans that would consequently accrue substantial interest rates and also help their businesses.

4.3 Descriptive Statistics

4.3.1 Number of Investment Units and Self Help Groups

The first objective sought to establish the extent to which Self-help groups influence number of investment units. The respondents were asked to indicate to what extent the following factors were effective. They were to indicate whether they strongly agree (SA), agree (A), not sure (NS), disagree (D), or strongly disagree (SD)

Table 4.7 Responses on extent to which self-help groups influence number of investment units

N=342

Factor	SA	A	NS	D	SD	Mean
It is easy to access money from a self-help group	159	125	4	36	18	4.19
It is accessibility of money from self-help that influences numbers of units of businesses initiated	119	131	10	50	32	3.90
Existence of Self Help micro credit Groups influences the number of businesses taking place	89	117	30	60	46	3.40
Number of self-help groups available influences number of businesses taking place	174	104	8	30	26	4.12

Source: Research Data (2017)

The findings based on the descriptive statistics are as seen in table 4.7.

Table 4.8: Descriptive Statistics for Number of Investment Units

Statement	Mean	Std. Deviation	Skewness	Kurtosis	N
It is easy to access money from a self-help group	4.19	.787	.543	-.456	342
It is accessibility of money from self-help that influences numbers of units of businesses initiated	3.90	1.108	.822	-.236	342
Existence of Self Help micro credit Groups influences the number of businesses taking place	3.40	.917	.509	-.876	342
Number of self-help groups available influences number of businesses taking place	4.12	1.029	.444	-.423	342

Source: Research Data (2017)

Table 4.7 shows the descriptive statistics for four variables measured for number of investment units cluster. The second column shows the arithmetic mean of each variable, the third column shows the respective standard deviation, the fourth column shows the skewness results, the fifth column shows the kurtosis results while the sixth column shows the sample size in each variable computed. All the variable means are above 3.0 and compared significant difference with the standard deviations, it is clear that all the variables are significant. Basically, it is easy to access money from a self-help groups; it is the accessibility of money from self-help that influences numbers of units of businesses initiated; existence of Self Help micro credit Groups influences the number of businesses taking place and the number of self-help groups available influences number of businesses taking place.

This result agrees with reviewed literature. According to Nicoleta and Ludovica (2011), two thirds of the newly created jobs are owed to the small and medium sector. Sambu (2013) in her research on impact of women participation in SHGs on self-economic empowerment in Nakuru County argues that by participating in SHGs, members have learned the power of leveraging their capital through use of loans. This has enabled them venture into businesses which in turn has led to increase in savings and wider access to loan. Respondents rated embarking on entrepreneurial activities such as farming agro vet, shop, salon, boutique, timber sawing, chemist, etc. as their number one reason for taking loans. According to Flynn (2013), through borrowing and saving the SHG members were able to improve their living situations and were able to start profitable small businesses including small shops and rearing animals.

The skewness results show that the values are greater than 0 implying that they have a right skewed distribution whereby most values are concentrated on left of the mean, with extreme values to the right. While the Kurtosis results show both negative and less than 3 which indicates a Platykurtic distribution, where the values are flatter than a normal distribution with a wider peak. The probability for extreme values is less than for a normal distribution, and the values are wider spread around the mean.

4.3.2 The Size of Investment Units and Self Help Groups
The second objective sought to determine the contribution of self-help groups micro credits on the size of investment units. The results are seen in table 4.9

Table 4.9 Descriptive Statistics for Responses on Contribution of Self-Help Groups to Size of Investment Units

Question	0-5	%	6-15	%	16-25	%	26-35	Over 35
How many employees did you start with	342	100%						
How many employees do you have now	342	100%						
	1-10000		10001-20000		20001-30000		30001-40000	Over 40000
How much capital did you start with	119	35.2%	114	32.5%	109	32.3%		
How much capital have you added since you started			153	44.6%	189	55.4%		
	1-20000		20001-40000		40001-60000		60001-80000	Over 80000
How much were your sales per month when you started your business	238	68.7%	104	31.3%				
How much are your sales at the moment per month	167	49.2%	175	50.8%				

Source: Research Data (2017)

Table 4.8 shows that all the SMEs at 100% began and still have employees from 0-5. This implies that the traders have maintained sole-proprietorships and few others with employees more than one. This is indicative of the small size of the investment units at Kisii Town. According to a report by Goldman Sachs 10000 small businesses UK Programme (2013), an investment growth can be measured in terms of increase in number of people employed and the turnover growth rate; according to survey report by NFIB research foundation (2011), growth is looked at in terms of increase in the number of employees; as per Mungiru and Njeru (2015), a majority of 50% indicated that they had 1 to 5 employees, implying most SMEs had between 1 to 5 employees. In a research by Anyanga and Nyamita, they found that almost all the small and medium sized enterprises (valid percent 99%) have employed less than ten people, with an exception of one enterprise which has employed more 20 people.

On capital Base, a significant number at 35.2% had initially invested below 1-10,000 followed by 32.5 investing 10,000-20,000 and followed very closely with 32.2% investing 20,001-30,000 Afterwards and currently, 55.4% have invested 20,001-30,000 and only 44.6% have invested between 1-20,000. This implies that firstly, the size of investments is still small but that over time, the capital bases have improved for majority of small businesses. The same applies to sales, with majority at 68.7% had initially showed sales below 20,000 kshs with the rest at 31.3% showing sales between 20,001-40,000 kshs sales and currently, 50.8% show sales between 20,01-40,000 with the rest at 49.2% posting sales of between 1-20,000.

In agreement with literature Acs and Audretch (1990) define SMEs growth as an average change in sales however Voulgaris et al (2003) says enterprise performance and profitability is not related to growth of sales since some companies may be able to maintain high profits even with declining growth rate. According to Nendakulola (2015) on the impact of micro finance institutions on the growth of micro and small enterprises in Tanzania, sales and employment are the two most important indicators measuring firm's size and growth because studies have found that growth in sales and growth in the number of workers are highly correlated .

4.3.3 Role Played by Self-Help Groups on Levels of Profitability

The third objective sought to establish Role Played by Self-Help Groups in Levels of Profitability. The results are seen in table 4.10 and 4.11.

The respondents were asked to present their monthly average profitability. The result is as seen in Table 4.10.

Table 4.10Profits

Profits	Frequency	Percentage
1-2000	00	00
2001-4000	00	00
4001-6000	00	00
6001-8000	96	16.7
8001-10,000	124	43.7
Above 10,000	122	39.6
Total	342	100.0

Source: Research Data 2017

From the above data in Table 4.9, slightly less than half at 43.7% got between Kshs. 8001-10,000 monthly profits followed at 39.6% who got above 10,000 and 16.7% who got 6001-8000. This implies that the profits were substantial viewed within the earlier results on sales,

capital and employees.

In the following table the respondents were asked to indicate to what extent the following factors were effective. They were to indicate whether they strongly agree (SA), agree (A), not sure (NS), disagree (D), or strongly disagree (SD)

Table 4.11 Responses on profitability

	SA	A	NS	D	SD	MEAN
The amount of capital invested influences the amount of profits received	161	124	3	36	18	4.22
Capital addition leads to increased income.	240	65	5	21	11	4.93
My choice of a financial institution is determined by the rate of interest charged by the institution	88	118	31	59	46	3.48
Loan repayment on micro credit leads to a drop in returns	162	122	4	35	19	4.23

Source: Research Data (2017)

Table 4.12: Descriptive Statistics for level of profitability

	Mean	Std. Deviation	Skewness	Kurtosis	N
The amount of capital invested influences the amount of profits received	4.22	.922	.519	-.411	342
Capital addition leads to increased income.	4.93	.900	.808	-.213	342
My choice of a financial institution is determined by the rate of interest charged by the institution	3.48	1.129	.528	-.766	342
Loan repayment on micro credit leads to a drop in returns	4.23	1.089	.453	-.423	342

Source: Research Data (2017)

Table 4.12 shows that all the variable means are above 3.0 showing the all the responses were significant. Capital addition leading to more income was most significant having the highest mean of (M=4.93; SD .900). From the significant and reliable results, it is clear that the amount of capital invested influenced the amount of profits received; capital addition led to increased income; the choice of a financial institution was determined by the rate of interest charged by the institution and loan repayment on micro credit led to a drop in returns.

The result is significantly supported by literature. A study by Wang (2013) on the impact of microfinance of the development of small and medium enterprises: the case of Talzhou, China reveals that micro finance plays a crucial role in the revenue and profit growth of SMEs. Ekunwe, Orewa, Abulu and Egware (2015) concluded that the profit margin obtained from the beneficiaries of micro credit was higher than that of non-beneficiaries. According to Kisaka and Mwema(2014) results show that micro credits contribute positively to SMEs growth which is measured using absolute or relative changes in sales, employment, productivity, profits and profit margins. Wanambisi and Bwisa (2013), the research study established a strong positive significant relationship between the amount of loan and performance of MSE increase in income. Therefore this shows that indeed an addition of capital leads to profitability growth.

The skewness results show that the values are greater than 0 implying that they have a right skewed distribution whereby most values are concentrated on left of the mean, with extreme values to the right. While the Kurtosis results show both negative and less than 3 which indicates a Platykurtic distribution, where the values are flatter than a normal distribution with a wider peak. The probability for extreme values is less than for a normal distribution, and the values are wider spread around the mean.

4.4 Inferential Statistics

4.4.1 Correlation Analysis

As part of the analysis, Pearson's Correlation Analysis was done on the Independent Variables and he dependent variables. Summative scales were used to run both regression and correlation. The results is as seen on Table 4.13

Table 4.13 Correlation Analysis

		Self-Help Groups	Profitability	Number of investment units	Size of investment units
Self-Help Groups	Pearson Correlation	1.000			
	Sig. (2-tailed)				
	N	342			
Profitability	Pearson Correlation	.635**	1.000		
	Sig. (2-tailed)	.000			
	N	342	342		
Number of investment units	Pearson Correlation	.558**	.400**	1.000	
	Sig. (2-tailed)	.000	.000		
	N	342	342	342	
Size of investment units	Pearson Correlation	.701**	.258**	.527**	1.000
	Sig. (2-tailed)	.000	.005	.000	
	N	342	342	342	342

Source: Research Data (2017)

Pearson correlation analysis was conducted to examine the relationship between the variables. The measures were constructed using summated scales from both the independent and dependent variables. As cited in Wong and Hiew (2005), the correlation coefficient value *(r)* range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. However, according to Field (2005), correlation coefficient should not go beyond 0.8, to avoid multicollinearity. Since the highest correlation coefficient is 0.701 which is less than 0.8, there is no multicollinearity problem in this research (Table 4.13).

All the independent variables had a positive correlation with the dependent variable with size of investment units having the highest correlation of (r=0.701, p< 0.01) followed by profitability with a correlation of (r=0.635 p< 0.01) while number of investment units had the least correlation of(r= 0.558 p< 0.01). This indicates that all the variables are statistically significant at the 99% confidence interval level 2-tailed. This shows that all the variables under consideration have a positive relationship with the dependent variable.

4.4.2 Regression Analysis Results

Since the measures that are used to assess the primary constructs in the model are quantitative scales, regression analysis can be used to achieve this end. Regression analyses are a set of techniques that can enable us to assess the ability of an independent variable(s) to predict the dependent variable(s). As part of the analysis, Regression Analysis was done. The results is as seen on Tables 4.14, 4.15 and 4.16

Table 4.14 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772[a]	.738	.731	.176

a. Predictors: (Constant), Self-Help Groups

b. Dependent Variable: size of investment units, profitability,

number of investment units

Source: Research Data (2017)

From table 4.14, it is clear that the R value was .772 showing a positive direction of the results. R is the correlation between the observed and predicted values of the dependent variable. The values of R range from -1 to 1 (Wong &Hiew, 2005). The sign of R indicates the direction of the relationship (positive or negative). The absolute value of R indicates the strength, with larger absolute values indicating stronger relationships. Thus, the R value at .772 shows a stronger relationship between observed and predicted values in a positive direction. The coefficient of determination R^2 value was 0.731. This shows that 73.1 per cent of the variance in dependent variables (size of investment units, profitability, number of investment units) was explained and predicted by independent (Self-Help Groups)

Table 4.15ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	252.743	4	43.096	104.391	.000[a]
	Residual	14.878	227	.664		
	Total	267.621	231			

a. Predictors: (Constant), Self-Help Groups

Source: Research Data (2017)

The F-statistics produced (F = 104.391.) was significant at 5 per cent level (Sig. F< 0.05), thus confirming the fitness of the model and therefore, there is statistically significant relationship between size of investment units, profitability, number of investment units, and Self-Help Groups

Table 4.16 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.717	.341	.277	7.988	.000
	Size of investment units	.268	.064	.163	4.188	.004
	Profitability	.274	.075	.314	3.653	.000
	Number of investment units	.319	.059	.342	5.417	.000

a. Dependent Variables: size of investment units, profitability, number of investment units
Source: Research Data (2017)

From table 4.16, the t-value of constant produced (t = 7.988) was significant at .000 per cent level (Sig. F< 0.05), thus confirming the fitness of the model. Therefore, there is statistically significant relationship between size of investment units, profitability, number of investment units, and Self-Help Groups. Based on the Sig values that were all <0.05, all the variables were statistically significant

4.4.3 Test of Normality

The Kolmogorov-Smirnov test was used to test for 'goodness of fit' between the sample distributions. The result is seen in table 4.17

Table 4.17 Tests of Normality

Capabilities		Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	Df	Sig.	Statistic	Df	Sig.
Self-Help Groups	Size of investment units	.177	171	.200*	.964	342	.827
		.166	171	200*	.969	342	.882
	Profitability						
		.165	106	200*	.969	342	.888
	Number of investment units						

a.   Lilliefors Significance Correction

*This is a lower bound of the true significance

Source: Research Data (2017)

The above table presents the results from two well-known tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. The Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples), but since the study sample was 342 the Kolmogorov-Smirnov Test was used as the numerical means of assessing normality.

We can see from the above table that for the size of investment units, profitability, number of investment units, and Self-Help Groups Group the independent variable, "Self-Help Groups ", was normally distributed. How do we know this? If the **Sig.** value of the Kolmogorov-Smirnov Test is greater than 0.05, the data is normal. If it is below 0.05, the data significantly deviate from a normal distribution. We can reject the null hypothesis and conclude that the data comes from a normal distribution.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of findings, the conclusions drawn and the recommendations made thereof. It finally offers the suggestions for further research.

5.2 Summary of Findings

Based on the first objective, descriptive statistics for four variables were measured for number of investment units cluster and the mean obtained shows that they are all significant. Basically, it is easy to access money from a self-help groups; it is the accessibility of money from self-help that influences numbers of units of businesses initiated; existence of Self Help micro credit Groups influences the number of businesses taking place and the number of self-help groups available influences number of businesses taking place.

Based on the second objective, all the SMEs at 100% began and still have employees from 0-5. On capital Base, a majority number at 35.2% had initially invested below 10,000 Afterwards and currently, 55.4% have invested 20,001-30,000 showing an increase in capital base. The same applies to sales, with majority at 68.7% who had initially showed sales below 20,000 kshs but currently a majority at 50.8% have sales between 20000 and 40000 indicating an increase in net sales. This implies the size of businesses has grown.

Based on the third objective, From the significant and reliable results, it is clear that the amount of capital invested influenced the amount of profits received; capital addition led to increased income; the choice of a financial institution was determined by the rate of interest charged by the institution and loan repayment on micro credit led to a drop in returns.

5.3 Conclusion of the study

Based on the objectives and findings of the study, the following are the conclusions

Based on the first objective, it was easy to access money from self-help groups. Further, it was the accessibility of money from self-help that influenced numbers of units of businesses initiated. Moreover, the existence of Self Help micro credit Groups influenced the number of

businesses taking place and the number of self-help groups available influenced the number of businesses taking place. It can thus be concluded that self-help groups had a positive and significant influence on number of investment units for small and medium scale businesses in Kisii town.

Based on the second objective, all the SMEs were single run by fewer employees. On capital Base, a significant number had initially invested below 10,000. The same applies to sales, with majority initially showing sales below 20,000 kshs but currently many show sales between 20,001-40,000. It can thus be concluded that self-help groups had a positive and significant influence on size of investment units for small and medium scale businesses in Kisii town.

Based on the third objective, the amount of capital invested influenced the amount of profits received and capital addition led to increased income. Further, the choice of a financial institution was determined by the rate of interest charged by the institution and loan repayment on micro credit led to a drop in returns. It can thus be concluded that self-help groups had a positive and significant influence on level of profitability for small and medium scale businesses in Kisii town.

5.4 Recommendations and Implications

Based on the objectives and conclusions this study recommends;

The traders should continue to invest strategically to their businesses to improve both the number and the sizes of their investment units. Only through this long-term investing can they fully reap the benefits of their business.

The small and medium scale owners should transform their self-help groups to fully-fledged investment organization which allows for savings, high loaning options and builds on the need for accumulation as opposed to simply rotational savings which are mainly consumptive.

The traders need to be trained on the benefits and strategies of engagement with self-help groups to help them harness the full potential of the method.

The management of self-help groups must include more products to their repertoire to harness the huge mass of small and medium scale businesses and build an alternative banking system

The owners and management of SMEs should embark on improving their financial literacy

levels to make them more knowledgeable on matters to do with access to credit. This will help them build their portfolios and get good and attractive loans.

The owners and management of SMEs should always monitor their credit usage to avoid misappropriation. This should start even before accessing the credit by prior planning for the budget and sticking to that budget. In the event of misappropriation, they should replace the amount used for other purposes on time so as to stick to purpose of the loan and avoid loan repayment problems.

The government should enact legislation which regulates the informal and alternative banking industry like self-helps. This legislation should ensure that lending institutions charge affordable interest rates on SMEs. Of course, the government recently enacted a cap on interest loans to 4.5% above 10% limit for banks and thus stringent interest rate enforcement should be done.

5.5 Recommendations for further research

This study proposes that further research be done in the following areas:

Factors influencing interest rate fluctuations in commercial banks.

Further research should be done on barriers to loaning management in the informal loaning sector in Kenya.

On the methodology used, this study may not be generalized to other counties because of bias of self-report surveys, as a result, a wider scope of the SMEs should be used and more unbiased research instrumentation be employed.

5.6 Limitations of the Study

The researcher experienced a problem of non-response from respondents who were given the questionnaires to fill. However, the researcher assured the respondents that any information given will be treated with maximum confidentiality. Some of the respondents were found to be uncooperative. Other respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or self-help groups. Some respondents turned down the request to fill questionnaires. The major problem was the delays to fill questionnaires due to busy schedules of respondents

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Dear respondent,

Thank you for agreeing to respond to the questionnaire. The study will establish the role of self-help micro credit groups on growth of small and medium sized investments in kisii town. All the information that you will provide will be treated as confidential and will only be used for purposes of the study and will not reveal the identity of the respondent. Please put a tick where appropriate and/or a narrative answer in the spaces provided

SECTION A: BACKGROUND INFORMATION OF RESPONDENTS

1) Gender

a) Male ▢

b) Female ▢

2) How old are you?

a) Below 25 ▢
b) 25 – 45 ▢
c) 46 – 65 ▢
d) Above 65 ▢

3) For how long have you been a member of a self-help group?
a) Not a member ▢
b) Below 2 years ▢
c) 3 – 5years ▢
d) 6-10 years ▢
e) Above 10 years ▢

4) To which type of self-help group are you a member?

a) Rotating type ▢

b) Accumulating type ▢

c) Welfare type ▢

d) None ▢

5) What is the current maximum amount of credit one can access from your self-help group?

a) 1-10000 ☐

b) 10001-20000 ☐

c) 20001-30000 ☐

d) 30001- 40000 ☐

e) 40001- 50000 ☐

f) Above 50000 ☐

g) None ☐

6) For how many years have you run the business?

a) 1-2 years ☐

b) 3-4 years ☐

c) 5-6years ☐

d) Above 7 years ☐

SECTION B: NUMBER OF INVESTMENT UNITS

In the following questions using a scale of 1 to 5, 1 for strongly agree, 2 for agree, 3 for not sure, 4 for disagree and 5 for strongly disagree tick where appropriate,what would you state in respect to credit from self help groups

Question	1	2	3	4	5
It is easy to access money from a self-help group					
It is accessibility of money from self-help that influences numbers of units of businesses initiated					
Existence of Self Help micro credit Groups influences the number of businesses taking place					
Number of self-help groups available influences number of businesses taking place					

SECTION C: SIZE OF INVESTMENT UNITS

In respect to number of employees, let 1 represent 0-5 employees,2 for 6-15, 3 for 16-25, 4 for 26-35 and 5 for above 35 employees.

In respect to capital base, 1 for 1-10000, 2 for 10001- 20000.3 for 20001- 30000, 4 for 30001- 40000 and 5 for above 40000.

In respect to turnover, 1 for 1-20000, 2 for 20001- 40000, 3 for 40001- 60000, 4 for 60001- 80000 and 5 for above 80000.

Tick where appropriate in the following questions,

Question	1	2	3	4	5
How many employees did you start with					
How many employees do you have now					
How much capital did you start with					
How much capital have you added since you started					
How much were your sales per month when you started your business					
How much are your sales at the moment per month					

SECTION D; PROFITABILITY OF INVESTMENT UNITS

1. Approximately how much profit are you earning per month?
   a) Kshs. 1-2000
   b) Kshs. 2001- 4000
   c) Kshs 4001- 6000
   d) Kshs. 6001- 8000
   e) Kshs. 8001- 10000
   f) Above 10000

2. In a scale of 1 to 5, 1 for strongly agree, 2 for agree, 3 for not sure, 4 for disagree and 5 for strongly disagree, what will you say in respect to the following

	1	2	3	4	5
The amount of capital invested influences the amount of profits received					
Capital addition leads to increased income.					
My choice of a financial institution is determined by the rate of interest charged by the institution					
Loan repayment on micro credit leads to a drop in returns					