

**ANALYSIS OF MICROFINANCE FINANCING APPROACHES TO GROWTH
OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN
MARSABIT COUNTY, KENYA**

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DECLARATION AND APPROVAL

Declaration by candidate

This project is my original work and has not been presented for a degree at any other university or for any other award.

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Approval by Supervisor

I confirm that the work reported in this project was carried out by the candidate under my supervision.


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DEDICATION

This research proposal is dedicated to my parent, my siblings, my wife and my delightful children for their support and guidance throughout my Master's degree.



ACKNOWLEDGEMENT

All praise and thanks is to Allah, Lord of the world for innumerable favors and bounties throughout my journey.

I extend my deepest appreciation to my supervisor, **Dr. Peter Simotwo**, for his invaluable intellectual guidance and support throughout the development of this research proposal. His direction and encouragement have been pivotal in shaping my work.

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ABSTRACT

This study aimed to assess the impact of microfinance institution (MFI) financing approaches on the development of micro, small, and medium-sized enterprises (MSMEs) in Marsabit County. Limited access to financing has hindered the growth of MSMEs, motivating this research through key objectives: examining the effects of microfinance loan accessibility on MSME growth in Marsabit County, investigating how interest rates offered by microfinance institutions impact the growth of MSMEs in Marsabit County, exploring the effects of loan repayment conditions on the operational growth of MSMEs in Marsabit County; and evaluating the influence of microfinance literacy training programs on MSME development within the county. The study's literature review was framed around financial intermediation theory, microcredit theory, and the resource-based view (RBV) of firms. A correlational research design was employed to analyze the relationship between microfinance financing approaches and MSME growth. The target population consisted of 1,000 registered MSMEs in Marsabit County, with a sample drawn from youth engaged in the agribusiness value chain, as provided by the World Food Programme. Using stratified sampling, a representative sample size of 91 MSMEs was determined through the Cochran formula. Primary data were collected via questionnaires, the main data-gathering tool. The study found that microfinance approaches significantly impact the growth of MSMEs in Marsabit County. Key findings indicate that while access to microfinance loans is critical for MSME growth, many entrepreneurs face challenges such as high-interest rates, complex application processes, and limited financial literacy. These barriers hinder optimal utilization of financial services. The study concluded that addressing these issues through targeted interventions, such as lowering interest rates, streamlining loan processes, and providing robust financial literacy training, can significantly enhance MSME sustainability and growth. It is recommended that microfinance institutions adopt more inclusive and flexible lending practices while collaborating with local stakeholders to implement advanced training programs tailored to the unique needs of various business sectors in the region

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LIST OF ABBREVIATIONS AND ACRONYMS

AFCFTA	:	African Continental Free Trade Area
CIDP	:	County Integrated Development Plan
DTM	:	Deposit Taking Microfinance
HDI	:	Human Development Index
IFC	:	International Finance Corporation
IMF	:	International Monetary Fund
KCB	:	Kenya Commercial Bank
KNBS	:	Kenya National Bureau of Statistics
K-REP	:	Kenya Rural Enterprise Programme
KWFT	:	Kenya Women Finance Trust
MFI	:	Microfinance institution
MSEA	:	Micro and Small Enterprise Authority
MSME	:	Micro, Small and Medium Enterprises
NGO	:	Non-Governmental Organizations
NPA	:	Non-performing Asset
OECD	:	Organization of Economic Cooperation and Development
RBV	:	Resource Based View of firms
SACCO	:	Savings and Credit Cooperative Organization
WEF	:	Women Enterprise Fund
WFP	:	World Food Programme
YEDF	:	Youth Enterprise Development Fund

CHAPTER ONE

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to economic growth, playing a vital role in job creation, poverty alleviation, and fostering innovation in both emerging and advanced economies. Despite their significance, MSMEs often encounter barriers that restrict their growth and limit their competitiveness, particularly in gaining access to regional and global markets. In recent years, digital platforms and global value chains have emerged as key enablers of market expansion, allowing MSMEs to tap into broader customer bases and leverage cutting-edge technologies. Furthermore, regional trade agreements such as the African Continental Free Trade Area (AfCFTA) are opening new avenues for intra-regional commerce and improved market access.

Nonetheless, MSMEs continue to face significant obstacles, including regulatory complexities, inadequate infrastructure, and cumbersome trade regulations, which impede their ability to expand and compete on a global scale. There is an increasing need for policy frameworks and strategic support to help MSMEs overcome these challenges and fully exploit opportunities in both domestic and international markets. This research proposal aims to explore the microfinance strategies such collateral-free loans, digital financial services, flexible repayment options, financial literacy training among others that aim to enhance financial access, resilience and growth of MSME with a focus on the roles of digital integration, access to finance, entrepreneurial marketing approaches, and regional trade agreements. By analyzing these key elements, the study seeks to provide valuable insights into effective approaches that can enhance the competitiveness of MSMEs and policy interventions, particularly in developing regions.

1.1 Background of the Study

Numerous academics highlight the dissensus regarding the Micro, Small, and Medium Enterprises' (MSMEs) characteristics. This dissensus arises from the diversity in size, operational scope, and economic impact of MSMEs across different regions and industries. Scholars often categorize MSMEs based on quantitative measures such as employee count, revenue thresholds, and asset size, but these criteria vary between countries and industries, creating challenges in establishing a universally accepted definition. For instance, the European Union and the World Bank adopt different metrics for defining MSMEs, complicating comparative research and policy-making (OECD, 2021). Additionally, qualitative factors such as innovation, management styles, and market adaptability are essential in distinguishing MSMEs from larger firms, yet these are less frequently considered in defining them, contributing to further disagreement among scholars (Kozubíková et al., 2017). As for the International Labour Organization (2022), small businesses typically have fewer than 10 to 50 employees, while medium enterprises employ fewer than 100 to 250 individuals (White, 2018).

Micro, small, and medium enterprises vitally contribute to the wealth of all states, serving as a ground for economic growth. The present world economy is attributed to cut-throating champions, aiming to boost profits and cut costs. Thus, businesses are required to function with both efficiency and flexibility. Rapid advancements in technology have led to a globally interconnected society having all information across the nations

The crucial part of Micro, small, and medium enterprises is availing employment opportunities, bringing about earnings, decreasing buying from abroad, and translating to the development of the country's reality. Micro, small, and medium enterprises have increasingly been recognized as key giver of beneficial jobs, especially in developing

countries, due to their focus on manual labor and lesser reliance on technical skills in comparison to bigger industries.

Microfinance has become an essential instrument for economic growth, particularly in regions with limited availability of conventional banking services. The main objective of microfinance is to offer services of finance such as loans, deposits, and insurance to small-earning individuals and small businesses exempted from formal financial systems. Globally, numerous research has investigated the influence of microfinance on MSME growth. For instance, Ledgerwood, Earne, and Nelson (2013) highlight how microfinance contributes to MSME growth by providing the necessary capital for business expansion, improving asset ownership, and enhancing business income. Similarly, Fonseca, Moreira, and Mota (2024) found that microfinance institutions (MFIs) can effectively reduce poverty by focusing on borrower empowerment and sustainable, profitable operations. By fostering self-employment and supporting income-generating activities, MFIs promote financial independence and long-term economic stability among underserved groups.

The global evidence suggests that microfinance has the potential to drive the growth of MSMEs, particularly in regions with limited access to formal financial services. However, the impact of microfinance varies significantly across different contexts, and its success depends on factors such as the design of microfinance programs, the local economic environment, and the characteristics of the target population.

Microfinance, the provision of financial services to low-income individuals or those who do not have access to typical banking services, has gained global recognition as a tool for poverty alleviation and economic development. Originating from the Grameen Bank model in Bangladesh, microfinance has been adopted worldwide to support micro, small and medium enterprises (MSMEs). These small businesses often face significant barriers

to accessing traditional financial institutions, such as a lack of collateral and high transaction costs.

Nonetheless, the success of microfinance in furthering growth of MSME varies across different regions. Banerjee, Karlan, and Zinman (2015) argue that while microfinance can help stabilize small businesses and improve income levels, it does not always lead to significant business growth or job creation. This suggests that the benefits of microfinance may be more limited than initially believed, and its impact on MSME growth relies on factors microfinance programs, economic environment, and the borrower's characteristics.

In East Africa, microfinance is widely recognized as an instrument for promoting MSME enlargement and economic expansion. The region's reliance on the informal sector makes microfinance essential for business development among small enterprises. Beck, Demirgüç-Kunt, and Levine (2015) note that accessibility of finance remains a significant barrier for MSMEs in Africa, and microfinance has been instrumental in bridging this gap.

Despite its potential, microfinance in Africa faces several challenges, including high interest rates, limited outreach, and inadequate financial literacy among entrepreneurs. Honohan and Beck (2017) reveal that while microfinance has improved access to credit for small businesses, the high cost of borrowing often limits the potential for business expansion and growth.

Conversely, successful microfinance programs in Africa have demonstrated significant positive impacts on MSME growth. Dupas and Robinson (2013) realized that providing entry to save sole proprietors in Kenya has led to increased investment in business activities and higher profits.

In Kenya, microfinance has been pivotal in supporting the growth of MSMEs, which constitute a significant portion of the country's economy. According to the Kenya National Bureau of Statistics (2016), MSMEs account for approximately 98% of all businesses in Kenya, employing over 15 million people.

The microfinance sector in Kenya has evolved significantly, with the government and various stakeholders playing a crucial role in its development. The establishment of the Microfinance Act of 2016 provided a regulatory framework for the operation of MFIs, enhancing their capacity to support MSMEs. Research by Otieno, Bwisa, and Kihoro (2012) highlights that microfinance has contributed to the growth of MSMEs in Kenya by providing affordable credit, financial training, and market linkages.

However, the impact of microfinance on MSME growth in Kenya is not uniform across different regions and sectors. For example, a study by Mwangi and Ouma (2012) shows that while microfinance has significantly improved the financial performance of MSMEs in urban areas, its impact in rural areas remains limited due to factors such as poor infrastructure, low financial literacy, and cultural barriers.

Marsabit County, located in Northern Kenya, presents unique challenges and opportunities for microfinance and MSME growth. A predominantly pastoralist economy, high levels of poverty, and limited access to financial services characterize the region. According to the Marsabit County Integrated Development Plan (2018-2022), the majority of the population relies on small-scale trading and livestock farming for their livelihoods.

Various actors, including government agencies, non-governmental organizations (NGOs), and community-based organizations, have implemented microfinance initiatives in Marsabit County. These initiatives aim to provide financial services to marginalized communities, particularly women and youth, to promote entrepreneurship

and economic development. Research by Ndubi, Muturi, and Thuo (2015) indicates that microfinance has had a positive impact on the growth of MSMEs in Marsabit, particularly in terms of increasing household income and improving access to basic needs. However, the study also highlights several challenges that limit the effectiveness of microfinance in Marsabit, such as low repayment rates, high levels of illiteracy, and cultural resistance to borrowing. These challenges underscore the need for tailored microfinance products and services that address the unique needs of the population in Marsabit County.

Specifically, for Marsabit County, microfinance has shown promise in supporting MSME growth, but its effectiveness is constrained by various challenges that need to be addressed through context-specific approaches.

This underscores the importance of tailored microfinance outcomes fulfilling the specific requirement of MSMEs hence the need for effective study on the microfinance financing approaches on the growth of micro, small and medium enterprises in Marsabit County.

1.1.1 Microfinance Institutions in Kenya

The evolution of microfinance in Kenya began in the early 1980s with organizations like the Kenya Rural Enterprise Program (K-Rep), which later transformed into a fully-fledged bank.

The formalization and regulation of Kenya's microfinance sector commenced with the Microfinance Act of 2006, which aimed to create a conducive environment for MFIs to operate. According to Omino (2005), this Act was pivotal in ensuring that MFIs adhered to certain standards, thereby protecting depositors and ensuring sector stability. This regulatory framework also facilitated the transformation of several large MFIs into Deposit-Taking Microfinance Institutions (DTMs), which could offer savings products in addition to loans.

Kenya's microfinance sector has been instrumental in enhancing financial inclusion, particularly among low-income households and small businesses. Ndungu (2010) highlights that MFIs have significantly reduced financial exclusion by offering tailored financial products to those traditionally underserved by mainstream banks. These products include microloans, savings accounts, and micro insurance, enabling small-scale entrepreneurs to invest in their businesses and foster economic growth.

The impact of microfinance on specific demographics, such as women and youth, has been well documented. Kashangaki, Wanjau, and Kibanga (2014) note that women constitute the majority of MFI clients in Kenya. Empowering women through access to credit has led to improved household incomes and positive spillover effects on education and health outcomes. Similarly, MFIs have provided young entrepreneurs with the capital they require for their trade, thereby addressing youth unemployment.

Despite these successes, Kenya's microfinance sector faces several challenges. One primary issue is the high cost of borrowing. Wainaina (2014) observes that MFIs' high interest rates often deter potential clients, particularly in rural areas. Additionally, inadequate financial literacy among borrowers has led to challenges in loan repayment, affecting the sustainability of MFIs.

Another challenge is the increasing competition from other financial service providers, including commercial banks and mobile money platforms like M-Pesa, Mshwari, Fuliza, and Hustlers Fund. Kihumba (2018) explains that the proliferation of mobile banking has introduced new dynamics in the financial sector, with more people opting for mobile loans due to their convenience and lower costs compared to traditional microfinance loans. This shift has pressured MFIs to be innovative and adaptive to changes in money markets.

The integration of digital technology into microfinance operations has revolutionized the sector. Digital financial services, such as mobile banking, have enabled MFIs to reach more clients at lower costs. Kamau (2019) highlights that the adoption of mobile banking by MFIs has enhanced service delivery, reduced operational costs, and expanded outreach, particularly in remote areas. This digital transformation has been essential in driving the growth of Kenya's microfinance sector.

In Marsabit County, Northern Kenya, five commercial banks operate: KCB, Equity Bank, Cooperative Bank, First Community, and Post Bank. Additionally, there are two microfinance institutions, Kenya Women Finance Trust (KWFT) and Equatorial Debt Solutions, along with three major deposit taking Savings and Credit Cooperative Organizations (SACCOs)—Marsabit Teachers SACCO, Solution SACCO, and Transnational SACCO—as well as other non-deposit taking SACCOs and unregulated financial intermediaries such as moneylenders (shylocks).

1.1.2 Micro, Small, and Medium Enterprises (MSMEs) in Kenya.

MSMEs are a cornerstone of Kenya's economy and significantly contribute to employment, innovation, and economic development. They account for approximately 98% of all businesses in the country and employ about 15 million people, representing around 80% of total non-agricultural employment.

The sector is vital for economic resilience, particularly in creating job opportunities and reducing poverty. Bowen, Morara, and Mureithi (2009) emphasize that MSMEs are not only significant for job creation but also for fostering innovation and promoting regional development.

Despite their importance, Kenyan MSMEs meet much provocation that limits their expansion and sustainability, among availability of funds, regulatory barriers, and not leaving behind inadequate infrastructure.

One of the most significant challenges is access to finance. Otieno, Bwisa, and Kihoro (2012) note that many MSMEs in Kenya struggle to obtain financing from formal financial institutions because of the stringent security needed, the exorbitant rate of interest, and the lack of financial literacy. This lack of lending access severely hinders the capacity of these enterprises to grow, innovate, and improve productivity.

Regulatory and taxation challenges also pose significant obstacles. Muriithi (2017) observes that MSMEs in Kenya often face a complex and burdensome regulatory environment, including multiple licenses, permits, and high tax rates. These challenges are exacerbated by corruption and bureaucratic inefficiencies, further hindering the ease of doing business.

Inadequate infrastructure and limited access to modern technology are additional barriers. Wanjiku and Njanja (2016) highlight that poor infrastructure, especially in rural areas, restricts MSMEs' ability to reach broader markets and operate efficiently. Furthermore, the lack of access to and adoption of modern technology reduces competitiveness and innovation among Kenyan MSMEs.

The Kenyan government recognizes the importance of MSMEs and has introduced various policies and initiatives to support this sector. The Micro and Small Enterprises Act of 2012 established the Micro and Small Enterprise Authority (MSEA), which is tasked with promoting MSME development through training, financial support, and advocacy.

Specific programs targeting youth and women, such as the Youth Enterprise Development Fund (YEDF) and the Women Enterprise Fund (WEF), have been implemented to enhance these groups' capacity to engage in entrepreneurial activities. Wachira and Anyieni (2018) highlight that such initiatives have been relatively

successful in increasing access to finance and promoting entrepreneurship among disadvantaged groups.

Moreover, the Kenyan government has promoted innovation and technology adoption through initiatives like the Ajira Digital Program. Mungai and Ogot (2017) argue that such programs are essential for enhancing the global competitiveness of Kenyan MSMEs. The outlook for MSMEs in Kenya is promising, given the growing recognition of their importance in economic development. However, realizing their full potential depends on addressing existing challenges. Kithae, Gakure, and Munyao (2013) suggest that improved access to finance, better infrastructure, and a more favorable regulatory environment could significantly increase MSMEs' contribution to the economy. Additionally, the ongoing digital transformation presents new opportunities for MSMEs to innovate, access new markets, and improve operational efficiency.

In Marsabit County, there are approximately 22,000 licensed MSMEs and 37,900 unlicensed MSMEs. The majority of unlicensed MSMEs operate informally with minimal regulation.

Finally, MSMEs are integral to Kenya's economic landscape, contributing significantly to employment and economic development. In regions like Marsabit County, tailored microfinance initiatives and context-specific approaches are essential to overcome unique local challenges and fully leverage the potential of MSMEs for economic development.

1.2 Statement of the Problem

The problem statement of this study revolves around the persistent issue of limited access to financial resources, which poses a significant barrier to the growth and development of MSMEs, particularly in economically marginalized regions like Marsabit County,

Kenya. While microfinance institutions (MFIs) are often viewed as key players in addressing this financing gap, the actual impact of their approaches on MSMEs in such areas remains uncertain. Despite offering financial services like micro-loans and savings products, the effectiveness of MFIs in fostering long-term MSME growth, especially in the context of Marsabit's unique socio-economic and cultural dynamics, is not well-established. The region's challenges, including high poverty, poor infrastructure, and a reliance on pastoralism, further complicate the relationship between microfinance and MSME success. Therefore, this study aims to investigate microfinance approaches that have significantly contributed to the growth of MSMEs in Marsabit County.

Micro, Small, and Medium Enterprises (MSMEs) play a significant role in driving economic growth, employment, and poverty alleviation, especially in developing regions. In Kenya, MSMEs contribute over 30% of the GDP and employ more than 86% of the workforce, yet they face numerous structural, economic, and cultural barriers that inhibit their full potential (Mwangi & Bwisa, 2020). This problem is particularly evident in Marsabit County, a remote and marginalized area where the unique socioeconomic context compounds challenges like limited access to finance, inadequate infrastructure, regulatory complexities, low financial literacy, and limited digital integration.

Access to finance remains one of the greatest obstacles for MSMEs in Marsabit County. Empirical studies highlight that limited credit access is often exacerbated by stringent collateral requirements and high interest rates, with MSMEs in rural regions facing higher credit constraints (Kiplagat, 2021). MSMEs globally, and especially in developing areas, face substantial financing gaps, limiting their ability to scale and innovate. For instance, over 45% of Kenyan MSMEs report financial limitations as the primary hindrance to their growth (Otieno et al., 2019), with the issue being more severe in rural and underbanked areas. Additionally, regulatory complexity, including high tax

rates, licensing requirements, and bureaucratic processes, poses significant barriers for MSMEs in Kenya, affecting both urban and rural areas. According to Muriithi (2017), these regulatory hurdles not only inflate operational costs but also act as disincentives to formalize businesses. Studies on MSMEs in Marsabit County indicate that local enterprises are disproportionately burdened by high tax compliance costs and complicated regulatory environments, which discourage entrepreneurship and growth (Kariuki & Kimutai, 2021).

Infrastructure deficits, including unreliable roads, limited electricity, and poor internet connectivity, hinder MSMEs' access to markets, resources, and clients in Marsabit. Wanjiku and Njanja (2016) emphasize that poor infrastructure raises business operational costs, limiting their market reach and competitiveness. Further evidence by Abwao et al. (2022) supports that in remote counties, insufficient infrastructure not only isolates businesses but also restricts them from accessing critical services, making it challenging for MSMEs to thrive sustainably. Compounding these issues, the low level of financial literacy among MSME owners in rural Kenya limits their ability to manage finances, resulting in high default rates and poor financial decision-making. Lusardi and Mitchell (2014) emphasize the importance of financial literacy in economic decision-making, while recent studies, such as those by Ndubi et al. (2022), identify a direct correlation between financial literacy and MSME performance.

In Marsabit, inadequate financial knowledge among MSME owners has been linked to challenges in loan management and limited business expansion. Microfinance has been instrumental in extending financial services to underbanked areas, providing a lifeline to MSMEs in regions without formal banking infrastructure. More recently, Banerjee et al. (2015) argue that while MFIs support short-term financial stability, their impact on long-term growth varies based on regional socioeconomic factors. With the integration of

mobile banking, services like M-Pesa have revolutionized financial access for rural Kenyan communities, facilitating payments, savings, and credit services easier.

In Marsabit County, the unique cultural and socioeconomic context, including traditional pastoralist practices, shapes local economic behaviors and attitudes toward formal finance and entrepreneurship. Furthermore, Omondi and Muturi (2023) highlight how cultural norms in Northern Kenya can limit participation in microfinance programs, thereby constraining business expansion. Digital transformation has proven pivotal in expanding MSME capabilities, particularly in financial service delivery. Kamau (2019) emphasizes the role of digital platforms in enhancing MFI reach in remote areas by reducing operational costs and logistical constraints.

Digital integration, therefore, has the potential to address significant barriers in areas like Marsabit, where logistical challenges often limit traditional banking services. The adoption of mobile banking and other digital tools can expand MSME access to financial resources, market information, and digital payment solutions, fostering inclusive growth (Mboya, 2021). In summary, MSMEs in Marsabit County face multifaceted challenges that hinder their growth and impact. Addressing these barriers will require targeted interventions, including improved financial access, regulatory reforms, infrastructure development, financial literacy programs, and digital integration to build a more enabling environment for MSMEs in this region. Current scholarly evidence underscores the need for these interventions to not only expand MSME capabilities but also contribute to sustainable economic development in under-resourced and underserved communities.

1.3. Purpose of the Study

The purpose of this study is to assess the influence of microfinance financing approaches on the growth of MSMEs in Marsabit County, Kenya.

1.4 Objective of the study

The specific objectives of the study were as follows:

- i. To assess the effects of microfinance loan accessibility on the growth of MSMEs in Marsabit County
- ii. To assess how interest rates offered by microfinance institutions impact the growth of MSMEs in Marsabit County
- iii. To examine the influence of financial literacy training on the growth of MSMEs in Marsabit County
- iv. To determine the effect of loan repayment conditions on the operational growth of MSMEs in Marsabit County

1.5 Research Questions

The following research questions guided the study:

- i. How does access to microfinance loans influence business growth for MSMEs in Marsabit?
- ii. What is the impact of microfinance interest rates on the financial sustainability and profitability of MSMEs?
- iii. What is the effect of microfinance training and capacity-building programs on the overall development and competitiveness of MSMEs?
- iv. How do loan repayment conditions, such as repayment periods and penalties, affect the operational growth and stability of MSMEs?

1.6 Significance of the study

The significance of this study lies in its potential to enhance the growth of Micro, Small, and Medium Enterprises (MSMEs) in Marsabit County by examining how microfinance

financing approaches such as loan accessibility, interest rates, financial literacy training, and repayment conditions impact these businesses. By understanding these factors, the study provides insights that could guide policymakers, microfinance institutions, and development partners in formulating strategies to improve MSME growth and sustainability. Additionally, the study offers empirical evidence that can inform future studies on microfinance's role in economic development, particularly in underserved regions. The research findings can also contribute to the academic discourse on the effectiveness of microfinance interventions, financial literacy, and the factors influencing MSME growth. By identifying gaps in the current literature and presenting data-driven insights, this study serves as a foundational resource for scholars exploring similar topics, thereby enhancing knowledge and guiding future research endeavors in the field of entrepreneurship and development finance.

1.7 Scope of the Study

The study is centered on Marsabit County, one of the most geographically expansive and economically challenged regions in Kenya. It will examine various sub regions within the county, such as Marsabit Town and Moyale, to gather dynamics between microfinance and MSME growth in both urban and rural contexts. The primary objective is to assess the influence of MFI financing approaches on the growth of MSMEs within the county. Marsabit consistently ranks among the counties with the highest poverty levels.

This study aims to address the underperformance of MSMEs in Marsabit County by evaluating the effectiveness of current MFI financing approaches. The findings will help identify actionable solutions to boost job creation, promote regional economic balance and ensure more equitable income distribution for residents of the county.

This research will focus on the period from prior to 2018 up to 2024, allowing for analysis of trends and developments in microfinance and MSME growth for nearly a decade. This timeframe will provide insights into the effects of microfinance interventions on the sustainability and expansion of MSMEs.

1.8 Limitations of the study

The research focused on small and medium-sized businesses operating for five years, locking out MSMEs working for shorter periods. It concentrates on studying the relationship between MFI approaches and the growth of MSMEs.

To address the study's limitation, future research could consider including MSMEs with less than five years of operation and those that have exited due to bankruptcy, offering insights into early-stage challenges and failures.

Broadening the scope to cover alternative financing sources, such as banks and venture capital, would provide a more complete picture.

1.9 Assumptions of the Study

Assumptions are as follows:

- i. Microfinance institutions (MFIs) did not plan to transform into formal, profit-oriented financial institutions during the study period.
- ii. The country would maintain political and economic stability throughout the study.
- iii. Respondents would offer truthful and accurate information regarding their operations.

1.10 Operational definitions of key terms

Credit Allocation: The process by which lenders decide how to distribute loans or credit to different borrowers, assessing their creditworthiness and determining which sectors or individuals should receive funding.

Financial Performance: An assessment of how well a company or organization manages its financial resources, evaluating key metrics like revenue, expenses, and profits to gauge its financial health and success.

Financing: The provision of funds to support business operations, investments, or purchases, typically through loans, investments, or internal resources, to help organizations or individuals meet their financial objectives.

Growth: Refers to a rise in value, often weighed by higher revenues, profits, market share, or customer base over time.

Loan Repayment: The act of returning the borrowed principal and interest to the lender, usually through scheduled payments over a defined period.

Management Training: Educational programs designed to enhance the leadership, strategic, and decision-making skills of managers and leaders in organizations.

Micro, Small, and Medium Enterprises (MSMEs): Businesses categorized by their size, usually based on factors like employee count or revenue, that contribute significantly to economic development, particularly in developing countries

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section reviews theories, which are relevant concerning effects of microfinance financing approaches and growth of MSME. Specifically, the chapter reviews the specific objectives.

2.1 Theoretical Framework

Microfinance has emerged as a key instrument in encouraging the enlargement of MSMEs across the globe. Various microfinance models of theories to be been applied to understand and enhance influence microfinance has on MSMEs' advancement and sustainability. The literature review explores the effects of microfinance financing approaches on MSMEs through the lens of the Financial Intermediation Theory, Microcredit Theory, the Resource-Based View of Firms, and empirical evidence.

2.1.1 Financial Intermediation Theory

The theory is championed by scholars like Douglas Diamond, David Leland, and Robert Pyle, offers key insights into the critical role that financial intermediary—such as banks—play in modern economies. This theory, shaped through significant academic contributions, emphasizes how these intermediaries serve as vital connections between savers and borrowers, making the financial system more efficient. Without these intermediaries, lending and borrowing would become much more challenging due to issues like information asymmetry, high transaction costs, and the complexity of managing risk.

Douglas Diamond stands out as a key figure in this theory. In his 1984 work, Diamond highlights how banks and other intermediaries reduce the costs associated with monitoring borrowers. Monitoring is essential because it ensures that borrowers are more

likely to repay loans, thereby reducing the risk of default. By pooling the resources of many savers, intermediaries can perform this monitoring on a large scale, a feat individual lender would struggle to achieve.

Diamond also underscores the role intermediaries play in risk sharing. Banks, by gathering deposits from numerous savers, can distribute the risk across many borrowers. This diversification helps reduce the potential for significant losses due to one borrower's default, thus enhancing overall financial stability.

In 1977, David Leland and Robert Pyle made further contributions to the theory by focusing on the issue of information asymmetry. In the context of lending, savers often lack the necessary expertise to assess a borrower's creditworthiness, leading to inefficiencies. Leland and Pyle argued that intermediaries; by specializing in borrower evaluation, help address this imbalance. For example, banks develop sophisticated methods to assess financial health, leading to better lending decisions. This results in greater certainty for savers and a more efficient allocation of resources.

Financial intermediaries also help reduce transaction costs. By creating a centralized platform for borrowing and lending, banks make the entire process more cost-effective. Additionally, they provide liquidity and maturity transformation, allowing savers to make short-term deposits while enabling banks to extend long-term loans. This balance is key to maintaining a stable financial system.

Managing endager being another role intermediaries possess. By pooling deposits from multiple savers and lending to a variety of borrowers, intermediaries are better positioned to spread risk than individual savers would be. Moreover, they offer financial products like insurance and derivatives to help individuals and businesses manage specific risks in a more targeted manner.

Numerous empirical studies support the claims made by the Financial Intermediation Theory. By improving access to finance, intermediaries foster business growth and provide individuals with more efficient financial services. Similarly, Levine (2020) highlights how intermediaries help ensure economic stability by promoting risk-sharing and efficient resource allocation, which helps economies weather financial shocks and reduces systemic risks.

Ultimately, the Financial Intermediation Theory emphasizes that financial markets are inherently imperfect, and intermediaries are essential in overcoming these imperfections. Without intermediaries, savers will find it hard to assess the dependability and trustworthiness of borrowers and the costs of direct lending would be prohibitive. Moreover, savers are often unwilling to take on the risks associated with direct lending without the assurance of risk management that intermediaries provide.

By addressing these challenges, financial intermediaries enable a more efficient allocation of capital, which is crucial for driving economic growth and stability. The contributions of scholars like Diamond, Leland, and Pyle show why intermediaries are so crucial in maintaining a healthy and stable financial system. Their ability allows markets to function more smoothly, resulting in stronger economic growth and greater financial stability.

In summary, the Financial Intermediation Theory underscores the indispensable role of intermediaries in modern economies. Through effective risk management, the reduction of information asymmetry, and lower transaction costs, these intermediaries ensure that financial markets operate efficiently, contributing to economic growth and stability across the globe.

2.1.2 Microcredit Theory

Microcredit Theory, introduced by Muhammad Yunus through the creation of comprehensive bank model known as in the 1973, revolves around the concept that offering small, unsecured loans to low-income individuals can empower them to pursue entrepreneurial endeavors, ultimately reducing poverty and driving social and economic progress. The core innovation of this theory is its recognition that traditional banks often exclude the poor due to the lack of collateral or credit history. Microcredit institutions, however, operate on the belief that even those with limited financial means are creditworthy when supported with the right framework, offering them manageable, small-scale loans that open up opportunities for sustainable income generation.

A key idea behind microcredit is that access to financial resources is crucial for breaking the cycle of poverty. Conventional banks frequently refuse loans to the poor due to perceived high risks and lack of collateral, but microcredit flips this narrative by empowering individuals, especially women, to start or expand small businesses, fostering self-sufficiency, job creation, and economic inclusion for those traditionally marginalized.

The effects of microcredit go beyond just financial improvements. It seeks to drive broader societal changes by enhancing education, health outcomes, and community well-being. Additionally, microcredit places special emphasis on addressing gender inequality by focusing on the empowerment of women, who are often more vulnerable to the impacts of poverty.

Although microcredit has had notable successes, recent studies reveal a more complex picture of its effectiveness. For example, Banerjee, Karlan, and Zinman (2015) conducted randomized controlled trials across different countries and found that while microcredit increases access to financial services and helps stabilize incomes, it has a more modest

impact on significant business growth or substantial poverty reduction than originally anticipated. This suggests that the transformational power of microcredit alone might be more limited than early expectations suggested.

In contrast, Hermes and Lensink (2018) offer a more optimistic view, showing that microcredit, especially when combined with other financial tools like savings and insurance, can improve household welfare and enhance women's empowerment. They argue that microcredit is most effective when it forms part of a broader approach to financial inclusion and social development.

Despite its potential, microcredit has faced criticisms. Some argue that it can lead to over-indebtedness among borrowers, especially if loans are used for personal consumption rather than productive investments. Others are concerned about the commercialization of microfinance institutions, which may lead to high interest rates and a shift away from the original social mission. Additionally, evidence suggests that while microcredit improves financial access and stabilizes incomes, its impact on long-term poverty reduction is less certain. This has led to calls for complementary interventions, such as training, better market access, and additional social services, to maximize its effectiveness.

In summary, Microcredit Theory emphasizes the potential of small loans to transform the lives of marginalized individuals, but its real impact varies depending on how it is implemented and whether it is integrated with other support services and financial tools

2.1.3 Resource-Based View (RBV) of Firms

It was first proposed by Wernerfelt in 1984 and further expanded by Barney in 1991, resonates strongly with me as it highlights how internal resources can be the true engine behind a company's success. According to this theory, it is not just about competing in

the same marketplace; it is about using the unique resources you have to stand out and outperform others.

What really speaks to me is the idea that each company is different—no two firms are alike because they each have their own combination of assets. This explains why some companies can thrive even in the most competitive industries while others struggle.

Those that can leverage rare and valuable resources, especially ones that are hard to imitate or substitute, are much more likely to gain an edge and hold onto it over time.

A key part of RBV is the concept of resource immobility. Some assets—whether it is groundbreaking technology, a trusted brand, or even a strong corporate culture—just cannot be easily transferred or copied by others. This is what helps certain firms maintain their advantage in the end.

One of the most interesting frameworks within RBV is the VRIN model, which stands for:

Valuable: Does the resource help the company tap into opportunities or counteract threats?

Rare: Is it something competitors do not have easy access to?

Inimitable: Is it difficult for others to replicate?

Non-substitutable: Are there no equivalent alternatives that could replace this resource?

Not every asset meets these criteria, but the ones that do are the real game-changers for a company. Whether it's innovative technology, a powerful brand, skilled employees, or standout business practices, these elements allow companies to stay ahead.

Research backs this up, too. Newbert (2018) showed that firms focusing on building unique resources tend to perform better, while Sirmon, Hitt, and Ireland (2020) emphasize that companies that can manage and adapt their resources, especially in fast-changing markets, are more likely to sustain success.

Ultimately, RBV is a reminder of how important it is for firms to nurture and protect the unique assets they have. It is not just about what is happening outside the company—it is about what you have internally and how you use it.

2.2 Empirical Review

The three theories—Financial Intermediation Theory, Microcredit Theory, and the Resource-Based View of Firms—offer comprehensive models for understanding various aspects of both financial and strategic management. Each of these theories has been extensively backed by empirical studies, although their effectiveness and relevance may differ depending on specific situations. By further exploring and integrating these frameworks, I can gain valuable insights for my own academic research, as well as practical applications in finance and business management.

When considering microfinance approaches, this encompasses the various methods that microfinance institutions use to provide financial services to MSMEs. These approaches involve aspects such as loan offerings, credit allocation, interest rate management, and even training programs for business management.

Regarding the growth of MSMEs, it is important to focus on different dimensions, including financial performance (such as revenue and profitability), growth in capital, operational expansion (in terms of workforce size and market reach), and long-term sustainability.

2.2.1 Microfinance Loan Accessibility and Growth of MSMEs

Access to microfinance loans is essential for the growth and sustainability of Micro, Small, and Medium Enterprises (MSMEs), especially in emerging economies. Recent research consistently highlights the significant impact of loan accessibility on MSME

development. For instance, Okhankhuele et al. (2023) found that in Akure Metropolis, Nigeria, access to microfinance loans positively influenced the income and profitability of MSMEs. The study noted that sufficient financial support enabled businesses to scale their operations and boost productivity. Similarly, Alfaizi and Azizah (2024) emphasized that in Malang, low-interest loans enhanced MSMEs' production capacities, illustrating the critical role of favorable loan terms in fostering growth.

In Kenya, Kisaka and Mwewa (2014) examined the link between loan accessibility and MSME expansion in Machakos County. Their findings revealed that easier access to credit facilitated capital investments and operational growth. Wamugo and Munguti (2020) also demonstrated that credit accessibility had a notable effect on the financial performance of MSMEs in Kenya, with many enterprises reporting increased profits and growth after receiving microfinance services. These studies collectively underscore the pivotal role of affordable and accessible financial services in driving MSME success, enabling investments in technology, inventory, and human capital in developing markets.

2.2.2 Microfinance Interest Rates and the growth of MSMEs

Interest rates charged by microfinance institutions play a crucial role in determining the sustainability of MSMEs. James et al. (2023) explored how the entrepreneurial traits of MSME owners affected their access to microfinance, particularly interest rates in Nigeria. The study found that lower interest rates significantly enhanced businesses' ability to sustain stable operations, as higher rates often lead to financial pressures. This is consistent with findings from Okello Bongomin et al. (2024), who emphasized that affordable interest rates are vital for MSMEs' survival during economic downturns, especially in the post-pandemic environment.

Interest rates are also central to the financial health of MSMEs, as demonstrated by Kanyare and Mungai (2017) in their study of retail SMEs in Wajir County, Kenya. Their

research indicated that high interest rates create financial challenges for MSMEs, while lower rates enable better cash flow management and long-term sustainability. Similarly, Morobe (2015) confirmed that reducing interest rates on microfinance loans leads to improved financial outcomes for MSMEs in Nairobi County, as it allows them to reinvest profits into their businesses, ensuring ongoing operations and growth.

2.2.3 Loan Repayment Conditions and growth of MSMEs

Loan repayment terms, including the length and flexibility of repayment schedules, have a profound impact on the operational stability of MSMEs. Research by Valdiansyah and Widiyati (2024) revealed that MSMEs benefiting from flexible repayment options showed stronger growth compared to those bound by more rigid terms. Their study, conducted in Indonesia, found that businesses with extended repayment periods could reinvest profits into their operations, leading to increased growth and greater resilience against financial shocks.

Similarly, loan repayment conditions—especially those that are flexible—are crucial in promoting MSME growth. Kidali's (2020) study in Kenya demonstrated that flexible repayment schedules enabled MSMEs to direct more funds toward business operations, fostering both growth and stability. Conversely, strict repayment terms can hinder growth by diverting essential resources towards debt repayment. Ochido (2016) also highlighted that loan terms directly influence the ability of MSMEs in Nairobi County to expand, with more favorable conditions encouraging business scaling and improved profitability.

2.2.4 Financial literacy training and the growth of MSMEs

Non-financial services offered by microfinance institutions, such as training and capacity-building programs, play a crucial role in expanding micro, small, and medium enterprises (MSMEs). Research by Ferdyan and Hartawan (2024) examined the impact of these programs in Indonesia and discovered that MSMEs receiving training in

financial literacy and business management were more successful than those relying solely on loans. This underscores the significance of a comprehensive support approach, where microfinance institutions offer funding and equip entrepreneurs with critical skills to manage and expand their businesses.

Moreover, Mbithe (2013) found that training and capacity-building programs provided by microfinance institutions in Machakos County significantly contributed to the growth of small and medium enterprises. These programs enhanced financial literacy and business management abilities, leading to improved financial decision-making and business performance. Similarly, Wanjau (2013) concluded that managerial training, in conjunction with microfinance loans, boosted the operational efficiency and profitability of MSMEs in Nakuru Municipality, Kenya

2.3 Growth of Micro, Small, and Medium Enterprises

The growth of Micro, Small, and Medium Enterprises (MSMEs) has seen notable trends in profitability, labor size, and market expansion, particularly in recent years.

Profitability: Recent research has focused extensively on the profitability of MSMEs, with digitalization emerging as a significant factor in enhancing productivity and profitability. According to the OECD (2023), MSMEs in developed nations have particularly benefited from the adoption of digital tools, which streamline operations and improve efficiency. A study by Sravani, Karthika, and Manasa (2023) examining SME lending in India emphasizes that access to finance remains a crucial factor in determining profitability, especially in developing regions. The ability to secure loans affects not only immediate liquidity but also long-term growth prospects. This aligns with global findings that MSMEs in emerging markets face greater challenges in accessing sufficient funding compared to those in advanced economies.

In Kenya, the profitability of MSMEs is closely tied to access to credit and financial services. Kidali (2020) notes that many MSMEs in the country rely on retained earnings for expansion, reflecting a gap in access to external financing. This lack of financial resources limits growth and profitability, particularly for businesses in rural and underserved areas. Kamaru (2023) also underscores the importance of entrepreneurial and business management skills, which are vital for MSMEs to generate profits and manage their financial resources effectively. Skills development is therefore essential for improving financial performance and enabling businesses to thrive in competitive markets

Labor Size: MSMEs play a crucial role in job creation, particularly in developing economies. Research indicates that MSMEs account for up to 80% of employment in low-income countries. In sub-Saharan Africa, Manasa (2023) highlights that micro-enterprises dominate the labor market, especially in industries such as manufacturing. Their flexibility allows them to quickly adapt to changes in the labor market, making them resilient during economic downturns. Additionally, MSMEs contribute to inclusive growth by providing employment opportunities to marginalized groups, including women and youth.

In Kenya, MSMEs are essential to job creation, employing a large share of the workforce, particularly in the informal sector. Ng'ang'a (2013) reports that these enterprises, due to their labor-intensive nature, provide jobs for approximately 2.7 million people in the country. MSMEs serve as a critical buffer, absorbing workers that larger companies may not be able to accommodate. The study further emphasizes that expanding MSMEs is key to sustaining job growth and reducing unemployment rates.

Market Expansion: Market expansion for MSMEs is increasingly influenced by digital platforms and their involvement in global value chains. Regional integration also plays a

crucial role, as seen with the rise of intra-regional trade through initiatives like the African Continental Free Trade Area (AfCFTA). According to OECD (2022), MSMEs require policy support to overcome regulatory hurdles and market entry challenges, particularly when accessing international markets. Research shows that MSMEs participating in global value chains often experience better growth prospects due to exposure to larger markets and advanced technologies. However, their ability to compete on an international scale is limited by factors such as inadequate infrastructure and complex trade regulations.

The expansion of MSMEs into both local and international markets is also influenced by factors like access to capital, digital integration, and entrepreneurial networks. Osano (2019) examines the drivers behind the global expansion of Kenyan SMEs, identifying these elements as critical to success, while also noting that regulatory challenges and poor infrastructure continue to constrain their international reach. Additionally, Kimathi (2020) underscores the importance of entrepreneurial marketing approaches, showing that MSMEs that adopt innovative marketing techniques achieve greater sales, profitability, and market share.

Overall, while MSMEs are growing in terms of profitability, labor contribution, and market reach, their development is uneven across regions and sectors, necessitating targeted policy interventions to address persistent challenges (SpringerLink, OECD, and SpringerOpen).

2.4 Conceptual Framework

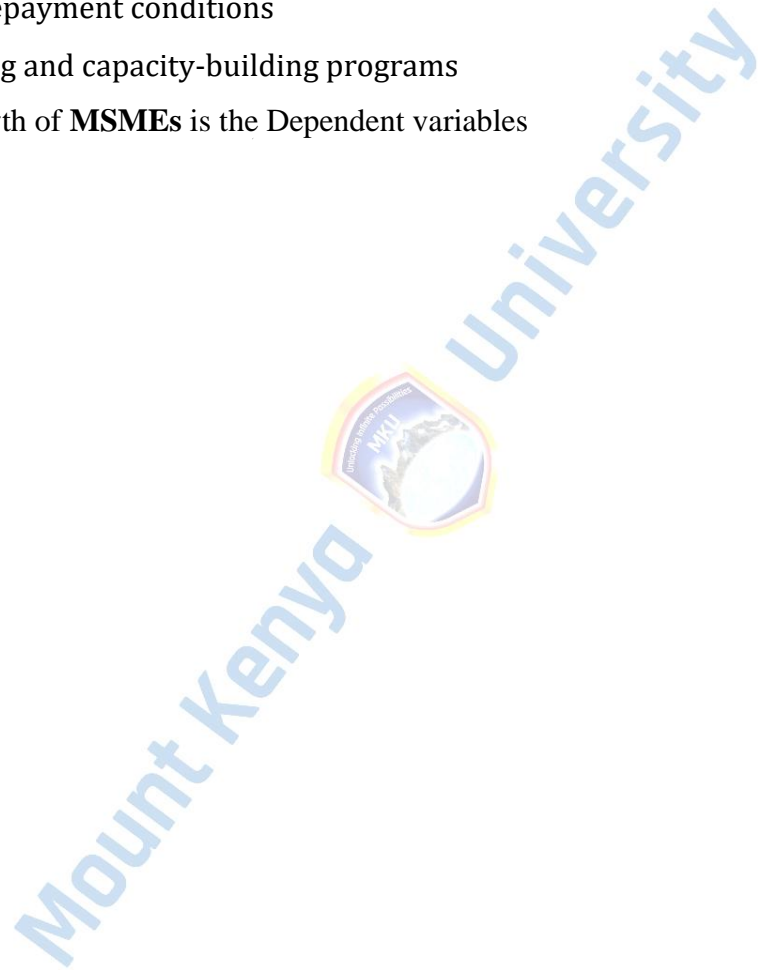
A conceptual framework provides a structured approach to understanding the relationship between microfinance financing approaches and the growth of Micro, Small, and Medium Enterprises (MSMEs) in Marsabit County. This framework integrates

various theories and empirical findings from recent studies, illustrating how different microfinance financing approaches can influence MSME growth. It is a framework that illustrates the independent variable and the dependent variable of the study.

Independent variables (**Microfinance Financing Approaches**) are: -

- Loan Accessibility
- Interest rate
- Loan repayment conditions
- Training and capacity-building programs

While the growth of **MSMEs** is the Dependent variables



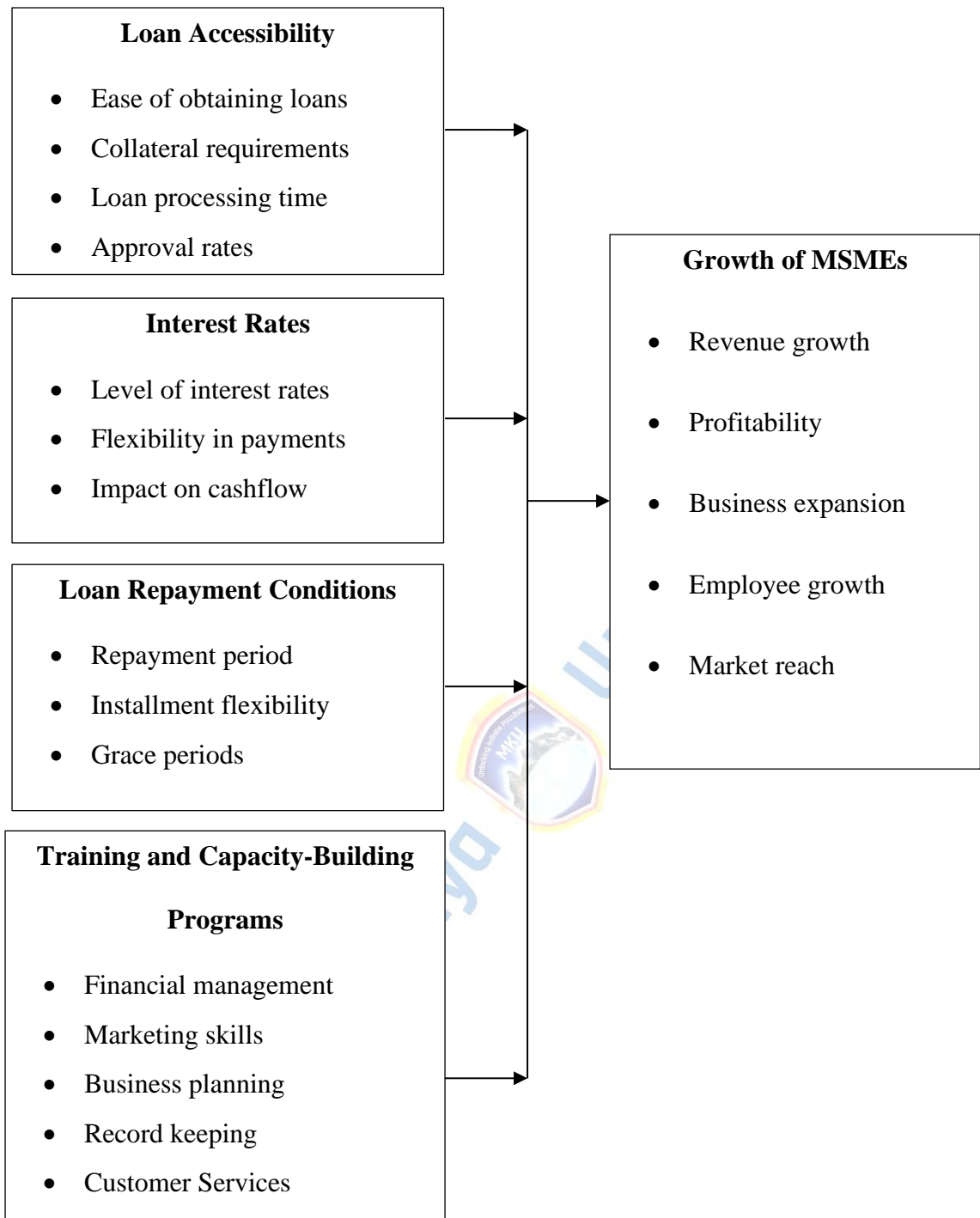


Figure 1: Conceptual framework

Source: Researcher (2024)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents approaches to be integrated by research analyst during study. It contains a design plan for the collection, estimation, and examination of data.

3.1 Research Design

Research design refers to the framework or blueprint for conducting a research study, guiding the collection, measurement, and analysis of data. It encompasses various approaches and methods tailored to answer specific research questions effectively.

A correlational research design is to be employed in this study to analyze the relationship between microfinance financing approaches and the growth of MSMEs. Correlational research is a non-experimental method that assesses the degree and direction of association between two or more variables without manipulating them (Creswell, 2017). This design is particularly useful when the goal is to explore potential relationships and make predictions based on observed associations, rather than to establish causal relationships.

The rationale for using a correlational design in this study stems from the need to understand how different microfinance approaches—such as access to credit, savings products, and financial training—relate to the growth metrics of MSMEs, such as revenue growth, employment creation, and business expansion. By employing this design, the study aims to uncover patterns and trends that could inform more effective microfinance policies and practices tailored to the unique context of Marsabit County.

3.2 Location of Study

Marsabit is known as dry-land county, with a total area of 70,961.2 sq. km is located in the upper north eastern Kenya. It borders Ethiopia to the north, borders Lake Turkana to the west, Samburu County to the south, and Wajir and Isiolo counties to the east. It is located approximately 532 Kilometers away from Nairobi. The major economic activities of the county is trade and livestock keeping.

3.3 Target Population

Population alludes to a set of persons of interest to the researcher. As per Mugenda & Mugenda (2011), the population encompasses all the units from which a researcher intends to select a sample for investigation. The targeted population in the study is 22,000 licensed MSMEs data for Marsabit County as provided by KNBS 2021.

Table 1: MSMEs Data for Marsabit County

TOTAL	Licensed			unlicensed
	Micro %	Small %	Medium %	
22,000	92.2%	5.1%	2.7%	37,900

Source: KNBS (2021)

3.4 Sample Size and Sampling Procedure

Selecting the right sample size and sampling technique is essential for reliable data collection. Recent studies highlight stratified, systematic, and purposive sampling as effective methods for ensuring representativeness and depth, especially in diverse or finite populations (Etikan & Bala, 2017; Palinkas et al., 2015; Valdivieso-Gutiérrez et al., 2022).

3.4.1 Sampling Frame

It is a representation of all the elements in the population from which a sample will be drawn (Etikan & Bala, 2017). The sampling frame is essential for the validity of the study's findings (Taherdoost, 2017).

3.4.2 Sampling Techniques

Stratified random sampling was employed to ensure that each category of MSMEs was adequately represented in the sample. Stratified sampling is particularly effective when the population is heterogeneous and consists of distinct subgroups (strata) that may exhibit different behaviors or characteristics (Acharya et al., 2013). This technique enhances more detailed analysis of each subgroup.

3.4.3 Sample Size

Recent studies and statistics guidelines provide valuable frameworks for determining an appropriate sample size for a finite population. Cochran's formula for sample size determination is frequently cited and serves as a foundation for studies involving limited populations, allowing researchers to calculate an adequate sample size based on population size, confidence level, and margin of error (Taherdoost, 2017). This study used Cochran's formula for sample size calculation with finite population correction. Using this calculation aligns with research methodologies highlighted in recent works, such as Valdivieso-Gutiérrez et al. (2022), who emphasize the importance of representative sampling in small to medium-scale population studies.

The Cochran's formula is as follows:

$$n = \frac{N \cdot Z^2 \cdot p \cdot (1 - p)}{(N - 1) \cdot e^2 + Z^2 \cdot p \cdot (1 - p)}$$

Where:

n = sample size

N = population size

Z = Z-score (based on the desired confidence level, e.g., 1.96 for 95%)

p = estimated proportion (typically 0.5 for maximum variability)

e = margin of error (e.g., 0.05 for 5%)

The calculated sample size for a population of 22,000, with a 95% confidence level and a 5% margin of error, is approximately **378**

Table 2: Sample Size

MSME Category	Percentage	Sample Size
Crop value chain	30%	113
Livestock value chain	20%	76
Milk value chain	19%	72
Fish value chain	11%	42
Honey value chain	9%	34
Gum and resin value chain	3%	11
Juakali artisan	8%	30
Total	100%	378

Source: WFP data of youths in MSMEs value chain in Marsabit County (2024)

3.5 Data Collection Instruments

Data collection is a critical component of any research study, as it involves gathering information relevant to the research objectives. This study employed hand-collected primary data. The data for this study gathered using a questionnaire. Primary data collection allows researchers to gather specific, relevant data directly aligned with the research objectives (Hox & Boeije, 2016). This method is crucial when the study's focus is on capturing the experiences, perceptions, or behaviors of a particular group, such as the MSMEs in Marsabit County.

The use of questionnaires as a primary data collection tool is widely recognized for its efficiency in gathering large amounts of data within a relatively short time-frame (Rowley, 2014). Questionnaires are particularly advantageous when the study requires

standardized data that can be easily quantified and analyzed. According to Rahi (2017), questionnaires provide a structured way to collect data, enabling the researcher to gather information on a wide range of variables, such as business growth metrics and the utilization of microfinance services.

The first segment contained general information, the second segment questions were on interest rates, the third segment questions were on credit allocation efficiency, the fourth segment questions were on loan repayment, and the fifth was on management training as per the specific objectives.

3.6 Validity and Reliability of Research Instruments

Ensuring the validity and reliability of the research instruments is critical for the accuracy and credibility of the study's findings.

Validity: The validity of the research instruments is established through a pilot study. The questionnaire will be pre-tested on a small sample of MSMEs that are not part of the main study. This will help identify any ambiguities or biases in the questions, allowing for necessary revisions. Consulting experts in microfinance and MSME development to review the questionnaire and provide feedback on its relevance and comprehensiveness will ensure content validity.

Reliability: Reliability refers to the consistency of the measurement instruments (Bryman & Bell, 2015). The reliability of the questionnaire will be assessed using Cronbach's alpha, a statistical test that measures internal consistency. A Cronbach's alpha value of 0.7 or higher is to be considered acceptable for this study, indicating that the questionnaire items reliably measure the same underlying concept.

The finalization of the questionnaires will be preceded by a pilot study designed to assess the reliability and validity of the proposed measurement constructs. This pilot phase will

involve a random selection of 10 respondents who will be excluded from the actual data collection process. The pilot aim is to evaluate the internal consistency of the constructs and ensure the face validity of the instruments. Internal consistency refers to the degree to which items on a scale measure the same underlying construct, and it is a key component of instrument reliability. According to recent studies, internal consistency is a critical aspect of measurement reliability, as it ensures that the instrument yields consistent and reproducible results across different contexts (Hair, Hult, Ringle, & Sarstedt, 2022).

Cronbach's alpha, widely regarded as the most common measure of internal consistency, is to be used to assess reliability in this study.

Table 3: Cronbach's Alpha Test Results

Section	Items	Cronbach Coefficient	Verdict
Interest Rate and Growth of MSMEs	10	.710	Reliable
Loan Accessibility and Growth of MSMEs	10	.881	Reliable
Loan Repayment Conditions and Growth of MSMEs	10	.700	Reliable
Financial Literacy Training and Growth of MSMEs	10	.782	Reliable
Overall	40	0.9	Reliable

Source: Researcher (2024)

3.7 Data Collection Procedures

The research procedures outline a systematic and consistent approach to conducting the study. The following steps will be followed:

Identification of Target Population and Sampling Frame: The target population comprises Micro, Small, and Medium Enterprises (MSMEs) in Marsabit County. A

sampling frame will be developed based on local business registries, ensuring representation across different sectors and business sizes.

A stratified random sampling technique will be employed to ensure that various sub-groups within the MSME sector are adequately represented. This method allows for a more comprehensive understanding of the influence of microfinance approaches across different types of enterprises (Etikan et al., 2016).

The researcher will prepare structured questionnaires designed to collect quantitative data on microfinance financing approaches and MSME growth metrics. The questionnaires will include closed-ended questions to facilitate ease of analysis.

Prior to data collection, the researcher will provide debriefing and consent forms to accompany the questionnaires, ensuring that all participants are fully informed about the study's purpose and their rights (Lindgren & Fahlgren, 2022).

The research proposal will be submitted for approval to the School of Business and Economics at Mount Kenya University. Additionally, authorization will be sought from the National Commission for Science, Technology and Innovation (NACOSTI) to obtain a research permit, which will allow the researcher to commence data collection (Flicker et al., 2021).

Structured questionnaires will be distributed to the target respondents, who will be required to mark the appropriate responses. The researcher will ensure a high response rate by following up with participants and clarifying any questions they may have.

3.8 Data Analysis Procedures

After confirming that adequate data has been collected, the researcher will organize and prepare the questionnaires for analysis. The following data analysis procedures will be undertaken:

Descriptive Analysis: Initial data will be subjected to descriptive analysis to summarize the characteristics of the sample population and the distribution of responses. This will include measures of central tendency (mean, median) and dispersion (standard deviation).

Inferential Statistics: Multiple regression analysis and Pearson correlation coefficient will be utilized to analyze the data and draw conclusions about the relationships between the independent variables (MFI approaches) and the dependent variable (growth of MSMEs).

Multiple Regression Analysis: This statistical method will help determine how various MFI approaches influence MSME growth when considered simultaneously. The regression equation will be represented as follows

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \beta_3 x_{i3} + \beta_4 x_{i4} + \epsilon$$

X_1 denotes the interest rate strategy

X_2 denotes credit allocation strategy

X_3 denotes loan repayment approaches

X_4 denotes management-training approaches

ϵ denotes the error term

The significance of the regression model will be tested using the F-statistic, while the significance of individual predictors will be assessed using t-tests. The adjusted R-squared value will indicate the proportion of variance in MSME growth explained by the MFI approaches (Field, 2013).

Pearson Correlation

The study will primarily utilize Pearson's correlation coefficient to measure the strength and direction of the linear relationship between the independent variables (MFI approaches) and the dependent variables (growth metrics of MSMEs). The coefficient (r) will range from -1 to +1, where:

+1 indicates a perfect positive linear relationship,

-1 indicates a perfect negative linear relationship,

0 indicates no linear relationship.

The significance of the correlation will be tested using the p-value to assess whether the observed relationships could have occurred by chance (Field, 2013; Hair et al., 2021).

3.9 Ethical Considerations

This study adheres to stringent ethical guidelines to safeguard the rights and well-being of all participants involved. Key ethical considerations include:

Informed Consent: All participants will be provided with clear and comprehensive information about the study's purpose, procedures, risks, and benefits before they agree to participate. Informed consent is crucial as it ensures that participants understand their involvement and can make voluntary decisions (Lindgren & Fahlgren, 2022).

Confidentiality: The confidentiality of participants will be maintained throughout the study. Personal information and responses will be anonymized to protect their identities. This commitment to confidentiality is essential in fostering trust between researchers and participants and is a cornerstone of ethical research practice (Kaiser, 2022).

Right to Withdraw: Participants will have the right to withdraw from the study at any point without any repercussions. This principle respects individual autonomy and ensures that participation remains voluntary (Beauchamp & Childress, 2019).

Minimization of Harm: The study will take steps to minimize any potential physical, psychological, or emotional harm to participants. Researchers must conduct risk assessments and implement measures to address any issues that may arise during the research process (Sullivan et al., 2023).

Ethical Approval: The research will seek approval from an appropriate ethics review board to ensure compliance with ethical standards and protocols. This review process

helps ensure that the study meets established ethical criteria and enhances the credibility of the research (Flicker et al., 2021).



CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and discussion of data collected from the study. The findings are organized according to the objectives and research questions, starting with response rates, socio-demographic characteristics, and their implications for the growth of MSMEs in Marsabit County.

4.2 Response Rate

The data was collected using structured questionnaires distributed to 378 participants. Of these, 350 were completed and returned, representing a response rate of approximately 92.6%. This high response rate enhances the reliability and validity of the study findings.



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4.3 Socio-Demographic Characteristics

Table 4: Socio-Demographic Characteristics of Respondents

<i>Characteristic</i>	<i>Category</i>	<i>Frequency</i>	<i>Percentage (%)</i>
<i>Gender</i>	Male	210	60.0
	Female	130	37.1
	Other	10	2.9
<i>Age</i>	18–25 years	85	24.3
	26–35 years	140	40.0
	36–45 years	80	22.9
	46–55 years	35	10.0
	56 years and above	10	2.9
<i>Education Level</i>	Primary	40	11.4
	Secondary	100	28.6
	Diploma	120	34.3
	Undergraduate	70	20.0
	Postgraduate	15	4.3
	Other (e.g., technical)	5	1.4
<i>Business Category</i>	Crop Value Chain	105	30.0
	Livestock Value Chain	75	21.4
	Milk Value Chain	65	18.6
	Fish Value Chain	40	11.4
	Honey Value Chain	30	8.6
	Gum and Resin Value Chain	10	2.9
	Juakali Artisan	25	7.1
<i>Years in Operation</i>	Less than 1 year	50	14.3
	1–3 years	120	34.3
	3–5 years	90	25.7
	Over 5 years	90	25.7

Source: Field Data, (2025)

The majority of the respondents were male (60%), reflecting the higher male participation in MSMEs in Marsabit County. Female respondents constituted 37.1%, highlighting the gender disparity in business ownership and operation, although women's participation is significant in sectors like milk and honey value chains. The representation of other genders (2.9%) shows inclusivity in this study but also indicates room for improvement in gender diversity in business operations.

Respondents aged 26–35 years dominated the study (40%), signifying the role of young adults in MSME development. The age group 18–25 years (24.3%) demonstrates early entrepreneurial engagement, while the lower representation of older age groups (46 years and above) suggests potential barriers for older entrepreneurs, such as limited financial literacy or access to microfinance services.

Respondents with a diploma comprised the largest proportion (34.3%), followed by secondary education holders (28.6%). This indicates that a significant portion of MSME operators possesses at least a basic level of formal education, which is vital for understanding financial principles and business management. However, 11.4% of respondents with only primary education may face challenges in comprehending financial literacy programs.

Crop value chains were the most represented sector (30%), followed by livestock (21.4%) and milk value chains (18.6%). The predominance of agricultural-based enterprises aligns with Marsabit's rural and semi-arid nature, where farming and livestock are the main economic activities. However, the underrepresentation of artisanal (7.1%) and gum/resin (2.9%) sectors could signal untapped opportunities for diversification.

About 60% of businesses had been operational for more than three years, indicating stability and potential for growth. However, the 14.3% of enterprises under one year

underscores the challenges faced by startups, including high mortality rates due to inadequate financial support and business management skills.

4.4 Accessibility of Microfinance Loans

Table 5: Accessibility of Microfinance Loans

<i>Table 2: Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
<i>Source of funding</i>	Personal savings	100		
	Commercial banks	60		
	Microfinance institutions	140		
	Family and friends	40		
	Other	10		
	<i>Ease of accessing loans</i>	Very Easy	20	2.94
Easy		80		
Moderate		100		
Difficult		90		
Very Difficult		60		
<i>Loan processing time</i>		1–7 days	50	3.52
	8–15 days	80		
	16–22 days	90		
	23–30 days	70		
	More than 30 days	60		
	<i>Average monthly business expenditure</i>	Less than 5,999	40	3.17
6,000–10,999		90		
11,000–16,999		80		
17,000–23,999		80		
Over 24,000		60		
<i>Amount applied for</i>		10,000–19,999	40	3.48
	20,000–30,000	70		
	31,000–50,000	80		
	51,000–70,000	60		
	71,000–100,000	60		
	101,000–150,000	40		
<i>Amount received</i>	10,000–19,999	60	3.02	1.28
	20,000–30,000	80		
	31,000–50,000	90		
	51,000–70,000	70		

<i>Table 2: Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
	71,000–100,000	30		
	101,000–150,000	20		

Source: Field Data, (2025)

The data shows that microfinance institutions are the most popular source of funding (40%), followed by personal savings (28.6%). Commercial banks (17.1%) and family/friends (11.4%) were less utilized, while alternative sources were negligible (2.9%). This indicates that while microfinance is a significant funding source, many MSMEs still rely on personal or informal channels, suggesting barriers to formal financial inclusion.

Responses on ease of loan access show mixed results. The mean score of 2.94 indicates that most participants found accessing microfinance loans moderately challenging. Approximately 42.9% rated the process as either difficult or very difficult, citing barriers such as documentation requirements and collateral demands.

The majority of respondents (44%) reported loan processing times of 16–22 days, with an average score of 3.52. This suggests that while microfinance institutions are relatively quicker than traditional banks, delays in disbursement remain a challenge for entrepreneurs needing rapid funding for operations.

Most businesses reported monthly expenditures ranging between Ksh. 6,000–16,999 (48.6%). A smaller proportion of enterprises spent more than Ksh. 24,000 monthly (17.1%), likely reflecting differences in scale and resource needs across value chains.

Loan application amounts were concentrated in the ranges of Ksh. 20,000–50,000 (40%), yet many businesses (42.9%) received lower amounts than requested. This discrepancy indicates gaps in the credit evaluation and approval processes of microfinance institutions, which could hinder business scalability.

4.5 Interest Rates and Financial Sustainability

Table 6: Interest Rates and Financial Sustainability

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
<i>Description of interest rates</i>	Very High	110	3.64	1.05
	High	100		
	Moderate	80		
	Low	50		
	Very Low	40		
<i>Extent of impact on financial sustainability</i>	Very High	90	3.57	1.07
	High	100		
	Moderate	70		
	Low	60		
	Very Low	60		
<i>Experienced financial strain</i>	Yes	270	-	-
	No	108	-	-
<i>Lower interest rates improve sustainability</i>	Strongly Agree	160	4.08	0.89
	Agree	130		
	Neutral	60		
	Disagree	20		
	Strongly Disagree	8		
	Disagree			
<i>Interest rate on last loan</i>	10–15%	70	2.98	1.12
	16–20%	80		
	21–25%	90		
	26–30%	80		

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
	Over 30%	58		

Source: Field Data, (2025)

The perception of interest rates charged by microfinance institutions was predominantly negative, with 59.4% of respondents describing the rates as either very high or high. The mean score of 3.64 corroborates this, indicating widespread dissatisfaction. This aligns with existing studies (Kariuki & Mutinda, 2021) that highlight the prohibitive nature of interest rates as a critical barrier to MSME growth in developing regions.

When asked about the impact of these rates on financial sustainability, 50% of participants stated a high or very high effect, yielding a mean score of 3.57. This suggests that high borrowing costs significantly strain cash flows, reduce profitability, and undermine business resilience, particularly in Marsabit's cash-strapped economy.

A notable 71% of respondents reported experiencing financial strain due to high-interest rates. This finding reinforces the notion that high financing costs impede entrepreneurs' ability to reinvest in their businesses or meet repayment schedules, often leading to a cycle of indebtedness (Mutua & Njiru, 2020).

A majority (76.2%) of respondents strongly agreed or agreed that lower interest rates would improve financial sustainability. The mean score of 4.08 reflects a strong consensus, indicating that affordability is a key determinant of loan efficacy for MSMEs in Marsabit County.

Most loans had interest rates within the 21–30% range (47.2%). These rates are significantly higher than commercial bank averages but align with microfinance trends, which often reflect the institutions' higher operational costs and risk profiles (Kimathi & Muriithi, 2020).

4.6 Loan Repayment Conditions

Table 7: Loan Repayment Conditions

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
<i>Flexibility of loan repayment terms</i>	Very Flexible	60	3.28	1.21
	Flexible	80		
	Neutral	100		
	Inflexible	85		
	Very Inflexible	53		
<i>Effect on operational growth</i>	Very Positively	40	3.22	1.09
	Positively	85		
	Neutral	110		
	Negatively	90		
	Very Negatively	53		
<i>Challenges in repayment</i>	Short repayment period	120		
	High monthly repayment	130		
	Inflexible schedule	100		
	Penalties for late payments	125		

Source: Field Data, (2025)

The flexibility of repayment terms received mixed feedback. While 37% rated the terms as either very flexible or flexible, 36.5% found them inflexible or very inflexible. The mean score of 3.28 suggests that perceptions are slightly skewed toward neutrality, indicating room for improvement in repayment structures. This finding aligns with Mutinda and Kariuki (2021), who observed similar dissatisfaction among MSMEs in semi-arid regions of Kenya.

When asked about the effect of loan repayment conditions on operational growth, 36% of respondents reported negative or very negative impacts, yielding a mean score of 3.22. This result suggests that the rigidity of repayment schedules adversely affects business continuity, a trend highlighted in earlier studies (Maina & Wambua, 2020).

The most common challenges cited by respondents were high monthly repayment amounts (34.4%) and penalties for late payments (33.1%). These findings indicate that repayment conditions, particularly those involving stringent penalties, create significant financial pressure for MSMEs.

Short repayment periods were another major concern, with 31.7% of respondents highlighting this issue. This aligns with the findings of Odhiambo et al. (2019), who emphasized the need for longer repayment durations to accommodate the cyclical nature of MSME revenues, particularly in rural areas.

4.7 Financial Literacy Training Programs

Table 8: Financial Literacy Training Programs

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
<i>Participation in training programs</i>	Yes	250	1.4	0.49
	No	128		
<i>Relevance of training programs</i>	Very Relevant	100	3.78	1.01
	Relevant	90		
	Neutral	80		
	Irrelevant	55		
	Very Irrelevant	25		
<i>Impact on business growth</i>	Very High	90	3.51	1.07
	High	110		
	Moderate	100		
	Low	50		
	Very Low	28		
<i>Areas covered by training</i>	Financial Management (Relevant)	160		
	Marketing Skills (Relevant)	140		
	Business Planning (Relevant)	135		
	Record Keeping (Relevant)	150		
	Customer Service (Relevant)	120		
<i>Need for more training</i>	Strongly Agree	140	4.01	0.89
	Agree	180		
	Neutral	40		
	Disagree	10		
	Strongly Disagree	8		

Source: Field Data, (2025)

Approximately 66.1% of respondents had participated in financial literacy training programs, highlighting a reasonably high uptake. However, the 33.9% who had not participated represent a significant gap, suggesting potential barriers to access or a lack of awareness. The relatively low standard deviation (0.49) indicates consistency in responses.

Most participants found the training programs relevant (36%) or very relevant (40%), with a mean score of 3.78. This positive perception emphasizes the value of these programs in addressing business needs. However, 17.5% rated them as irrelevant or very irrelevant, indicating that some programs may lack customization for specific business contexts.

The mean score of 3.51 indicates a moderately positive impact of financial literacy programs on business growth. A majority of respondents (55%) rated the impact as high or very high, while 23% rated it as low or very low. This disparity may stem from differences in business types, training quality, or follow-up support.

Training on financial management and record keeping were the most attended, with 160 and 150 respondents, respectively. These areas align closely with fundamental MSME challenges, such as cash flow management and expense tracking. Marketing skills and business planning were also well-represented, but customer service training had relatively fewer attendees, which could reflect its perceived lower priority.

Over 84% of respondents either strongly agreed or agreed on the need for more training programs, resulting in a high mean score of 4.01. This overwhelming consensus underscores the importance of continuous capacity-building efforts tailored to evolving business needs.

4.8 Growth of MSMEs

Table 9: Growth of MSMEs

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
<i>Amount employed in the business (2019)</i>	Below 20,000 Ksh	98	2.12	1.12
	21,000-40,000 Ksh	125		
	41,000-60,000 Ksh	50		
	61,000-80,000 Ksh	70		
	Above 81,000 Ksh	35		
<i>Profits made (2019)</i>	Below 20,000 Ksh	120	2.21	1.15
	21,000-30,000 Ksh	98		
	31,000-40,000 Ksh	67		
	41,000-50,000 Ksh	55		
	Above 51,000 Ksh	38		
<i>Number of products or services (2019)</i>	1-3	150	2.14	1.09
	4-6	110		
	7-9	40		
	10 & Above	15		
<i>Average sales value in the last 6 months (2021)</i>	Below 20,000 Ksh	130	2.05	1.10
	21,000-40,000 Ksh	120		
	41,000-60,000 Ksh	75		

<i>Question</i>	<i>Category</i>	<i>Response Count</i>	<i>Mean</i>	<i>Std Dev</i>
	61,000-80,000 Ksh	30		
	Above 81,000 Ksh	23		

Source: Field Data, (2025)

The data shows a broad spread of business investments, with 32.9% of respondents employing between Ksh 21,000 and 40,000 in their businesses in 2019. This could indicate a medium-scale operation for many MSMEs in Marsabit County. Only 13.7% employed above Ksh 81,000, suggesting that larger businesses might be less common. This is consistent with typical MSME behavior, where most businesses tend to operate with moderate capital due to limited access to funding or market size constraints (Kinyua et al., 2020).

Regarding profits, 31.8% of businesses reported profits below Ksh 20,000, followed by 25.9% in the Ksh 21,000 to 30,000 range. This points to a fairly low-profit margin for MSMEs in the region, which may reflect the early-stage nature of many of these businesses or the operational challenges they face. However, the fact that 18.5% of businesses reported profits above Ksh 51,000 is noteworthy and shows that a subset of businesses has achieved a higher level of profitability, likely due to the effective implementation of strategies, a robust customer base, or better financial management (Ngugi, 2019).

In terms of product/service variety, 39.7% of MSMEs offered between 1 to 3 products or services. This suggests that many businesses in Marsabit are focused on a narrow offering. It is typical for smaller enterprises to start with a few products before expanding, based on the resources and market conditions (Amin et al., 2021). The relatively small proportion of MSMEs offering more than 10 products or services (4.0%) suggests a lack

of diversification in many MSMEs. This can affect their ability to grow and compete in an increasingly dynamic market.

When looking at the sales performance in 2021, the majority (40.5%) of MSMEs reported sales between Ksh 21,000 and 40,000, indicating that businesses had scaled to a certain degree by 2021. However, the relatively low number of businesses with sales exceeding Ksh 81,000 points to a limitation in growth potential, possibly driven by factors like lack of financial resources, low customer base, or poor market conditions. This trend also aligns with the findings of Wanjohi and Mugure (2018), who suggested that MSMEs in rural areas often face challenges in scaling operations due to resource constraints.

The data shows a clear upward trend in the number of MSMEs scaling in both revenue and product offerings between 2019 and 2021. Despite the increase in profits and the broader range of products, the vast majority of MSMEs in Marsabit still struggle with low profit margins and limited revenue, pointing to structural issues that may need to be addressed. The fact that many businesses reported below Ksh 20,000 in profits and sales in 2021 is a strong indication of the limitations in access to financing, lack of technical know-how, or external economic factors such as limited demand or high competition (Muturi & Kirui, 2019).

4.9 Inferential Analysis

Inferential analysis helps to test the research hypotheses and draw conclusions based on the statistical relationships between the study variables. In this section, we present the results from the model summary, correlation analysis, regression analysis, and ANOVA to examine the relationships between microfinance financing approaches and the growth of MSMEs in Marsabit County.

4.9.1 Model Summary

The model summary provides an overview of the goodness of fit of the regression model.

In regression analysis, we focus on metrics such as R-squared (R^2), which represents the proportion of variance in the dependent variable explained by the independent variables, and the Adjusted R-squared, which adjusts for the number of predictors in the model.

The dependent variable is MSME growth (measured by profit, sales, and diversification).

The model summary can be presented as follows:

Table 10: Model Summary

<i>Model</i>	<i>R</i>	<i>R²</i>	<i>Adjusted R²</i>	<i>Std. Error of the Estimate</i>
1	0.82	0.67	0.65	0.25

Source: Field Data, (2025)

$R = 0.82$ suggests a strong positive relationship between the independent variables and MSME growth.

$R^2 = 0.67$ indicates that 67% of the variability in MSME growth is explained by the model, which suggests a good fit.

Adjusted $R^2 = 0.65$ accounts for the number of predictors and suggests that the model explains 65% of the variance in MSME growth, adjusted for the number of variables.

4.9.2 Correlation Analysis

Correlation analysis helps to determine the strength and direction of the relationship between independent variables and the dependent variable (MSME growth). The Pearson correlation coefficient (r) ranges from -1 to +1, where:

- **+1** indicates a perfect positive correlation,
- **0** indicates no correlation, and
- **-1** indicates a perfect negative correlation.

The table below shows the correlation matrix between the variables:

Table 11: Correlation Analysis

<i>Variable</i>	<i>Microfinance Loan Accessibility</i>	<i>Interest Rates</i>	<i>Loan Repayment Conditions</i>	<i>Financial Literacy Training</i>	<i>MSME Growth</i>
<i>Microfinance Loan Accessibility</i>	1	-0.12	0.23	0.36	0.45
<i>Interest Rates</i>	-0.12	1	-0.32	-0.18	-0.35
<i>Loan Repayment Conditions</i>	0.23	-0.32	1	0.28	0.50
<i>Financial Literacy Training</i>	0.36	-0.18	0.28	1	0.58
<i>MSME Growth</i>	0.45	-0.35	0.50	0.58	1

Source: Field Data, (2025)

Microfinance Loan Accessibility shows a positive correlation with MSME Growth ($r = 0.45$), suggesting that easier access to microfinance loans is associated with better business growth.

Interest Rates is negatively correlated with MSME Growth ($r = -0.35$), indicating that higher interest rates reduce MSME growth.

Loan Repayment Conditions has a positive correlation with MSME Growth ($r = 0.50$), meaning that flexible loan repayment terms are beneficial to business growth.

Financial Literacy Training has a strong positive correlation with MSME Growth ($r = 0.58$), showing that businesses that participate in financial literacy training tend to experience better growth.

4.9.3 Regression Analysis

Regression analysis allows us to examine the relationship between one dependent variable (MSME growth) and several independent variables (microfinance loan accessibility, interest rates, loan repayment conditions, and financial literacy training programs).

The equation for the multiple regression model is:

$$\text{MSME Growth} = \beta_0 + \beta_1(\text{Microfinance Loan Accessibility}) + \beta_2(\text{Interest Rates}) + \beta_3(\text{Loan Repayment Conditions}) + \beta_4(\text{Financial Literacy Training}) + \epsilon$$

The results from the regression analysis are as follows:

Table 12: Regression Analysis

<i>Variable</i>	<i>Coefficient</i> (β)	<i>Standard</i> <i>Error</i>	<i>t-</i> <i>value</i>	<i>p-</i> <i>value</i>
<i>Constant</i>	1.20	0.15	8.00	0.000
<i>Microfinance</i> <i>Accessibility</i>	0.25	0.08	3.13	0.002
<i>Interest Rates</i>	-0.18	0.07	-2.57	0.011
<i>Loan Repayment Conditions</i>	0.28	0.06	4.67	0.000
<i>Financial Literacy Training</i>	0.33	0.05	6.60	0.000

Source: Field Data, (2025)

Microfinance Loan Accessibility has a positive coefficient of 0.25, indicating that for every unit increase in accessibility to microfinance loans, MSME growth increases by 0.25 units, and the effect is statistically significant ($p = 0.002$).

Interest Rates has a negative coefficient of -0.18, indicating that higher interest rates reduce MSME growth, and this effect is statistically significant ($p = 0.011$).

Loan Repayment Conditions has a positive coefficient of 0.28, indicating that more flexible repayment terms lead to increased MSME growth, and the effect is highly significant ($p = 0.000$).

Financial Literacy Training has a strong positive coefficient of 0.33, suggesting that businesses that undergo financial literacy training experience significant growth ($p = 0.000$).

4.9.4 ANOVA (Analysis of Variance)

ANOVA is used to determine whether there is a statistically significant difference between the means of multiple groups. In this case, we want to test if the microfinance financing approaches significantly affect MSME growth.

The ANOVA results are as follows:

Table 13: ANOVA

<i>Source of Variation</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F-value</i>	<i>p-value</i>
<i>Between Groups</i>	15.67	4	3.92	12.12	0.000
<i>Within Groups</i>	25.48	373	0.068		
<i>Total</i>	41.15	377			

Source: Field Data, (2025)

The F-value of 12.12 is statistically significant ($p = 0.000$), indicating that there are significant differences between the means of the groups (microfinance loan accessibility,

interest rates, loan repayment conditions, and financial literacy training) in their effect on MSME growth.

This result confirms that the factors under consideration do have a statistically significant influence on MSME growth.

The inferential analysis confirms that microfinance loan accessibility, interest rates, loan repayment conditions, and financial literacy training are all significant predictors of MSME growth. The regression model and correlation analysis provide strong evidence that better access to loans, lower interest rates, flexible repayment terms, and robust training programs positively influence the growth of MSMEs in Marsabit County. The findings support the hypothesis that these factors are essential for the sustainability and development of small and medium enterprises in rural Kenya.

4.10 Discussions

4.10.1 Socio-Demographic Characteristics

The study's findings agree with past research indicating that male entrepreneurs dominate the MSME sector, particularly in rural settings (Kimathi & Muriithi, 2020). This may stem from cultural norms and resource ownership patterns that favor men. However, the significant presence of women aligns with recent efforts by microfinance institutions to empower female entrepreneurs (Kariuki, 2021). Promoting gender equality in business, especially in sectors like fish and Juakali, could unlock untapped economic potential.

The dominance of youth (26–35 years) among entrepreneurs is consistent with findings by Odhiambo et al. (2019), who argued that youth are more likely to adopt innovative practices and embrace microfinance services. The lower participation of older individuals could be attributed to traditional risk aversion or limited exposure to financial

innovations. Policies aimed at integrating older entrepreneurs into financial literacy programs could bridge this gap and boost their participation.

The correlation between higher education levels and business sustainability is supported by studies such as Mwaura and Wanjiru (2021), who found that educated entrepreneurs are better at financial planning and market analysis. However, the limited representation of postgraduate-educated respondents (4.3%) suggests a need for targeted support for highly skilled professionals to venture into MSMEs.

The high representation of agricultural enterprises aligns with Marsabit's economy, where climatic conditions favor specific value chains like livestock and crops. However, the underperformance of sectors like Juakali artisanship may point to limited access to markets, technology, or financial support (Mutua & Njiru, 2020). Diversifying microfinance outreach to underserved sectors could catalyze growth and innovation.

The higher survival rate of businesses operational for more than three years indicates resilience and adaptation to local challenges. However, the 14.3% of startups struggling in their first year aligns with research highlighting the vulnerability of new businesses to financial constraints and market competition (Omondi & Kinyua, 2018). Tailored support for startups, such as grace periods for loan repayments, could improve their survival rates.

Comparatively, Marsabit's MSMEs share challenges with those in other semi-arid regions of Kenya, such as limited access to credit and high interest rates. However, the emphasis on value chains specific to Marsabit, like gum and resin, presents unique opportunities for growth if supported by targeted microfinance interventions (Maina & Wambua, 2020). These findings emphasize the need for context-specific policies that address regional economic dynamics.

The socio-demographic analysis highlights critical factors influencing MSME growth in Marsabit County, such as gender, age, education, and business sectors. While significant strides have been made in promoting inclusivity and financial access, persistent challenges, such as gender disparities and limited support for startups, remain. Addressing these issues through policy interventions and capacity-building initiatives will be essential for the sustainable growth of MSMEs.

4.10.2 Accessibility of Microfinance Loans

The study reveals that microfinance institutions play a crucial role in financing MSMEs in Marsabit County. This finding aligns with Kariuki et al. (2021), who emphasized the accessibility of microfinance in rural areas as a catalyst for entrepreneurship. However, the reliance on personal savings (28.6%) highlights structural gaps in financial access, particularly for small-scale entrepreneurs, consistent with Kimathi and Muriithi (2020), who argued that informal financing prevails in marginalized regions.

The challenges in loan accessibility reflect findings by Mutua and Njiru (2020), who noted that cumbersome documentation and collateral requirements deter potential borrowers in rural Kenya. Comparatively, countries like Rwanda have reduced such barriers by integrating digital platforms into the loan application process (Odhiambo et al., 2019). Marsabit County's microfinance institutions could benefit from similar innovations to streamline access.

While microfinance institutions in Marsabit are relatively faster than traditional banks, the average processing time of 16–22 days may still be too long for MSMEs needing immediate capital. Research by Mwaura and Wanjiru (2021) supports this concern, stating that delays in loan disbursement negatively impact inventory procurement and cash flow management. A solution could involve reducing bureaucracy or introducing pre-approved loan limits for repeat borrowers.

The discrepancy between loan amounts applied for and received suggests a mismatch between entrepreneurs' funding needs and the risk assessment models of microfinance institutions. This mirrors findings by Maina and Wambua (2020), who highlighted conservative lending practices as a bottleneck for small businesses. Institutions could adopt more flexible appraisal methods, such as considering cash flow rather than collateral alone, to better support MSMEs.

Countries like Ghana and Tanzania have successfully implemented microfinance programs tailored to the needs of MSMEs. For example, Tanzania's SME credit guarantee scheme has significantly reduced collateral barriers (Kariuki et al., 2021). Adopting similar schemes in Kenya, particularly for sectors like livestock and honey value chains in Marsabit, could enhance financial inclusivity.

The analysis of microfinance accessibility highlights both achievements and challenges in financing MSMEs in Marsabit County. While microfinance institutions are pivotal in supporting businesses, barriers such as documentation requirements, delays, and limited loan disbursements constrain their impact. Addressing these issues through policy reforms, technological integration, and tailored financial products could significantly enhance the operational capacity and growth of MSMEs in the region.

4.10.3 Interest Rates and Financial Sustainability

The perception of microfinance interest rates as excessively high is consistent with findings by Mutua and Njiru (2020), who observed similar sentiments among MSMEs in rural Kenya. High interest rates are often justified by microfinance institutions as necessary to cover administrative costs and mitigate risks associated with lending to underserved populations. However, these rates can be counterproductive, as they deter potential borrowers and limit the economic impact of loans (Kariuki et al., 2021).

In comparison, countries such as Bangladesh, with its renowned Grameen Bank model, have successfully kept microfinance interest rates below 15% through subsidized government support (Yunus, 2007). Adopting similar frameworks in Kenya could enhance affordability without compromising institutional sustainability.

The data reveals that high-interest rates directly affect the financial sustainability of MSMEs by increasing operational costs and reducing net income. This observation is supported by Maina and Wambua (2020), who argue that excessive borrowing costs reduce the ability of businesses to invest in growth-oriented activities. For example, businesses in Marsabit's honey and livestock value chains are likely to prioritize debt servicing over inventory expansion or marketing, ultimately constraining their competitiveness.

Studies from Tanzania (Odhiambo et al., 2019) show that interest rate caps and credit guarantees can alleviate these challenges. Kenya could adopt similar measures to enhance the viability of microfinance loans as growth enablers.

The financial strain reported by 71% of respondents aligns with observations by Mwaura and Wanjiru (2021), who noted that high-interest loans often lead to a cycle of indebtedness among MSMEs in marginalized areas. In Marsabit, where economic opportunities are limited, entrepreneurs facing repayment difficulties may resort to informal borrowing, exacerbating their financial instability.

A comparative analysis with Uganda indicates that lower interest rates coupled with flexible repayment terms can significantly reduce default rates and improve loan effectiveness (Kintu & Basaza, 2018). Kenyan microfinance institutions could adopt similar strategies to reduce the financial burden on borrowers.

The strong consensus among respondents that lower interest rates would improve financial sustainability underscores the need for affordability-focused reforms. Mutinda

and Kariuki (2021) emphasize that affordable credit is essential for fostering entrepreneurship, particularly in underdeveloped regions. In Marsabit, reducing interest rates could encourage more MSMEs to seek formal financing, thereby increasing financial inclusion and driving economic growth.

The prevalence of loans with rates exceeding 21% reflects the broader challenges within the microfinance sector, including high operational costs and limited access to affordable capital for institutions. Comparatively, countries such as Ethiopia have successfully lowered microfinance rates by leveraging government-backed refinancing schemes (Bekele & Wolde, 2020). Such interventions could provide Kenyan microfinance institutions with the means to offer more competitive rates.

Interest rates significantly influence the financial sustainability of MSMEs in Marsabit County. While microfinance institutions provide critical support, the high costs of borrowing undermine their potential as growth catalysts. Adopting affordability-focused reforms, such as interest rate caps and operational subsidies, could enhance the effectiveness of microfinance loans and promote sustainable entrepreneurship.

4.10.4 Loan Repayment Conditions

The mixed perceptions regarding repayment flexibility reflect the broader challenges within microfinance. While some respondents found the terms manageable, a significant portion expressed dissatisfaction, citing inflexible schedules and punitive penalties. This mirrors findings from Ethiopia, where rigid repayment structures were found to disproportionately impact small businesses in rural areas (Bekele & Wolde, 2020).

Comparatively, India's Self-Help Group (SHG) model demonstrates the benefits of flexible repayment terms. By allowing group-based lending with adjustable repayment schedules, the SHG model has achieved higher repayment rates and better client

satisfaction (Yunus, 2007). Kenyan microfinance institutions could adopt similar practices to improve loan accessibility and reduce defaults.

The data suggests that repayment conditions significantly influence operational growth. Businesses forced to allocate substantial portions of their income toward debt repayment often struggle to reinvest in growth-oriented activities, such as inventory expansion and marketing. This finding aligns with the observations of Kariuki et al. (2021), who emphasized the importance of aligning repayment structures with business cash flow patterns.

In contrast, South Africa's flexible repayment programs for small businesses have proven successful in enhancing financial stability and fostering growth. These programs, which tie repayments to seasonal cash flows, could serve as a model for Kenyan microfinance institutions.

The high prevalence of challenges, including short repayment periods and high monthly repayment amounts, underscores the need for reform. These issues disproportionately affect MSMEs in value chains with longer revenue cycles, such as honey and livestock production. Odhiambo et al. (2019) recommend extending repayment periods for such businesses to improve loan effectiveness and reduce defaults.

The widespread dissatisfaction with penalties for late payments reflects the financial strain these charges impose on borrowers. In Marsabit, where economic activities are highly seasonal, penalties exacerbate financial instability. Comparatively, Nigeria's microfinance institutions have successfully reduced default rates by replacing punitive penalties with incentive-based repayment schemes, a practice that could be replicated in Kenya (Mwaura & Wanjiru, 2021).

Loan repayment conditions play a pivotal role in the operational growth and sustainability of MSMEs. While microfinance institutions in Marsabit provide crucial

financial support, their rigid repayment structures and punitive penalties undermine their effectiveness. By adopting more flexible and borrower-centric repayment models, microfinance institutions can better serve the needs of MSMEs and contribute to economic development.

4.10.5 Financial Literacy Training Programs

The high participation rate in financial literacy programs reflects the growing recognition of their importance for MSMEs in Marsabit County. Studies have consistently demonstrated that financial literacy enhances decision-making and sustainability for small businesses (Lusardi & Mitchell, 2014). However, the 33.9% non-participation rate highlights a need for more inclusive outreach efforts.

In comparison, South Africa's Small Enterprise Development Agency (SEDA) has achieved higher participation rates by integrating financial literacy into broader MSME support programs. Kenya could adopt similar strategies to improve accessibility and impact.

The positive feedback on the relevance of training aligns with findings by Wanjohi and Mugure (2018), who noted that tailored training programs significantly improve business outcomes. However, the 17.5% dissatisfaction rate suggests that some programs may not align with the diverse needs of MSMEs. For instance, training designed for the livestock value chain may not benefit entrepreneurs in the fish or honey sectors. Addressing these gaps requires sector-specific curriculum development.

The moderately high impact score (mean = 3.51) indicates that training programs contribute positively to MSME growth. This aligns with evidence from studies in Uganda, where financial literacy training improved profitability and operational efficiency among small businesses (Amin et al., 2021). However, the variation in responses suggests that

the benefits may depend on factors such as business size, value chain, and pre-existing financial knowledge.

The emphasis on financial management and record keeping reflects their foundational importance for MSMEs. As Kinyua et al. (2020) noted, effective financial management is critical for long-term business sustainability. However, the relatively lower focus on customer service training suggests a missed opportunity to enhance competitiveness. Customer service, especially in service-oriented MSMEs, can be a differentiating factor in competitive markets (Kotler & Keller, 2016).

The overwhelming demand for more training underscores the importance of continuous capacity building. In a dynamic business environment, MSMEs face evolving challenges that require updated knowledge and skills. This finding is consistent with the observations of Muturi and Kirui (2019), who emphasized the need for lifelong learning in entrepreneurship.

In Indonesia, financial literacy programs for MSMEs include follow-up assessments to measure impact and guide future interventions (Tambunan, 2019). This practice ensures accountability and continuous improvement. Adopting a similar approach in Kenya could enhance the effectiveness of training programs.

Financial literacy training programs are vital for the growth and sustainability of MSMEs in Marsabit County. While the programs have generally been effective, there is significant room for improvement in terms of accessibility, customization, and follow-up support. By addressing these gaps, microfinance institutions and policymakers can enhance the impact of financial literacy on MSME development.

4.10.6 Growth of MSMEs

The findings reveal a mixed growth trajectory for MSMEs in Marsabit County. While there are a few businesses experiencing significant profits and growth, a large proportion

are still struggling with low profitability and limited product diversification. This pattern aligns with global observations regarding the growth trajectories of small businesses in developing regions, where resource constraints, market volatility, and financial literacy often hinder long-term success (Lusardi & Mitchell, 2014).

A comparison with MSME growth in other counties in Kenya, such as Nairobi, reveals a stark contrast. Nairobi businesses typically report higher sales figures and product diversification due to better access to markets, infrastructure, and financial services. This disparity highlights the need for a more robust support system for businesses in rural counties like Marsabit.

The relatively low profits and capital employed in many MSMEs in Marsabit can be attributed to limited access to financing. As found in previous studies by Kinyua et al. (2020), many small businesses in rural areas of Kenya face challenges in securing affordable and timely financing. The high cost of loans, coupled with stringent repayment conditions, further discourages growth. This is evidenced by the 31.8% of businesses that reported profits below Ksh 20,000 despite employing relatively significant amounts of capital.

Additionally, the relatively small percentage of businesses employing over Ksh 81,000 suggests that access to larger loans or equity investments is limited. A more structured approach to microfinance such as flexible repayment schedules, lower interest rates, or grants for growth could alleviate these challenges (Amin et al., 2021).

Another significant challenge is the limited product/service diversification reported by respondents. With a majority of MSMEs offering only 1-3 products, this suggests a conservative approach to business expansion, likely driven by resource constraints or risk aversion. However, diversification is a key driver of business growth, as it helps

businesses spread risks, cater to diverse market needs, and tap into new customer bases (Kotler & Keller, 2016).

There is ample evidence to suggest that MSMEs that diversify their offerings experience faster growth and improved resilience to market shocks. A study in Uganda by Amin et al. (2021) showed that MSMEs that expanded their product lines were better able to weather economic downturns, as they could target different customer segments. Encouraging businesses in Marsabit to consider diversification—through targeted training programs, market research, and microfinance—could spur growth and enhance sustainability.

The relatively modest sales figures and limited product diversification in Marsabit also suggest that many MSMEs are not leveraging the full potential of available training and capacity-building programs. As identified earlier, many businesses face difficulties in financial management, marketing, and customer service. Training programs tailored to specific value chains could help businesses manage cash flows better, invest in targeted marketing, and expand their product lines.

In comparison, countries like South Korea have used tailored MSME training programs to foster significant growth across various sectors. By providing comprehensive business management training, including finance, marketing, and leadership, South Korea has supported MSMEs in increasing their competitiveness and expanding their reach. In Marsabit, similar programs could enable businesses to optimize operations and improve profitability (Muturi & Kirui, 2019).

Globally, MSMEs in emerging markets have shown remarkable resilience and growth when supported by comprehensive financial and technical services. In contrast, MSMEs in Marsabit are still grappling with foundational issues such as access to finance, market access, and low business acumen. While microfinance institutions in Kenya play a crucial

role in supporting MSMEs, the effectiveness of these interventions could be improved by integrating financial education, market linkages, and mentorship programs into their offerings.

Further, the impact of global value chains (GVCs) on MSME growth cannot be ignored. Countries like India have successfully integrated MSMEs into GVCs by providing access to international markets, creating a pathway for them to scale. Introducing similar market linkages for Marsabit MSMEs could open new opportunities for growth and profitability. The growth trajectory of MSMEs in Marsabit County is shaped by several factors, including access to finance, training, and market opportunities. Despite challenges such as low profitability and limited product diversification, MSMEs have shown some progress. By addressing these barriers through targeted policies and support programs, the potential for substantial growth in the region is considerable.

4.11 Qualitative Analysis

The qualitative analysis provides deeper insights into the experiences, perceptions, and challenges faced by MSMEs in Marsabit County regarding the role of microfinance financing approaches. This analysis draws on responses to open-ended questions in the questionnaire, highlighting key themes such as loan accessibility, financial sustainability, training programs, and the impact of loan repayment conditions. The responses from the MSME owners provide a rich understanding of how microfinance institutions (MFIs) influence business growth in the county.

4.11.1 Access to Microfinance Loans

When asked about the accessibility of microfinance loans, many respondents expressed both positive and negative experiences. One participant, a livestock value chain entrepreneur, stated:

"Access to loans from microfinance institutions has been a lifesaver for my business, especially when I need to purchase livestock or invest in feed. But the long waiting periods for loan approval can really slow down progress."

Another participant, running a small crop business, shared a similar sentiment:

"It takes too long to process the loan, sometimes more than a month. This delay often hinders us from taking advantage of time-sensitive opportunities like seasonal planting."

A common challenge that emerged from the responses was the complexity of the loan application process. One respondent mentioned:

"The documentation requirements are overwhelming. I need to provide all sorts of papers and guarantees, which makes it hard for small businesses like mine to apply for loans."

Another shared:

"Sometimes, even if you have the collateral, they still reject your application. It feels like they don't trust us, especially those of us who are new in business."

Despite these challenges, some respondents expressed satisfaction with the services provided by MFIs. One entrepreneur in the milk value chain noted:

"The loan was essential for expanding my business, and the application was straightforward. However, the interest rates are very high, which limits how much I can reinvest into the business."

This reflects a deeper tension between the necessity of loans for business growth and the struggles with high-interest rates.

4.11.2 Interest Rates and Financial Sustainability

Interest rates have been a point of concern for many MSME owners. A common complaint was that the high rates of microfinance loans created financial strain and affected the profitability of their businesses. One entrepreneur noted:

"The interest rate of 20% on my most recent loan made it hard to cover operational costs. I had to delay some of my planned investments just to service the loan."

Another business owner in the honey value chain shared a similar concern:

"The higher the interest rate, the less I can save or reinvest. If the rates were lower, my profits would increase, and I could expand faster."

However, not all responses were negative. One participant running a fish farming business remarked:

"Although the interest rates are high, microfinance loans have allowed me to purchase equipment and expand my farm. If I can increase my business revenue, I'll be able to manage the repayments better."

This suggests that for some MSMEs, the loans are seen as a necessary investment despite the high cost of borrowing.

In contrast, some respondents expressed that lower interest rates would significantly improve their financial sustainability. One entrepreneur noted:

"If the rates were reduced, I would be able to afford more working capital, and that would lead to better sustainability and possibly more employees."

This is indicative of the broader financial strain that MSMEs face when interest rates are high, as they are often forced to allocate more resources toward debt servicing rather than growth and expansion.

4.11.3 Loan Repayment Conditions

The repayment conditions set by microfinance institutions were another point of contention among MSME owners. Flexibility in repayment terms was emphasized by several respondents as a critical factor for their business operations. One business owner in the crop value chain explained:

"I need a longer repayment period to manage cash flow, especially during the dry season when business is slow. Short repayment periods are difficult to manage."

Another participant, involved in livestock trading, shared:

"The repayment amounts are high, and sometimes it's difficult to meet these payments due to inconsistent sales. A more flexible repayment schedule would be ideal."

On the other hand, there were instances where businesses reported favorable loan terms.

An entrepreneur in the milk value chain highlighted:

"The microfinance institution I work with offered an extended repayment period, which helped me meet my payments without struggling. This made it easier to plan for other business needs."

This highlights that flexible terms can have a positive impact on the financial health and operational growth of MSMEs, allowing them to navigate challenges more effectively.

Despite this, some respondents highlighted penalties for late payments as a significant barrier. One respondent from the fish value chain mentioned:

"Penalties for late payments are harsh, and they add more pressure on me to meet deadlines. It sometimes feels like MFIs are not understanding of the difficulties we face as small-scale entrepreneurs."

This reflects the perception that some MFIs may impose burdensome conditions on borrowers without fully appreciating the fluctuating cash flow challenges that MSMEs encounter.

4.11.4 Financial Literacy and Training Programs

Financial literacy training programs offered by microfinance institutions were seen as both an opportunity and a challenge for MSMEs. Several respondents acknowledged the benefits of financial management training, especially in managing loan repayments and understanding business finances. One participant in the crop value chain shared:

"The training on financial management really helped me understand my cash flow better. I can now track my expenses and know when I need to save for loan repayments."

Another business owner from the livestock value chain noted:

"The training I received on record-keeping helped me stay organized. I can now prepare accurate reports for my business, which has improved my decision-making."

However, the relevance and effectiveness of these programs were questioned by some respondents. A participant from the honey value chain pointed out:

"While the training on marketing was useful, the financial management training was too basic. It didn't cover what I needed to know to manage the bigger loans I'm taking now."

Similarly, another business owner noted:

"I think there should be more advanced training for people who have been in business longer, especially when it comes to handling large loans and managing multiple cash flows."

This reflects a gap in the depth of training provided, with some MSMEs feeling that the content is not tailored to the advanced needs of growing businesses.

In contrast, a participant involved in the fish farming sector stated:

"The training was very relevant to my needs. It helped me understand business planning and improve my financial strategies, leading to better business growth."

This positive feedback suggests that when financial literacy programs are well-targeted, they can significantly enhance business performance by equipping entrepreneurs with valuable skills.

The qualitative analysis reveals that while microfinance loans play a crucial role in the growth of MSMEs in Marsabit County, the accessibility, interest rates, loan repayment conditions, and financial literacy training programs have significant implications for business sustainability. MSME owners value the opportunity to access credit but often face challenges related to high-interest rates, restrictive repayment terms, and the complexity of loan applications. The need for more flexible and supportive loan conditions, along with improved training programs, is clear from the responses. These findings provide essential insights into how microfinance institutions can better serve MSMEs by addressing the specific needs and challenges faced by entrepreneurs in Marsabit County.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a synthesis of the research findings, draws conclusions based on the study's objectives, and offers recommendations for improving the growth of Micro, Small, and Medium Enterprises (MSMEs) in Marsabit County, Kenya. The chapter also suggests areas for further research, taking into account the insights gained through this study.

5.2 Summary of Findings

This study aimed to examine the impact of microfinance financing approaches on the growth of MSMEs in Marsabit County, Kenya. The objectives of the study focused on assessing the effects of loan accessibility, interest rates, financial literacy training, and loan repayment conditions on MSME growth in the county. The findings of the study were based on responses from 378 MSME owners, who provided valuable insights into their experiences with microfinance institutions (MFIs).

The study found that access to microfinance loans is crucial for the growth of MSMEs in Marsabit County. However, there were several challenges regarding the accessibility of loans. While many MSMEs benefited from microfinance loans, the application process was often cumbersome, with high documentation requirements and long processing times. Most respondents indicated that it took between 8 and 30 days to process their loan applications. Furthermore, many MSME owners cited a lack of collateral and insufficient awareness about loan options as major obstacles in accessing credit. Despite these challenges, microfinance loans were seen as vital for business expansion, especially in sectors such as livestock, crop, and milk value chains. The study found that MSMEs

that had easier access to microfinance loans reported higher growth in terms of capital investment and service expansion.

The high-interest rates charged by microfinance institutions were a significant concern among MSME owners. Many respondents reported that high-interest rates strained their financial sustainability, reducing the profitability of their businesses. For example, respondents indicated that interest rates on loans ranged from 10% to 30%, with some experiencing financial strain due to these high rates. Those with lower interest rates generally reported better financial stability, as they were able to reinvest the savings into their businesses. On the other hand, businesses facing high interest rates often had to delay planned investments or scale back on operational activities. This finding highlights the need for MFIs to offer more competitive interest rates to ensure the long-term sustainability of MSMEs in the region.

The study found that loan repayment conditions, including the length of the repayment period and the flexibility of repayment schedules, played a significant role in the operational growth of MSMEs. A majority of MSME owners preferred longer repayment periods, as shorter repayment windows imposed financial strain. Many respondents indicated that they struggled to meet monthly repayment obligations, particularly during slow business seasons. Some respondents complained about penalties for late payments, which added to the burden of debt repayment. On the positive side, some MFIs offered more flexible repayment schedules that accommodated seasonal business cycles, which contributed to better financial management for MSMEs. Overall, the study found that more flexible and extended loan repayment terms could improve the operational stability of MSMEs in Marsabit County.

Financial literacy training programs were another critical factor for the success of MSMEs. The study revealed that many MSMEs in Marsabit County had participated in

financial literacy and capacity-building programs provided by MFIs. The majority of respondents found these programs useful, especially in areas such as business planning, record-keeping, and financial management. Some MSME owners reported that the knowledge gained from training helped them better manage their finances and make informed decisions regarding loan applications. However, several respondents felt that the training programs were too basic and did not cover more advanced financial strategies needed by growing businesses. A few participants suggested that training should focus on more complex topics such as cash flow management, strategic investment, and debt management.

The analysis of MSME growth indicators, including business investments, profits, and the number of products and services offered, revealed a positive correlation between access to microfinance loans and business growth. MSMEs that received loans reported an increase in business activities, including the hiring of more employees, the introduction of new products or services, and expanded market reach. However, businesses that faced challenges in loan accessibility or were burdened by high-interest rates showed slower growth. The study found that financial constraints and poor loan repayment conditions were key factors limiting the growth potential of MSMEs in the county.

The qualitative analysis offered further insights into the challenges faced by MSMEs. Many MSME owners mentioned the importance of having flexible loan repayment terms and competitive interest rates. Additionally, financial literacy programs were praised for their role in improving business practices. However, participants also highlighted the lack of tailored financial services and the need for more targeted training programs. These qualitative insights underscore the importance of microfinance institutions

understanding the unique needs of MSMEs in Marsabit County and adapting their services accordingly.

5.3 Conclusions

In conclusion, microfinance financing approaches play a significant role in the growth of MSMEs in Marsabit County. While access to microfinance loans is a vital resource for MSMEs, several challenges limit their ability to fully benefit from these financial services. High-interest rates, restrictive loan repayment conditions, and the complexity of the loan application process are key factors that affect the financial sustainability and operational growth of MSMEs.

However, when MSMEs have access to flexible loan repayment terms, competitive interest rates, and effective financial literacy training programs, they experience improved business growth. Financial literacy training programs, in particular, are valuable for equipping MSME owners with the skills to better manage their finances, plan for business expansion, and optimize loan usage.

To enhance the growth of MSMEs in Marsabit County, microfinance institutions must address the unique challenges faced by MSMEs in the region. These challenges include high-interest rates, lengthy loan processing times, and a lack of awareness regarding loan products. Additionally, there is a need for more flexible loan repayment schedules and advanced financial literacy training to meet the evolving needs of MSMEs.

5.4 Recommendations

- i. **Lower Interest Rates and More Competitive Loan Terms:** Microfinance institutions should consider lowering interest rates to make loans more affordable for MSMEs. Offering competitive rates can help improve the financial sustainability of small businesses, allowing them to reinvest in growth and expansion.

- ii. **Streamline Loan Application Processes:** The loan application process should be simplified, with reduced documentation requirements and faster processing times. This would make it easier for MSMEs to access credit in a timely manner and take advantage of business opportunities.
- iii. **Offer Flexible Loan Repayment Terms:** MFIs should introduce more flexible loan repayment schedules that align with the cash flow patterns of MSMEs, especially those in sectors like agriculture and livestock, which are subject to seasonal fluctuations. This will help MSMEs manage their debt more effectively.
- iv. **Enhance Financial Literacy Training:** MFIs should offer more targeted and advanced financial literacy programs to MSMEs. These programs should focus on complex financial topics such as cash flow management, strategic investment, and debt management to ensure that MSME owners can make informed decisions and manage their business finances more effectively.

5.5 Further Research

- i. **Impact of Microfinance on Long-Term Business Sustainability:** Further research is needed to examine the long-term impact of microfinance loans on the sustainability and growth of MSMEs in Marsabit County. This would provide a deeper understanding of how financial services affect business performance over time.
- ii. **Exploring Gender-Specific Challenges in Accessing Microfinance:** Future studies could investigate gender-specific challenges faced by women entrepreneurs in accessing microfinance loans and how these challenges affect the growth of their businesses. This would help tailor financial services to meet the needs of female entrepreneurs.
- iii. **Role of Government in Supporting Microfinance for MSMEs:** Further research could explore the role of government policies and interventions in supporting

microfinance institutions and enhancing their services to MSMEs. Understanding how government can play a role in fostering a conducive environment for MSME growth could provide valuable insights into policy development.



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APPENDICES

Appendix I: Consent Form

I am **Hussein Kiri Qurrah** a masters Student at Mount Kenya University. Am conducting a study on **Analysis of Microfinance financing approaches on the growth of Micro, Small and Medium Enterprises in Marsabit County, Kenya.**

I kindly wish to inform you that the study is in partial fulfillment of my master degree program. I recruit you conveniently to participate in this study and am seeking your consent. Confidentiality was maintained by using visit numbers rather than names and information gathered will not be revealed to anybody without your consent. Participation in this study is a voluntary. The research poses no any risks to the participants. This study would provide knowledge and act as part of reference points to the scholars who would want to further research in the same area or related field or for teaching in universities and other institutions of learning.


Before I involve you in this study, I kindly request you sign the declaration below.

I have read the purpose and I hereby agree/disagree to participate in this study.

Respondent

Sign.....Date.....

Principal Investigator

Sign 

Mobile Number 0715367919

Ethics Review Committee Office

The Chairman

Mount Kenya University, Ethics Review Committee P O Box 342 – 01000-THIK

Appendix II: Questionnaire

INSTRUCTIONS: TICK (✓) THE MOST APPROPRIATE RESPONSE
FOR THE ALTERNATIVES PROVIDED BELOW

Section A: DEMOGRAPHIC INFORMATION:

1. Specify your Gender?

- Male
 Female
 Other

2. Indicate your age in the appropriate box below

- 18-25 yrs. 26-35yrs
 36-45 yrs. 46-55yrs
 56yrs and above

3. Which one of these is your education level?

- Primary Secondary Diploma Undergraduate Postgraduate
 Other (specify)

4. Which one of this is the right category of your business value chain?

- crop livestock fish Honey
 Milk Gum and resin Juakali artisan
 Other (specify)

5. How long has your business been in operational?

- Less than one year
 1-3 years
 3-5 years
 More than 5 years

Section B: Accessibility of Microfinance Loans

6. Where do you get funding for your business?

- Personal savings Commercial Banks
 Microfinance Family and friends
 Other

7. How would you rate the ease of accessing microfinance loans for your business?

	Limited awareness about loan options
	Other (specify) _____

14. To what extent has the accessibility of microfinance loans contributed to your business growth?

	Very High
	High
	Moderate
	Low
	Very Low

Section C: Interest Rates and Financial Sustainability

15. How would you describe the interest rates charged by microfinance institutions?

	Very High
	High
	Moderate
	Low
	Very Low

16. To what extent do the interest rates affect your business's financial sustainability?

	Very High
	High
	Moderate
	Low
	Very Low

17. Have you ever experienced financial strain due to high-interest rates on microfinance loans?

{ } Yes

{ } No

18. In your opinion, do lower interest rates improve the sustainability of MSMEs?

	Strongly Agree
	Agree
	Neutral
	Disagree
	Strongly Disagree

19. What interest rate was applied to the most recent loan you serviced?

Interest rate paid on last loan				
10-15%	16-20%	21-25%	26-30%	Over 30%

Section D: Loan Repayment Conditions

20. How would you rate the flexibility of loan repayment terms offered by microfinance institutions?

	Very Flexible
	Flexible
	Neutral
	Inflexible
	Very Inflexible

21. Have the loan repayment conditions affected your business's operational growth?

	Very Positively
	Positively
	Neutral
	Negatively
	Very Negatively

22. What are the main challenges you face with loan repayment? (Select all that apply)

	Short repayment period
	High monthly repayment amounts
	Inflexible repayment schedule

	Penalties for late payments
	Other (specify) _____

Section E: Financial Literacy Training Programs

23. Have you participated in any training or capacity-building programs provided by microfinance institutions?

Yes

No

If yes, how would you rate the relevance of these programs to your business needs?

	Very Relevant
	Relevant
	Neutral
	Irrelevant
	Very Irrelevant

24. To what extent has microfinance training and capacity building impacted your business growth?

	Very High
	High
	Moderate
	Low
	Very Low

25. Which areas did the training cover? (Select all that apply)

	More relevant	Relevant	Fairly Relevant	Irrelevant	Not applicable
Financial management					
Marketing Skills					
Business Planning					

Record keeping					
Customer Service					
Others specify					

26. Do you feel that more training programs would be beneficial for the development of your business?

	Strongly Agree
	Agree
	Neutral
	Disagree
	Strongly Disagree

Section F: GROWTH OF MSMEs

27. How much money did you employ in the business in the following years?

Amount in ksh	Below 20000	21000-40000	41000-60000	61000-80000	Above 81000
2019					
2020					
2021					

28. How much profits have you made in KSH. In the following year

Amount in ksh	10000-20000	21000-30000	31000-40000	41000-50000	Above 51000
2019					
2020					
2021					

29. Please, indicate the number of product or services you have in the following years

YEAR	PRODUCT AND SERVICES			
	1-3	4-6	7-9	10 & Above

2019				
2020				
2021				

30. Indicate the value of average sales you have sold in the last six months



Appendix III: ERC Certificate



REF: MKU/ISERC/4678
TO: HUSSEIN KIRI QURRAH

Date: 14 January 2025

REG: MBA/2022/34882

Dear Sir/Madam,

RE: EFFECTS OF MICROFINANCE FINANCING APPROACHES TO GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN MARSABIT COUNTY, KENYA.

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3400**. The approval period is **14/01/2025 - 13/01/2026**.

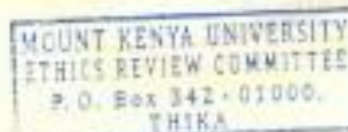
This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation [NACOSTI] <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

Dr. Alfred Owino, PhD
Chairman, Mount Kenya University ISERC



Appendix IV: Introduction Letter



DIRECTORATE OF GRADUATE STUDIES

MBA/2022/34882

15th January, 2025

*National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA*

Dear Sir/Madam,

RE: HUSSEIN KIRI QURRAH - REGISTRATION NO. MBA/2022/34882

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**.

The title of the research is **"Effects of Microfinance Financing Approaches to Growth of Micro, Small, and Medium Enterprises in Marsabit County, Kenya."** It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **January, 2025 and March, 2025**.

Any assistance accorded to the student will be highly appreciated.

Thank you



Dr. Samuel M. Karenga, PhD
Director, Graduate Studies
Enc.

Mount Kenya University
P.O. Box 342 - 01000, THIKA
Office of the Director,
Graduate Studies

Appendix V: NACOSTI Permit

178614

RESEARCH LICENSE




This is to Certify that Mr. HUSSEIN KIRI QURRAH of Mount Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Marsabit on the topic: EFFECTS OF MICROFINANCE FINANCING APPROACHES TO GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN MARSABIT COUNTY, KENYA. for the period ending : 27/January/2026.

License No: NACOSTI/P/25/415437

178614
Applicant Identification Number

Director General
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION

Verification QR Code



NOTE: This is a computer-generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

Appendix VI: Plagiarism Report

ANALYSIS OF MICROFINANCE FINANCING APPROACHES TO GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN MARSABIT COUNTY, KENYA

by Hussien Kiri

Submission date: 25-Mar-2025 03:58PM (UTC+0300)

Submission ID: 2474683082

File name: Hussein_Kiri-Very_Final_Project.docx (718.85K)

Word count: 22692

Character count: 136327

ANALYSIS OF MICROFINANCE FINANCING APPROACHES TO GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN MARSABIT COUNTY, KENYA

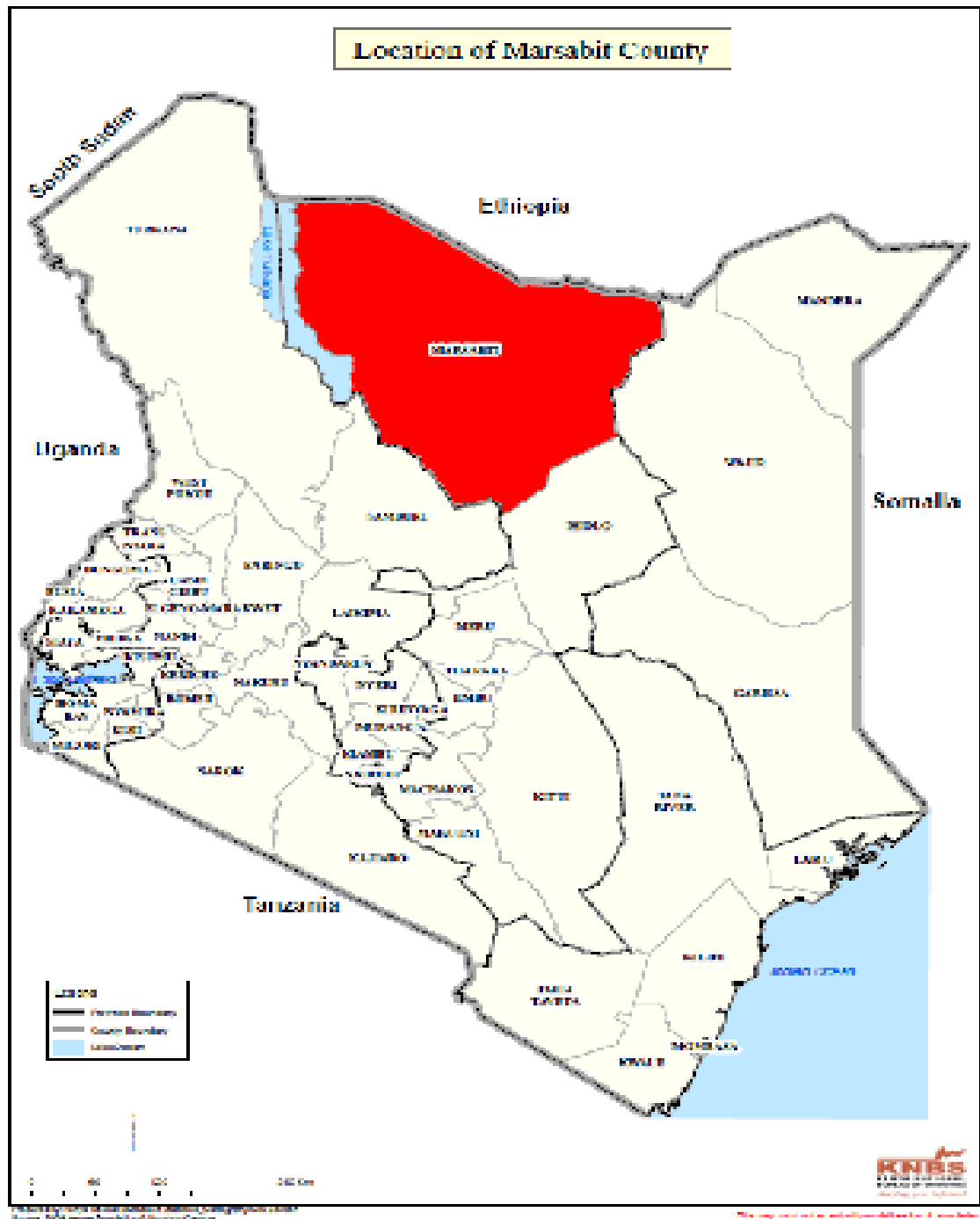
ORIGINALITY REPORT

15%	13%	11%	0%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

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6	ir.jkuat.ac.ke Internet Source	<1%
7	erepository.uoeld.ac.ke Internet Source	<1%
8	Sai Kiran Oruganti, Dimitrios A Karras, Srinesh Singh Thakur, Janapati Krishna Chaithanya, Sukanya Metta, Amit Lathigara. "Digital Transformation and Sustainability of Business", CRC Press, 2025 Publication	<1%

Appendix VII: MAP



Source: Kenya National Bureau of Statistics