

**THE EFFECT OF MICRO FINANCE INSTITUTIONS ON THE GROWTH OF
SMALL AND MEDIUM SCALE ENTERPRISES (SMEs); (CASE OF NAIROBI
COUNTY**

BY

JAMES K KIPTOO



**THIS RESEARCH PROJECT PRESENTED IN PARTIAL
RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE
REQUIREMENT OF THE AWARD OF A DEGREE IN BACHELOR OF
COMMERCE (ACCOUNTING OPTION)**

MOUNT KENYA UNIVERSITY

2014

ABSTRACT

Small and medium enterprises continue to fail from the problems those microfinance Institutions claim to offer solutions to. A survey by Kenya National Bureau of statistics, (2007) indicates that three out of five SME businesses fail within the first few months of operation. A gap exists in finding out the effect of Microfinance institutions and growth and development SMEs. This study therefore sought to establish the effect of microfinance institutions of growth and development of small and medium enterprises. The study was guided by the objectives; to find out the role of MFIs in financing, provision of financial literacy and development of management skills among SMEs in Nairobi County.

The study was expected to establish the practical role of perceived solutions provided by microfinance institutions and how this affects growth of SMEs. A survey design was used to accomplish the study objectives. Data was gathered from managers of MFI institutions as well as SMEs within Nairobi County. Stratified sampling was adopted to select 66 SMEs and five microfinance institutions to participate in the study. Data was collected via a questionnaire whose validity and reliability was established in the pilot test. Quantitative data analysis was undertaken to generate both descriptive and inferential statistics, this was done using statistical package for social sciences (SPSS).

Presentation of data was done in tables and interpretation made based on research objectives. The study findings indicated that microfinance institutions provide a series of products and service that include small-scale business accounts, business management training, marketing services and financial literacy skills. The study recommends MFIs to plan for seminars and workshops to train the SMEs on financial literacy, management skills and facilitation of ICT use. Further, MFIs should develop a regular needs assessment among SMEs so as to provide relevant products. A related study can be done to analyze the economic factors affecting microfinance institution. . It is apparent that most SMEs would need to be facilitated to do business through financing and provision of adequate management skills. This would probably enhance the level of resource allocation skills by SME managers and thus facilitate growth.