Influence Of Microfinance Financial Strategies On Growth Of Small And Micro Enterprises In Homa Bay County, Kenya

Morgan Bulla, Elijah Maronga, Christopher Ngacho

Abstract: Extensive body of research has acknowledged Microfinance Institutions' positive influence on Small and Micro enterprises' (SMEs) growth. However the subject of relationship between MFIs financial strategies on SMEs growth in Homa Bay County has not been explored. This study, therefore examined the role of financial strategies employed by MFIs and their inputs on SMEs growth in Homa Bay County. Specifically, the study explores the effects of interest rate, loan repayment period, credit allocation efficiency, and managerial training strategies on growth of SMEs in Homa Bay County. The study adopted a descriptive survey design. Data were collected using questionnaires from 100 SMEs who were either owners or managers of those enterprises. These SMEs were selected from a target population of 1000 using stratified random sampling. Data were analysed using descriptive and inferential statistics, The findings indicate that managerial training, credit allocation and loan repayment strategies have a positive effect on growth of SMEs while interest rate strategy has a negative effect on cost of borrowing. The study recommended that a 24 hour credit allocation on a cellular platform should be provided to enhance credit access; micro finance institutions should be given incentives to attract others to join the sector; managerial training should include value chain addition and sectorial approach training; and tailored loan repayment should be encouraged to meet diverse needs of SMEs.

Index Terms: Homa Bay County, Microfinance Financial Strategies, Microfinance Institutions, Small and Micro Enterprises, SME Growth

1 INTRODUCTION

MICROFINANCE Institutions (MFIs) are establishments that provide financial services and products to micro, medium and small enterprises (MMSEs) that were initially excluded from financial services of formal finance houses (Robinson, 2003). Services and products offered are of significance in transforming lives of the poor, boosting their asset requirements, facilitating working capital and moderating their consumptions. MFIs are an integral constituent of a wider collection of socially inclined financial institutions that exist in formal, semi formal and informal sectors of the economy. These comprise of rotating savings and credit associations (ROSCA), voluntary savings and loaning groups, savings and credit co-operatives societies (SACCOs), postal banking services, agricultural development corporations, private and government institutions as well as smaller interest groups who dispense micro credit. The drive for microcredit arose from the desire to empower the poor economically and socially through credit provision backed by social collateral (Kisaka & Mwewa, 2014). The early phases of MFIs development were confronted with many challenges, including Loan default rates, and a lack of efficient system of identifying deserving beneficiaries (Robinson, 2003). SMEs, are estimated to be around 133 million worldwide, 70% of which are from Developing Countries (DC) (Campion, Linder & Knots, 2008).

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In Kenya, the agricultural sector plays a significant role in the economy. It contributes 52% of the Gross Domestic Product (GDP) (Statistical Abstract, 2013). It became imperative for the government to intensify farmer's output through subsidies as a tool for enhancing competitiveness in regional and international markets. This concern led to the setting up of Joint Loan Board scheme with a mandate of providing funds and investment advisory to small-scale marginalized farmers in rural areas, (Dondo, 1999). Microcredit sector realized a remarkable progress in 1970s in the co-operative movement giving rise to a number of SACCOS namely: Kenya Farmers Association 'KFA' (Kenya Green Growers Co-operative Society), Kenya Co-operative Creameries 'KCC', and the East African Building Society. Membership in the informal sector includes, rotational savings and credit associations (ROSCA), money- lenders (who offered small loans of between Ksh 5,000 to Ksh 20,000 at an interest) and voluntary savings and loaning (VSL) schemes. These initiatives have experienced outstanding growth, some of which have achieved commercial bank status, for example, Equity Bank, Co-operative Bank and Family Bank, whereas others acquired new banners as deposit taking microfinance institutions (DTMI). These include Small Micro Enterprise Programme (SMEP), Kenya Women Finance Trust (KWFT), Uwezo, Faulu Kenya, Kenya Rural enterprise fund (K-REP), and Remu. The second phase of microcredit development was as a result of International Labour Organization (ILO) report *on* 'employment, income and equity in Kenya's development' (1972). The report emphasized the role performed by micro and small enterprises (MSEs) in economic development. (Akterujjaman, 2010). Being labour intensive, MSEs employ about 85% of Kenyan labour force which is close to 7.5 million aggregate employment, (Gure & Karugu, 2018). It is also observed that SMEs utilize locally accessible resources, employ local technology, assemble small-dispersed private savings, and foster entrepreneurship development. These features are fundamental to industrialization as envisaged in Vision 2030, and also crucial in addressing regional income disparity, which is widespread in Developing Countries. ILO report sped up SMEs regulatory reforms in Kenya. Economic recovery strategy and other acts were eventually harmonized in *Micro Finance Act Cap 493D (2006)*, that steered introduction of MFIs department at the Central Bank of Kenya to deal with issues associated to development, administration and regulation of MFIs sector. These reforms were carried out under the National Council for Micro and Small Enterprise (NCMSE), Registrar of Microfinance Institutions and Association of Microfinance Institutions (Ong'olo, & Awino, 2013). Other government interventions to improve SMEs status included youth and women enterprise fund. As at December 2010, Kenya had 54 retail MFIs outlets registered with Association of Microfinance Institutions with two million active clients, (CBK, 2007). Small and micro enterprises are "formal enterprises with yearly income, in U.S dollar standings, of between 10 to 1000 times the mean per capita gross national income, at purchasing power equivalence of the country of operation" (Gibson & Vaart, 2008, p. 218). In Kenya, Micro Enterprises are viewed as ventures that are operated by sole proprietors in formal and informal sectors of the economy and engage a work force of between 5-10 people and employ capital below KSh.500,000 while small enterprises are establishments with employees ranging from 11-50, and capital of between Ksh. 500,000 -5,000,000. Homa Bay County has experienced a continuous decline of SMEs participation in MFIs programmes over the past four years coupled with lower value of credits. This infers that even with the high demand for funds SMEs are still unwilling to secure credits. This gloomy picture probably stems from weaknesses of MFIs financial strategies, which do not measure up with client's expectations. However, even with this obstacle, financial strategies have remained largely unexplored. This study, therefore, seeks to investigate the effects of MFIs financial strategies on SMEs growth. Specifically, the study sought to answer the following questions. What are the effects of interest rates strategies on SMEs cost of borrowing in Homa- Bay County?; What are the effects of credit allocation efficiency on growth of SMEs in Homa Bay County?; What are the effects of loan repayment periods on SMEs on profitability in Homa Bay County?; and What roles does managerial training have on SMEs growth in Homa- Bay County?

LITERATURE REVIEW

Theoretical review

Grameen Model
This model is based *on*, social benefits that stem from shared conviction on arrangement for group shared obligations, consortium status, loan evaluation and prospective future access to credit for individual client. Each of these elements are directly contingent on individual member maintaining his or her credit reimbursement commitment (Todaro & Smith, 2011). Grameen Model is a cyclic procedure with a sequence of 1 to 1.5 years time frame. The process is replicated and the size of loan intensified in each sequence. The relevance of the model to this study is derived from social collateral. As with Grameen Model, SMEs in Kenya also operate in groups of 4-7 members, who provide the necessary peer pressure support and screening of new members to ensure contracts entered into are monitored and enforced.

Freeman's Stakeholder Theory
Freeman (1984), argued that there exists considerable definite correlation between stakeholder focused management and operation of a firm. The firm is not only concerned with the shareholder but must equally align her goals with a consideration of stakeholders. However, Sherer and Patzer (2011), contend that there are several interpretations of stakeholder, which makes it hard to uphold Freeman's Theory. However, fiduciary and corporate rightfulness offer some fabric base. Fiduciary refers to obligation of embracing mutual trust in providing goods and services on the part of a firm to her clients (free competition without fraud), while corporate rightfulness is instituted on assurance of respecting contract agreements signed between two entities (Freeman, 1984). These two basic principles make the theory relevant to this study with regard to MFIs pursuit for profits and SMEs who have to contend with high interest.

Empirical Review

Micro Finance strategies
Strategy is the art of the generals or science of options (Tzu, 2007). It entails fashioning options by adopting attacking, defensive, and aggressive options that produce results in line with a firm's mission and vision. USAID (2007), defines strategy as an organization's resolve to attain her goals. Strategic emphasis is central to success of MFIs as they grow from infancy to maturity in service and product delivery. In spite of the significance of MFIs strategic suite, it has remained obscure, ambiguous, and vague. This calls for urgent measures and responses, in order to boost SMEs performance (World Bank, 2001). Strategic reactions encourage re-packaging of SMEs services, and products, foster product and service innovation, nurture equipment's, enhance and operational efficiencies, optimize returns on investments, explore new markets, and lastly lead to acquisition of more funds for expansion. Grasp of strategies will be understood from the following theoretical settings.Interest strategies on Small and micro enterprise cost of borrowing Interest rate has probably generated more controversy and is perhaps the most contested subject in the field of economics. Lord Maynard Keynes described interest as a monetary phenomenon, which is a product of monetary policies. This description is however, contested within the Swedish School of thought. This School argues that Keynesian theory is an oversight of government intercessions on interest. Interest rate is not decided by monetary policy alone, but considerably require understanding of price mechanism (Ohlin and Robertson, 1937). Uchendu (1993), and Kimutai (2003), define interest rate as the price paid for the use of borrowed capital. This definition is more explicit whose rationale is based on risk involved in dispensing funds or assets, and opportunity cost foregone as a consequence of capital lease. Brau and Woller (2004), observe that interests charged by MFIs are predominantly high and impacts adversely on SMEs capacity to grow as a consequent of cost of credit spiral. This direction relegates SMEs out of credit streams. Brau and Woller, posit that this exercise encourages loan evasions, overstrains SMEs operations, and correspondingly over burden groups that act as social collateral. Similarly Mbaru (1997), in an opening address to a joint IPAR/ICPAK seminar confirmed that high interest rate intensifies cost of future credits as a result of inflationary

inclination. High interest affects SMEs asset build up, depress employment creation and consequently, undermine growth of enterprises. Rosenberg (2009), argues that interest charged on SMEs loans emanate from clients' proceeds, and are unwarranted when it is consigned to cover up high operating expenses as a consequence of managerial inefficiencies. USAID (2001), Lydia (2013), Nahamya (2013), Perry (2002), Conning (1999), and Robinson (1996) also argue that credit offered by MFIs should attract more interest in order to sustain funding. MFIs equally operate with lesser leverage compared with other financial institutions serving poor populations, higher risks of loan defaults, and higher administrative expenses. Nevertheless, these arguments do not take into account restricted options of funding, and undefined credit terms, which SMEs cope with on daily basis as a predicament of expanding businesses. Other studies prefer introduction of ceiling rates of interest as a response to higher credit costs. Fernando (2006), however, maintains that setting ceiling rates create artificial demand of credits. This could lead to dented reputation with clients, in case of deficiency from supply side. Malaysian survey of Microcredit indicated that provision of credit at market rates is possible and sustainable based on the following structures:

1. Bank units must lend at competitive market rates and engage their proceeds to bankroll their operations;
2. Formulate suitable saving devices to attract creditors; and
3. Enhance savings mobilization programmes to attract more funds, to facilitate ease of loan delivery. (World Bank audit, 1996).

The success story of Malaysian micro credit emanated from savings mobilization that supported loan provision. This plan enabled banks to experience low operational costs at the lowest functional level reinforced by means of handy supervision and scrutiny at tactical level. Banks guaranteed appropriate staff training, loan dispensing efficiency, concerted incentives, and harmonized structures that linked community with banks, as well as a thriving economy. MFIs interest rate strategies include the following:

(i) Flat rate strategy

In a study of interest rate in India, the cost of borrowing for MMSE was found to be overwhelmingly high (Mitrya, 2009). As initial principal decreases, interest rate remains unvarying and unfair. This can be exemplified based on the following illustration. A premium of Ksh.10000, earns Ksh. 1500 at a flat rate interest of 15% per annum. This translates to Ksh. 125 of interest per month in addition toKsh.833.30as part premium payment, totalling to Ksh. 958.30 per month. The Principal outstanding and interest as at the start of first month through twelfth month are as follows:

First Month 1 = 125X12= 1500 = (1500/10000X100) =15% interest (Principal of Ksh. 10000)

Second Month = 125X12 = 1500 =(1500/9166.70X100)=16.36% interest(Principal of Ksh. 9166.70)...

Through Twelfth Month=125X12= (1500 (1500/833.70X100= 179.92%Interest (Principal of Ksh. 833.70)

The model implies that out of the premium of Ksh.10000, paid within one calendar year generates interest of between 15% to 179.92% (translating to Ksh.1500 - 17992). This excludes security fee, loan dispensation fee paid up front, compulsory savings in excess of loan instalments, and a penalty for miss out on a loan repayment. Moreover, forced savings do not earn SMEs any return on their savings.

(ii) Reducing balance strategy

Reducing balance considers the reduction on interest, as outstanding principal reduces with each instalment paid. This strategy is a favourite of most SACCOs in Kenya and relieves SMEs from being overburdened during loan repayment process.

(iii) Soft cost financing strategy.

Microfinance institutions pursue soft loan from wholesale funders. These concessional rates advanced to MFIs may be used to lower interest rates on SMEs loan. Soft loan strategy is a viable option meant to support both SMEs growth and MFIs operational expenses. Through enhanced consumer base, it may subsequently realize economies of scale.

(iv) Subsidized credit strategy.

This strategy involves a waiver of slices of interest charged on principal. It helps achieve low cost borrowing and augments the quantity of output of economically vibrant individuals and SMEs (Makinde & Olojide, 2018). However, Hossain, (2002) believes that as much as subsidized credits may be good for SMEs, funds available for subsidies are rather scarce. He asserts that MFIs should work out modest interest rates, or seriously reduce operating expenses, or both to guarantee continuance of subsidies for welfare gain (Subey & Mutur, 2017). This raises two weighty questions: first, how much subsidy may be considered adequate? Second, how will MFIs meet heightened demand for credits that originate from lower cost of credit?

(v) Portfolio securitization strategy

Portfolio securitization is a contractual pact between MFIs and a third party, typically a large commercial finance institution. MFIs are contracted to disburse, collect, and manage credits, as well as sale other bank products and services on the bank's behalf. Portfolio securitization is an answer to most of liquidity problems faced by MFIs. The strategy offers prospect for MFIs expansion and also addresses reserve requirement, deposits and liquidity issues that originates from their balance sheets. This consideration reduces MFIs operating expenses and consequently cushioning SMEs terms of borrowing. Such arrangement has been practiced by ICICI bank of India. Portfolio securitization, nevertheless, requires higher levels of operating efficiencies and periodic renewal of agreements.

Credit allocation efficiency and Growth of SMEs

Credit allocation efficiency refers to obtaining acceptable and realistic capital over a fitting time frame (Tagoe, et al, 2005). The inventory carried out by Dondo (1999), on supply of credit to SMEs by financial institutions in Kenya indicates enterprises that received credit considered the allocation insufficient. Makorere (2014), believes that the major grumble of most SMEs originate from credit allocation confines prearranged by micro creditors. These limitations do not enable firms to grow nor meet obligations. Brau and Woller (2004), argue, that low allocation of credit deter enterprises from enjoying economies of scale. Credit bases for SMEs wane more quickly in comparison to large establishments (Coeure, 2013). Inability to secure reasonable credit compromises SMEs profitability and investment decisions. Odongo (2014), similarly agrees that deprivation of agricultural loans to SMEs significantly hampered the growth and expansion of SMEs segment in Uganda. The deficit denied SMEs' capacity to procure improved technologies, and value addition to services and products. Deficient capital signifies low returns, low capital accumulation and lower growth prospects. MFIs lack sufficient networks and capacity to provide services on time and on a sustainable basis. MFIs equally lack capability to leverage funds in capital related markets, and therefore, unable to avail varieties of goods and services due to financial constraints. This has a direct implication on SMEs growth. Credit allocation strategies include:

(i)Provision of overdraft
Generally SMEs require short-term credits that may be over night, weekly or monthly to meet unique heightened needs that depend on the nature and stage of growth of the enterprise. Credits of the said nature should be provided above present prevailing deposit limits.

(ii) Channels relationship management
Micro finance Institutions may adopt the following measures, doorway banking, intensification of retail outlets, and implementation of management information system (MIS) and mobile money transfer (MPESA) as measures of guaranteeing cost effectiveness and efficiency in operations and service delivery. This advantage could be passed to targeted microenterprises in terms of subsidized credit.

Managerial training strategies on growth of SMEs
The levels of workforce in SMEs are smaller and untrained, with everyday activities undertaken by the owner and family members. This state of affair exerts more decisions and operations upon one or two people who are neither proficient on any specific task nor unimpressed with numerous tasks that are considerable to SMEs growth. Training programs are valuable instruments in conveying business proficiencies among entrepreneurs (Waithaka, Marangu & Ng'ondu, 2014). A study by Abio and Kalu (2018) in Nimule, Southern Sudan revealed that intensification in imparting managerial skills on SMEs by Microfinance enhance SMEs growth. Hospes, Musinga and Ong'ayo (2002), on evaluation on Netherlands co-financing programmes in Kenya, indicated that there was no considerable change in management practices among SMEs after receiving various cycles of loans. Consistent training packages together with constant appraisals of programs are key in addressing sectarian dynamics. Kisaka, Ojuang & Mwewa (2014), Consider, MFIs training strategies in DCs as deficient. The programmes are either out of line with expectation of SMEs or totally non-existent. Absence or under provision of training programmes have serious negative sway on growth of enterprises. Hill (1987) argues that deficiency of training programs results in intuitive approaches, characterized by inborn rather than analytic skills. The benefits of training programs on microcredit are best demonstrated from FINCA's Peru research, which concluded that there was positive social interaction amongst groups and there was an increase in reimbursement rates on credits (Karlan & Validvia, 2013). The Peru study shows that entrepreneurship training programs facilitate basic management proficiencies through a combination of functional knowledge, managerial skills, behavioural change, and best practice exchange. Training strategies include, proficiency in loan processing; proper up keep of business records; market promotions; quotation, pricing and carriage services, pro-poor innovation skills; managing changing portfolios; and engaging technologies capable of changing quality and quantity of production (World Bank, 2001).

Loan repayment strategies on SMEs profitability
Servicing credits encompass challenges to emerging enterprises, especially when repayment amount is short-term, big, inflexible, and cash flow is inconsistent. Most MFIs provide short-term lending ranging from six months to one year. The rationale for short-term loan according to Odongo (2014) is attributed to SMEs feeble credit status, deficiency of financial collateral and contractual uncertainties. Makorere (2015), testifies that short-term credits serve short-term goals, reduce cost of borrowing and generate growth of SMEs. Lascelles (2009) contrarily argues that short-term credit is an obstacle to SMEs growth. This argument is shared in Organization for Economic Co-operation and Development (OECD) Conference (2004) report, which confirmed that deprivation of SMEs medium and long-standing loans, compromise SMEs investment in modern technology, and resourcefulness. This limitation may impede trade capability and a firms capacity to bond with external direct investors. As much as short-term loan may be inexpensive, the reimbursement mechanism is hurting and distressing to SMEs in relation to operations and obligations expenses. Loan repayment strategies include: offering top ups for existing loans to sustain start up phase of businesses, which require more urgent funding for their day to day operations andsetting up of relaxed terms, through renegotiation of loan reimbursement period to ease repayment challenges.

Growth of small and micro enterprises
Enterprise growth falls under two clusters qualitative and quantitative (Kotler, 1997). Qualitative growth involves transformation or sophistication in a firm involving the managers and owners, while quantitative growth is involves adjustments such as size of labour force, sales return, total asset outlay, and assortment of different products and services.

Size of labor force
Growth of labour force is a good indicator of a SMEs growth rate (Beck, Demiurgic and Levine, 2004). However, Snodgrass and Biggs (1996), argue that SMEs are not essentially appropriate for labour glut and are better off with capital intensiveness as compared to large firms in the same industry. This argument is only rational in the West where capital is cheaper in comparison to DCs. A study carried out by Hospes, Musinga and Ong'ayo (2002) on evaluation of micro-finance programs in Kenya, found that larger firms that got more funding recorded more workforce than their counterparts that had access to fewer credits. Hospes, et al. further observed that on average, customers who acquired five or more loans had 3-12 workforce compared to those who got two to four loans who had on average 2.65 employees. These findings confirm that smaller enterprises do not expand their

size of workforce due to difficulties encountered in meeting operational costs. The GoK MSME Bill, (2009) categorized enterprises by size of labour force. Small enterprises employ a workforce of over 50 and micro enterprises employ labour force of less than 10. Those micro enterprises who have employed past this margin are considered to have grown. Growth trajectory as a measure of growth coalesce rations of past employment growth and motivations for growth prospects as shown in the following model:

(i) Sustained growth – More labour force than previous 12 months and anticipation of an increase in the coming year;
(ii) Contained growth - those who employed more than they had in the past year but do not anticipate raising the numbers in the following year;
(iii) New growth - those firms that had not faced employment growth in the previous year but anticipate an increase during the next calendar year; and
(iv) No growth – firms that neither experienced growth of their labour force nor expect to employ additional staff. (Cowling & Liu, 2011)

Profitability

Profitability refers to surplus returns over working capital, or generally the firm's cash liquidity. Profitability has commonly been applied as an acceptable index for measuring financial performance of businesses, and by extension growth. Barrow (1987), observed that profits bare several limitations as performance indices for SMEs. This is because SMEs do not always practice proper record keeping, and do not appraise their business performance. Such insensitivity to financial data restricts profitability as a measurement of growth. Akterujjaman (2010) asserts that strained with limitations, a firm can only be sustained when her returns are above her operating expenses. A firm's profitability is therefore a critical growth factor.

Market expansion

Market expansion refers to an increase in volume of business either by intensifying market share or portfolio through product, service innovation and vigorous market promotions. According to Hussain (2000), reinforcement of horizontal linkages among firms of the same size and vertical linkages with bigger enterprises area possibility for enhancing market entry, and consequently expansion. However, a study by Uganda Women Finance Trust (2005) and Wanambisi and Bwisa (2013), indicates that access to credit is not significant to SMEs market expansion. Access to credit facilitates market penetration, segment invasion, geographic expansion in new markets, and profitability.

Financial obligations

Financial obligations are forfeitures of financial advantages that enterprises are currently obliged to render to other entities as a consequence of previous dealings or other past actions that may be financial or legal. According to Kotey, and Meredith (1997) sales turnover, calibre of management and ability to meet daily obligations of the business are considered as indicators of SMEs financial Health. Contrarily, high debt-asset levels imply a higher degree of financial risk, and require a higher return on assets to service the debt. Most SMEs require large slices of assets, sometimes above the required levels to meet obligations; this restricts chances of growth (Odongo, 2014).

SMEs growth thresholds

Growth indicator is the formula by which management measures progress in line with organization's goals. In the context of this study, it will be used in measuring linear relationship between MFIs strategies and SMEs growth. Indicators combine the elements of inputs, and outcomes; these are seen from the perspective of the study in terms of MFIs financial strategies, profitability, size of labour force, market expansion and ability to meet financial obligations. Largely there are a number of models that have been used in the past as growth and development yardsticks. Notable ones are strategic model approach, traditional balance sheet and income statement (Hashim, 2000). Previous studies on financial statement or balance sheet attest that it is difficult to derive a clear profile of SMEs performance based on the balance sheet consequently ratios have been suggested as better measure of predicting trends and drawing comparisons with other similar firms in the industry, (Barrow, 1987). This study explores the following measurements:

Profitability

Return on equity ratio (ROE). Is a leverage measure that stipulates how effective the management has used her equity financing to guarantee profits, it is calculated using the following formula:

$$\text{ROE Ratio} = \frac{\text{Net income}}{\text{shareholder's equity}}$$

Financial obligations

This is a measure of a firm's capacity to meet her financial obligations. Also known as quick ratio or acid test ratio, represents the number of assets that an enterprise must sell in order to service her liabilities. A ratio of 2:1 is considered significant (Brau and Woller, 2014). This is worked based on the formula:

$$Ratio = \frac{CurrentAssets}{CurrentLiabilities}$$

Size of labour force

Job creation as a measurement of SMEs growth involves the following yard sticks: for Small enterprises the number of people should be greater than 10 but less than 50 (>10 and <50) and Medium enterprises greater than 50 but less than 100 (> 50, and < 100) (G.o.K MSME Bill, 2009)

Market expansion

SMEs expansion is fastened on tapping into her market potentials through creation of new innovative techniques, and embracing modern technologies (OECD, 2004). Market expansion is therefore measured based on introduction of innovative products and services.

Research gaps

A number of studies have been conducted on MFIs' products and services and how they impact on growth and sustainability of SMEs. Waithaka, Marangu, and Ng'ondu (2014) undertook a study on entrepreneurship development by MFIs effects on growth of SMEs in Nairobi Central Business District: A case of Jitegemea Credit Scheme employing descriptive cross section design, their emphasis was on business counselling. A similar study by Rotich, Lagat and Kogei (2015) on the effect of MFIs services on performance of SMEs in Kenya, adopting explanatory research design paid attention to access to credit and savings mobilization. In addition, Odongo (2014), studied lending terms and financial performance of SMEs In Ugandafocusing on liquidity, financial efficiency, solvency and utilization of resources. Evidently there is few literature on MFIs financial strategies and growth of SMEs. This study, therefore, intends to fill the existing gap by determining if there is any corresponding effect of MFIs interest rate, credit allocation efficiency, loan repayment period and training strategies on SMEs growth.

Conceptual framework

Conceptual framework provide theoretical provisions, justifications and speculations for the commonly thought observations (Cooper & Schindler, 2008). The variables in the conceptual framework are MFIs financial strategies as independent variables, while growth of SMEs is dependent.

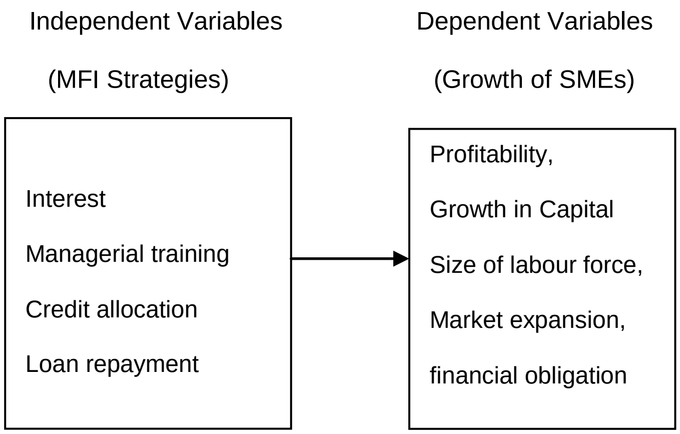

Figure 1: *Conceptual framework (Source: Researcher, 2018)*

MFIs financial strategies are assumed to influence growth of SMEs. Financial Strategies are examined on interest rates charged on credit, credit allocation efficiency, managerial training, and loan repayment period; while, growth is measured on the basis of profitability, size of labour force, meeting financial obligations, market expansion and growth in capital. This is illustrated in Figure 1.

RESEARCH METHODOLOGY

Research design

This study adopted a descriptive survey research design. The study was conducted in Homa Bay County, Kenya. The County is located in the previous Nyanza province of Kenya, with a geographical area coverage of 3,183.3 Km^2 and a thriving population of about 983,400 people (G.o.K Statistical abstract, 2013). The county borders Migori, Kisii, Kericho, Nyamira, and Kisumu Counties. The main economic undertakings are fishing, agriculture, and Small and micro businesses.

Target population

The target population for this study was 1000 registered SMEs in Homa Bay County, who are beneficiaries of MFIs credit allocation. The group of categories included informal artisans, wholesalers, retailers, small and medium-scale farmers, fish vendors, restaurants and entertainment outlets. SMEs that have been in existence for at least three years were considered necessary to form the accessible population. It was assumed the duration of SMEs existence would provide important insight on their performance.

Sampling design

Cooper and Schindler (2008) clarify the aim of sampling as, selection of a sub set of the constituents in a population, such that inferences can be drawn about the entire population. This in essence, reduces cost of collecting data and assures superior accuracy of results. This study employed random stratified sampling. The population was first segmented into strata to create sets of homogenous groups, and then randomly selected based on the objectives of the study. The accessible population was stratified into heterogeneous categories thus, whole sellers, retailers, restaurants and entertainment operators, farm owners or managers, and fish vendors, and informal artisans. According to Oso, and Onen (2009), stratified sampling is used to ensure that different groups within the population are adequately represented in the sample to guarantee that subcategories are uniformly represented and to account for the differences in subgroups. A sample of 100 SMEs was drawn uniformly from the strata. According to Gay (1992), for descriptive studies 10% of the accessible population is considered sufficient. Participants from each stratum were selected using stratified random sampling technique to give each element an equal chance to constitute a sample of 100 respondents.

Data collection procedures

Perceptions of respondents were collected from a sample of 100 SMEs derived from the accessible population, using stratified random sampling technique. The questionnaire adopted a structured close-ended, matrix and rate questions on a five-point Likert scale. This was administered through drop and pick to respondents by the researcher and research assistants.

Validity of instrument

Validity is the extent to which results can be accurately interpreted and generalized to the population or the extent to which research instruments measure what they are compelled to measure. Empirical validity "is the relationship between measuring instrument and the measurement outcomes" (Nachmias & Nachmias, 1996, P.166). To establish validity two experts were involved in the scrutiny and evaluation of research instruments based on the objectives. Validity was determined according to Content validity index (C.V.I). CVI = Items rated 3 or 4 by both experts divided by the total number of items in the questionnaire symbolized as $CVI = \frac{n}{N}$ (Oso & Onen, 2009). CVI was calculated and found to be 0.826 which was above the acceptable threshold of 0.60

Reliability of instrument

Reliability is the degree to which assessment tools produce stable and consistent results. Cronbach alpha was used to test internal consistency and divergence corrected. Cronbach alpha can be written as a function of the number of test items and the average inter-correlation among the items. Below, for conceptual purposes, we show the formula for the standardized Cronbach alpha: $\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$ N is the number of items, c bar is the average inter-item covariance among the items and v-bar is the average variance. A reliability score of .70 and above is considered acceptable. A pilot survey was carried to ascertain dependability of the questionnaire. The Survey engaged 25 respondents. Alpha Reliability test was performed by means of Cronbach Alpha, which determined the internal reliability by verifying if certain elements within the scale measured the same construct. According to Gliem and Gliem (2003) a threshold of Alpha value of 0.7, is considered adequate. The Reliability statistics, established the reliability of research instrument with a Cronbach Alpha of .863. This value is above the threshold of .07, and is therefore considered sufficient.

Data Analysis

Descriptive and inferential statistics were used to analyze data. Multiple linear regression analysis was also used to establish the relationship between MFIs strategies (independent variables) and growth and development of SMEs (dependent variable). Regression analysis (Multiple regression) is a technique for evaluating simultaneous impression of a number of independent variables on a dependent variable in mathematical terms, (Nachmias & Nachmias, 1996). Multiple regressions work out as follows: Enterprise growth (f) = (Constant + Loan repayment period + interest + Credit allocation+ Managerial training), thus, the model $f = \alpha + \beta_1 CA + \beta_2 MT + \beta 3LR + \beta 4RI + \varepsilon$....................1

The other technique of analysis included descriptive statistics, using histograms, pie charts and bar charts.

RESEARCH FINDINGS

Of the 100 questionnaires that were distributed to the respondents, 74 were returned. This indicates a response rate of 74%. Respondents were asked the sources of finance for their businesses to which 58% attributed their income source to Commercial Banks, 22% to Microfinance, while family and friends, and other sources accounted for 10% and 8.6% respectively. This indicates that in spite of increased number of Micro Finance Institutions in the county, Commercial Banks have remained the preferred choice of funding for most SMEs. Major categories of Micro Enterprises that dominated the county were: retail businesses (17.5%), wholesale (16.3%), Poultry (13.8%) and Fishing (13.5%). Crop farming, and entertainment and restaurants account for 10.8% and 12.2% respectively. The study showed that micro firms employing 1-5 members dominated in three years registering 66.3% in 2015, 72.5% in 2016 and 81.5% in 2017. This is an indication that firms that had a higher number of labour force shrunk in size within the three years of operation, or it can alternatively be said that existing firms remained stagnant as other new players emerged. This could be attributed to commercial environment in which SMEs operate which include definite market structures, incorporating financial, human capital and institutional factors within and outside firms.

Correlation between variables

Pearson correlation (r) was used to establish the strength and direction between the variables. The findings indicated the relationship between rate of interest and SME's cost of borrowing to be as r = -.195). This indicated that interest and cost of borrowing did have a significant correlation albeit negative. A unit change of interest showed a negative impact on the value and volume of credits. High interest is therefore a burden to SMEs and compromises SMEs capacity to invest in present and future capital goods as a consequence of depressed sales turnover and savings. It is observed that the relationship between credit allocation efficiency and SMEs growth was r =0.25. Credit allocation efficiency has prospects of generating positive medium growth of SMEs. This research study disclosed a positive relationship between loan repayment strategy and the SMEs growth. In 2015 the correlation was (r = .258), 2016 (r=-348) and 2017 (r = -313). The observed results demonstrate that loan repayment period has medium correlation however negative. The study found out that the most preferred rate of interest was 10-15% registering 60% of respondents, followed by 16-21% at 25%), 22-27% at 3.8% of respondents, and lastly 28-33% registering 2.5% of respondents. This is an indication that SMEs were more comfortable with low rates of interest.

Multiple Regression Model

To determine association between Microfinance financial strategies and growth of Small and Micro enterprise's growth in Homa Bay County the study employed multiple regressions. The adjusted R squared is coefficient of determination that enlightens us of the deviation in the dependent variable as a result of changes in independent variable. The value of adjusted R squared was 0.146. There was a variation on SMEs growth as a consequence of changes in loan allocation efficiency, loan repayment period, managerial training, and interest rate provided by Micro finance institutions at a significance level of 95%. R is the correlation coefficient, which represents the association between the study's variables. The results indicate a strong positive relationship between the study variables of 0.473.

Analysis of Variance

The objective of ANOVA is to examine the dissimilarity in means. The study indicates 0.034, which is less than the threshold of 0.05. The regression model is not significant given the level of significance F (4,40) = 2.884, p = 0.34 which is above 0.05. Therefore, there is no statistical significant difference between the means of the dependent and independent variables.

Regression Equation and predictor relationship

The extent to which Micro finance financial strategies, as represented by the four variables (Interest, and loan allocation, loan repayment and managerial training) affected SMEs growth is represented in the regression equation.

The established multiple linear regression equation is:
$Y = 4.952\text{-}0372X_1 + 0.434X_2 + 0.059X_3 + \text{-}460X_4$
Where:

(i) Coefficient of Training strategies represented by X_1 = -0.0372, t =-1.752 and p> 0.5 indicates that a unit variation in training strategy results in -0.0372 decrease in annual growth of SMEs.
(ii) Interest is represented by X_2 = 0.434, while t =1.540 and p > 0.5 meaning that an alteration of a unit of interest strategy consequently results in 0.434 increase in annual growth of SMEs.
(iii) Coefficient of loan allocation represented by X_3 = 0.059, while t= 0.170 and p > 0.5 means that a unit change in

loan allocation strategy results in a positive change of SMEs growth by 0.059.

(iv) Coefficient of loan repayment represented by X_4 = -0.460, while t = -1.349 and p >0.5 indicates that a unit alteration in loan repayment strategy will bring a negative change of -0.460 in SMEs growth.

Return on Equity

Return on Equity Ratio (ROE) is a profitability measure that raises consciousness of efficiency of utilization of shareholder's equity. ROE threshold of 1:2 to 1:3 is considered sufficient. Results of profitability for the years 2015, 2016, and 2017 was found to be 1:169, 1:112, and 1:081 respectively.

CONCLUSION

Findings of this study revealed that MFIs interest strategies have negative significance on cost of borrowing. This corroborates Lydia's (2013), study of interest rates on demand of credit by small and medium enterprises in Nairobi, which indicated that SMEs do not consider the effect of interest on cost of borrowing or growth, but are preoccupied with obtaining MFIs funds. The study indicates that credit allocation efficiency has a significant positive effect on SMEs growth. This strategy from signifies that it has the ability to turn around Small and micro enterprises and spur growth. Makorere (2014), equally acknowledge this fact in his study on the role of microfinance in promoting small and medium enterprises in Tanzania. This study found little or no statistical significant difference between loan repayment strategy and small and micro enterprises profitability. The results further indicate a positive relationship between managerial training and small and micro enterprises growth. More managerial training strategies are likely to generate more growth of SMEs. Coefficient of training strategies on growth of SMEs in Homa Bay County indicated a coefficient of - 0.372 representing a unit change in training strategy. This would provide a decrease in SMEs growth corresponding to 37%. It is also apparent that loan repayment had a coefficient of -0.460. Interest and loan allocation had positive significance on growth of SMEs in Homa Bay County of .43 and .59 respectively. hence change of a unit of each brought 43% and 59% respectively of SMEs growth in Homa Bay County.

Recommendations

Credit allocation strategy should be enhanced on a cellular phone platform to provide greater access to credits on 24-hour basis. This will facilitate minimization of paper work and facilitate faster delivery of loans. Interest rate might not have been of a consideration on cost of borrowing, probably due to limited access to sources of funding and information relating to credit. Micro credit providers should be provided with incentives through cheaper credits to tap on other would-be players in microcredit. The Microcredit providers should also be made to have a policy on information with regard to credits to augment competitiveness and informed choices for SMEs. Micro Finance Institutions have a duty to adopt more aggressive managerial training strategies that have sectorial approach to spur growth. These strategies could include value chain addition on product and service lines and formulate more market penetration strategies. Loan repayment should be tailored to meet individual Small micro enterprise's needs. These may be long term or short term as the conditions of the loan may require. Further research should be conducted to examine micro finance financial strategies on growth of SMEs in other counties. Similar study should be undertaken focusing on variables other than those that formed the basis of this current study.

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