Effect of Financial Development Initiatives on Growth of Small and Medium Manufacturing Enterprises in Nairobi County, Kenya

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Abstract

Purpose: *This paper investigates the relationship between financial development initiatives and growth of small and medium manufacturing enterprises in Nairobi County, Kenya.*

Methodology: *The study targeted 451 SMEs in manufacturing industry in Nairobi County who are members of Kenya Association of Manufacturers (KAM). The study selected the sample proportion in concurrence with the Krejcie and Morgan (1970) and sample size was 210 respondent firms proportionately distributed across different categories under the Kenya Association of Manufacturers.*

Findings*: The study established that pooling of savings by firms would promote the relationship with the financial institutions. The way firms allocate capital in different investment projects also determines growth and requires expertise to ensure risk diversification, which may lead to high profits. Finally, access to credit has a strong association with the growth of the manufacturing SMEs.*

Implications*: The study concludes that pooling of savings by manufacturing firms will promote the relationship with the financial institutions and this will ensure efficiency when they are seeking for funds needed for investment, which in turn brings firms growth such as opening new branches. Equally, capital allocation in different investment projects also determines growth and requires expertise to ensure risk diversification that may lead to high profits thus growth of the firm. Finally, the study concluded that access to credit has a strong association with the growth of small and medium manufacturing enterprises. Collateral is key when it comes to debt financing.*

Value*: The article extends empirical insights in Kenyan context that assist to resolve previous research inconsistences on financial development initiatives and growth of SMEs. Additionally, the findings present an appreciation of the impact of financial development on the growth and profitability of SMMEs which are major players in economic activities.*

Keywords*: Financial Development Initiatives, Pooling of Savings, Allocation of Capital, Access to Credit, Growth of SMMEs*

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Introduction

Sustainable economic growth depends on the contribution of individual sectors in the economy with the development of the sectors that play an intermediary role being extremely critical to this growth. The growth mainly depends on the rate at which factors of production are converted into productive assets and the efficient access to these productive assets by the whole population (Ndwiga, 2011). The financial sector plays an intermediary role in this process through mobilization of savings that are in turn used to bridge the gap in economic sectors/agents in deficit. Financial development comes in to make the process more effective through establishment and expansion of instruments, institutions and markets that make the growth process feasible and realizable (Halkos & Trigoni, 2010).

According to Halkos & Trigoni (2010), financial development is concerned with minimizing the financial system costs to improve on the effectiveness and efficiency of economic intermediation. Therefore, financial development involves reducing cost of acquiring financial information, enforcing financial contracts and making of the resultant financial contracts, markets as well as intermediaries (Ndwiga, 2011). Financial development support economic growth via capital accumulation and technological progress through improved savings, pooling and mobilization of savings, production of investment information and optimization of capital allocation. Therefore, financial development is not just an outcome of economic growth but it's a main contributor to economic growth through a functioning financial sector (Omoke, 2010).

A developed financial system is a lifeline for Micro, Small and Medium Enterprises (MSMEs) in an economy as it is a catalyst for savings and capital deployment into investments. The rate at which SMMEs grow in any economy and especially in developing countries depend on the consistency of access to financing. Financial development brings about diversified financial products, reduced borrowing costs, developed and efficient financial markets and macroeconomic stability which are key factors to growth and development of MSMEs (Kagochi, 2016). The absence of these financial development outcomes adversely affects the MSMEs as the financial sector becomes inaccessible to them due to limited financial products and high cost of financing. These are further complicated by stringent conditions of borrowing that only favour big corporates that can afford the cost of finance and have established assets that can be pledged as securities.

Financial Development in Kenya

Kenya boast of having one of the extensive and utmost developed financial systems in sub-Saharan Africa with 45 commercial banks, two mortgage companies, over 50 foreign exchange bureaus, a developed insurance sector and over 2000 savings and credit cooperative organizations. These financial institutions have deepened financial inclusivity in the country with adoption of technology through initiatives such as agency banking and alternative business channels (ABCs) further opening the country to the access of financial services (CBK, 2018). The emergence of well-developed mobile transfer which came with advent of MPESA from Safaricom has further deepened the country financial inclusivity. Other mobile money transfer service providers have since joined the market with banks partnering with these mobile money service providers to extend financing facilities to a larger portion of the county's population (Kagochi, 2016).

Kenya's Manufacturing Sector

The Kenya manufacturing sector is among the largest sectors in the economy but its share of GDP is not commensurate to its size. This could be explained by the fact that most of the manufacturing in the country takes place in the informal sector commonly known as 'Jua kali' hence its biggest share of GDP is not captured. The sector is mainly concentrated on food processing, metal industries and textile but even the promotion of these sectors have failed to kick start the expected sector take-off (Papadavid, 2016).

The sector has seen its annual growth decline from 11.24% in 1970s to a mere 3.2% in 2000s. The sector has only contributed 19% in value addition in export as compared to 50% of communication and 30% of the transport sector. In terms of economic share, the sector only covers 13% of the overall economy much below services sector 52% and agriculture at 28%. The sector is mainly comprised of textile, food processing, dairy, pharmaceuticals and fabricated metal industries with products mainly. The sector products are mainly exported to East African Community -40% and the balance to South Africa, China and Italy (World Bank, 2014).

Financing Micro, Small and Medium Enterprises in Kenya

The government of Kenya has prioritised the growth of MSMEs in its policy papers with the country economic blue print Vision 2030 aiming to double the share of manufacturing in the economy from 10% to 20%. To achieve this, adequate capital is a requisite condition and automatically financial development becomes a necessity if the vision is to be realised. MSMEs have GDP contribution estimated at 20% with 80% of employment in the country coming from this sector and it is viewed as one of the main drivers of industrialization in the country (Papadavid, 2016).

The financing of the sector has also increased courtesy of the continued financial development in the country which has seen a portfolio of financial availed to the sector. The central bank reported that the total lending to the sector increased from 19.5% (Kshs 133 billion) share of total lending in 2009 to 23.4% (Kshs 332 billion) in 2013 (CBK, 2015). The manufacturing MSMEs account for 6.8% to 15.2% of the loans advanced to the sector with much of the lending coming from domestic banks (Berg and Fuchs, 2013).

Research Problem

Beck, et al. (2005) opines that corporate finance theory suggests that market imperfections caused by underdeveloped financial systems constrain firm's ability to fund investment projects. According to Demirguc – Kunt and Maksimovic (1998), firms in countries with developed financial institutions obtain more external financing than firms in countries with less developed institutions which should therefore explain the variations in their levels of growth.

The significant role SMEs have in the economy cannot be underestimated nowadays. As Kenya positions itself to attain the sustainable development goals (SDGs) that focus on poverty alleviation as guided by the National Government big four agenda that include manufacturing sector for job creation, there is need to revisit the contributions of the small and medium sized manufacturing enterprises (SMMEs). The importance of Small and Medium Enterprises in Kenya was first accepted in the 1972 Employment, Income and Equity in Kenya International Labor Organization report. The SMEs were underscored in that report as being an engine for income growth and employment. 85 percent of Kenya's employments are SMEs created (Gok, 2009).

Several finance and development nexus studies attempt to unravel the effects of accessing and utilizing financial services on SMEs. Ngasongwa (2006) found out that SMEs access to finance enabled them to; create productive capacity, compete, jobs creation and contribution to alleviation of poverty in countries that are developing. Carven (2006) asserted that SMEs that access financing are; able to acquire new technologies, expand to compete in new territories and also strike business linkages with larger firms. However, despite all these benefits, there are some challenges for the SMEs to acquire the much needed funding to propel their growth. Quartey, et al. (2017) opine that though a lot that has been accomplished in addressing the phenomenon that has been recurring of inadequate finance, there is still a pervasive problem that requires scrutiny further on the level of finance accessibility by SMEs and the involved cost in obtaining such funds. Bunyasi et.al (2014) confirm the proposition by Esuha and Fletcher (2002) that though the Kenya's small business sector has rapidly grown, the individual enterprises have not had such growth that is associated with small-scale enterprises' inability to grow and expand to enterprises that are medium–size. This argument shows that there are strong barriers to direct entry into the medium-scale formal sector that is private known as the 'missing middle'. One of the barriers is on levels of financial development characterized by access to finance by the SMEs, pooling of savings by the SMEs, allocation of capital on productive investments and sharing of risks amongst the SMEs. Rigito (2010) opine that while there is an indication from statistics that there are high business birth rates, the death or stagnation rates are equally high of these businesses again pointing to existence of such barriers.

Wanyama (2011) identified access to credit due to lack of collateral as an SME constraint, Elly and Kaijage (2017) established that variations in entrepreneur's networks, firm growth and earnings volatility significantly influence access to external finance.Njagi, Kimani and Kariuki (2017) portray that SMEs have greater preference for contribution from friends and profit plough-back as a source financing in the form of equity as traditional financing by equity has a relationship that is positive with SMEs financial performance. Angel investors as a form of equity financing has not gained acceptance as a source of finance. Nganga and Gichira (2017) established that technological capacities and human resource capacities affect growth of Agribusiness Micro and Small Enterprises. From the foregoing, it is not clear on how growth of Small and Medium Manufacturing Enterprises (SMMEs) which are a pillar in the government twin development agenda for manufacturing and job creation in general is affected by financial development. The study therefore sought to fill the gap by studying the effect of financial development initiatives and the growth of small and medium manufacturing enterprises in Nairobi County.

General Objective

The objective is to determine the effect of financial development initiatives on the growth of SMMEs in Nairobi County.

Literature Review

The financial liberalization theory claims that financial deepening increases when the real interest is high. This triggers more financial savings to be invested and re-allocated more efficiently than when invested directly in a sector according to Thirwall (2005). The theory assumes savings are an increasing function of real interest rate. It concludes that financial restrictions alleviation may have a positive impact on growth rates among developing countries. Countries achieve this by allowing market forces to determine the real interest rate since setting interest rates ceiling would reduce savings thus, affecting capital accumulation and resource allocation. Another theory is the neo-classical growth model introduced by Solow (1956) assumes constant return to scale, diminishing marginal productivity of capital, exogenous technical progress, and capital and labour substitution.

Under the Solow's theory, savings and investments ratios are significant short-run determinants of economic growth. As capital to labour ratio increases, there is more investments since more capital is available to each labour unit. Exogenous technology is critical for driving economic progress in the long-run. To overcome the limitations of neo-classical growth model, Lucas (1988), proposes the endogenous growth theory. According to the theory, policy measures can influence the long-run growth rate of an economy. The theory emphasizes the role of capital, both physical and human, as the main determinant of growth. Just like the neo-classical, endogenous growth theory emphasize on the role of technology as an exogenous intervening variable to drive economic progression in the long run by boosting return on capital investments. In an endogenous growth model, Nnanna (2004) argued that financial development affects growth by having sound financial intermediation, strong social capital and influencing positively savings and investments by private firm.

Role of Financial Development in Growth of SMEs

Evidence from existing empirical literature demonstrates crucial relationship between financial development initiatives and the growth of SMMEs in different jurisdiction. For instance, Mokua (2013) focused on the effect of management skills and collateral measures on growth of SMEs in Kenya. The study used descriptive research design and collected data among SMEs in Kisii County. The results revealed that lack of access to finance affected growth of SMEs and that bureaucratic procedures were the reason for insufficient finances to the enterprises from the monetary organizations. The study thus confirms that entrepreneurial finance as a challenge exacerbated by low levels of financial development explains the lack of enterprise growth in developing countries.

Mokua (2013) study was supported by an earlier study by Akingunola (2011). Akingunola (2011) study revealed the vital role finance plays in the small-scale business performance given by the indication of high correlation between capital availability and profit-making prosperity of small-scale business. The revelation of this study is on the existing gap in MSMEs financing to the economic and population benefit, that is, the "absence" of long-term funding of equity type. Absence of equity finance in most developing countries is thus a recipe for non-existent financial development. Both Mokua (2013) and Akingunola (2011) affirm the importance of financial development initiatives on the growth of small and medium enterprises.

Pooling of Savings

Athukorala and Tsai (2003) investigated the source of variations in household savings rates in Taiwan. They used a standard life cycle framework to estimate a savings function. The function establishes the influence of population dynamics, increase in disposable income, contributions to social security, credit availability and reforms in financial systems. The framework also takes into consideration the influence of corporate and government saving on household saving. The results of the study added weight to the importance of income expansion as a contributor of improved saving performance. There exist evidence linking growth being contributed by savings and other determinants that influence savings performance. According to Athukorala and Tsai (2003), these include level of credit availability to households, aging of population and changes in contributions towards social security.

Allocation of Capital

Popa and Ciobanu (2014) sought to identify the functionality and profitability of SMEs as impacted by capital factors. The managerial decisions results indicated that an investment can decisively influence the SMEs profitability more so during the period of economic instability. The profitability of the firms is operationalized by the indicators such as return on equity (ROE) and return on invested capital (ROIC). The ratio measures of performance in this study however excluded the growth aspects which are a comparative of current period and previous period's levels of performance. Another study by Baños-Caballero et.al (2012) investigated the relationship between capital factors and the growth and development of SMEs. The study expounded on the argument that working capital management influences growth and development of SMEs in profitability level and risk management. The study used 5-year period from 2002 to establish association between non-financial SMEs growth and working capital management.

The study by Baños-Caballero et al. (2012) was a departure from the studies that presume a linear relationship and adopts a quadratic relationship approach. The study established a concave relationship amongst working capital levels and profitability of firms. Working capital was found to play an imperative role in enhancing the performance of manufacturing firms (Raheman, et al., 2010). Unlike Baños-Caballero et al. (2012) general study on the effect of financial development on growth of SMEs, Raheman, et al. (2010) had sought to investigate the role played by working capital in the growth of manufacturing firms based in Pakistan. With a ten-year balanced panel data for 204 listed manufacturing firms, the study found out that the working capital significantly affect the performance of the manufacturing enterprises. The study concluded that other than following conservative working capital management policies, the firms should formulate and improve their collection and payment policies which points on funds allocated to such roles.

Access to Credit

Various studies have attempted to link access to credit and the growth of SMEs. Osoro and Muturi (2013) and Muthoka (2012) study sought to examine the impact of micro financing on the growth and financial sustainability among SMEs respectively. Osoro and Muturi (2013) undertook a case study of micro financial institutions in Kisii town in an effort to establish the role of micro financial institutions on the growth of SMEs in Kenya. The main focus of this study was to determine the effect of credit, the role of training, and the role of savings accounts on the growth of SMEs. The population of the study comprised of the SMEs operating in Kisii town where a sample of 100 SMEs was drawn. With a response rate of 90% of the total sample, the researchers established that accessibility to credit affects the performance of the SMEs positively, that is, the easier the access to credit, the higher the performance of SMEs.

Similar to Osoro and Muturi (2013), Muthoka (2012) revealed a significant relationship between financial development and growth of SMEs. The study findings revealed that micro credit and financing products had led to financial sustainability among SMEs. It used primary data in a regression model to establish the relationship between micro financing products and financial sustainability among SMEs in Nairobi East District.

Nyabuga (2013) studied on the effect of informal financing in improving access to credit for small and micro-enterprises operated by women in Kibera. The findings of the study were that informal financing is instrumental in improving access to credit for small and micro-enterprises operated by women in Kibera leading to their empowerment. Correlation results showed a positive and significant association with access to credit, management and the growth of the enterprises operated by the women. The study also concluded that informal financial sectors have a direct impact on the growth of SMEs. Augusto et al. (2010) study focused on formal financing of SMEs by commercial banks. The study reviewed secondary data from several financial institutions from 12 different countries in an effort to establish the involvements that banks have with SMEs. Owing to important strategic positioning of SMEs by banks, banks are now developing new business models, technological, and risk management systems towards serving the SMEs.

Research Methodology

This study applied descriptive research design which according to Creswell (2008) is appropriate when dealing with an already documented phenomenon hence the emphasis was on description rather than judgment and interpretation.

The study targeted population that was used to generalize results was 451 MSMEs in Nairobi County manufacturing industry who are members of Kenya Association of manufacturers (KAM). The sample size was 210 respondent firms proportionately distributed across different categories under the Kenya Association of Manufacturers. Primary data was collected using structured questionnaires, both open and closed formatted questions as well as questions presented in Likert-type scale. A questionnaire is free from interviewer's biases and can be administered to a large number of respondents (Kothari, 2009). The researcher employed drop and pick later means of distributing the questionnaires. Primary data was collected from 210 MSMEs in Nairobi County using a semi-structured questionnaire.

The study employed the use of spread sheets where respondent answers were rated on a five-point Likert scale. SPSS was used to conduct correlation and regression analysis with charts, frequency distribution tables, and bar charts used in result presentation. The following analytical model was used to carry out a multiple regression analysis.

$Y=\beta_0+\beta X_1+\beta X_2+\beta X_3+\varepsilon$

Where,

Y= the dependent variable (Growth of SMEs as measured by ROA & ROI)

β_0= Constant (coefficient of intercept)

X_1= Pooling of Savings

X_2= Allocation of Capital

X_3= Access to Credit

β_1, β_2, β_3 are the regression coefficients

ε= is the random error term accounting for all other variables that affect the growth of SMEs' but not captured in the model.

Analysis of Variance (ANOVA) was used to test model significance which was tested at 95% confidence level and 5% significance level.

Results and Discussion

Pooling of Savings

The respondents were in agreement that the financial institutions have enabled them to access loans as a result of the savings with a mean score of 4.3 as presented in table one below. The low standard deviation of 0.84 indicates that the variation among the respondents was low. The respondents were further in agreement that pooling of savings has resulted to a successful long term relationship with the bank and also the financial institutions have enabled firms to save some money (Mean=4.2); The respondents were further in agreement that interest rates are reasonable, the firms embraces pooling of savings and also pooling of savings has resulted to a successful long term relationship with the bank (Mean = 4.2) and that reinvestment of savings have led to expansion of SMMEs with a mean of 2.8.

Table 1: Pooling of Savings

	N	Mean	Std. Deviation
Reinvestment of savings have led to expansion of my business	210	2.8857	1.45302
Financial institutions have enabled me to open a savings account	210	3.9238	.96041
Financial Institutions have helped to reinforce the culture of savings	210	3.9714	1.05320
Financial institutions support pooling of savings	210	3.9762	1.02803
The savings have enabled me to pool funds and reinvest in the business	210	3.9952	1.07382
Interest rates are reasonable	210	4.0762	1.09103
The enterprise embraces pooling of savings	210	4.1857	.92223
Pooling of savings has resulted to a successful long-term relationship with the bank	210	4.2571	.93858
Financial institutions have enabled me to save some money	210	4.2810	.91354
Financial institutions have enabled me to access loans as a result of the savings	210	4.3619	.84857

Allocation of Capital

Findings concluded that there is relatively low risk diversification as the enterprise allocates funds to various investments and that the enterprises do not allocate adequate funds to the working capital stream (Mean = 3.4). The enterprises rarely allocate capital to viable investment and that there is capital rationing when it comes to capital investments. The standard deviation of 1.1 indicates that there was great variation among the respondents as presented in Table 2 below.

Table 2: Allocation of Capital

Allocation of capital	N	Mean	Std. Deviation
Capital is allocated to viable investments	210	3.3238	1.24120
There is enough fund allocated to capital investments without rationing	210	3.3952	1.19847
There is risk diversification as the enterprise allocates funds to various investments	210	3.4476	1.33040
The enterprise allocates adequate funds to the working capital stream	210	3.4619	1.23000

Access to Credit

The results shown in Table 3 below indicate that the respondents were in agreement that there is competition among financial institutions for clients (Mean = 4.0). There are relatively low large and small financial institutions serving SMMEs in Nairobi and also there are many requirements on access of financial services (Mean = 3.8). The standard deviation of 0.9 shows high variation among the respondents' requirements to access finance.

Table 3: Access to Credit

Access to credit	N	Mean	Std. Deviation
There are less requirements on access of financial services	210	3.8429	1.14042
There is Competition among financial institutions for clients	210	4.0667	.90471
There are Large financial institutions serving SMMEs in Nairobi	210	3.8714	.96723
There are Small financial institutions serving SMMEs in Nairobi	210	3.8571	1.07096
There are less requirements on access of financial services	210	3.8429	1.14042

Growth of SMMEs

From Table 4 below, mean of 4 shows that respondents agreed that there is an increase in the number of products-overtime which depicts growth in terms of size of the enterprise.

Table 4: Growth of SMMEs

Growth of SMMEs	N	Mean	Std. Deviation
There has been an annual increase in our return on assets	210	3.6286	1.15545
There has been an annual increase in the profitability of our firm	210	3.8143	1.20953
There has been an increase in our branches/ outlets over time	210	3.8857	1.10946
There has been increase in our sales over time	210	3.9571	.99908
There has been an increase in our products over time	210	4.0286	1.07567
There has been an annual increase in our return on investments	210	4.1095	.92927

A mean of 3.9 in Table 4 above also show that there has been an increase in their sales overtime (Mean=3.9). The respondents agreed that there has been an increase in profitability of the firm and branches over time with a mean of 3.6 as most of the respondents agreed that there has been an annual increase in return on the assets.

Correlation Analysis

The relationship between the dependent and the independent variable indicators were examined using Pearson correlation coefficient (r) and p-value analysis. Correlation is assumed significant with a p-value ≤ 0.05.

Results in table 5 revealed that pooling of savings and growth of SMMEs are directly and statistically related (r=0.656, p=0.00). Allocation of capital and growth of SMMEs are directly and statistically related (r=0.586, p=0.000). Access to Capital loans and growth of SMMEs were directly and statistically related (r=0.736, p=0.000).

Table 5: Correlation Matrix

	Growth of SMMES	Pooling of saving	Allocation of capital
Growth of SMMES	1		
Pooling of saving	.656**	1	
Allocation of capital	.586**	.605**	1
Access to credit	.736**	.601**	.601**

Regression Analysis

Coefficient correlation R explains how dependent variable (Growth of SMMEs) is influenced by independent variables (pooling of savings, allocation of capital and access to credit). The three independent variables constitute about 62% of growth of SMMEs in Nairobi County while the other factors contribute 38% growth of SMEs (see table 6).

Table 6: Model Fitness

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.788[a]	.621	.615	.51260

Analysis of Variance

Table 7 provides the results on the analysis of variance (ANOVA). From the results, the model was statistically significant. Independent variables formed a sound base to predict growth of SMEs with F statistic of 112.365 p value <0.005.

Table 7: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	88.574	3	29.525	112.365	.000[b]
	Residual	54.128	206	.263		
	Total	142.702	209			

Regression Coefficients

Allocation of capital was equally tested and from these result β=1.950, p-value=0.053 at α =0.05 level of significant; there exist enough evidence to conclude that the allocation of capital on investments is not zero and hence, the way firms allocate funds in various investment is useful as a predictor of performance.

As regards, access to credit, the results show that; β=8.532 and p-value =0.000 since p<0.05 at α=0.05 level of significant hence access to credit by SMMEs is useful as a predictor of growth.

From the data in table 8, the established regression equation is:

$$\mathbf{Y = 0.\ 088+0.365x_1 +0.522x_3}$$

The model shows that a unit increase in access to credit increases the growth with 0.522 units, and a unit increase in pooling of savings will increase growth by 0.365 uits. The results obtained indicated that when all the variables are zero, performance will increase by 0.088 units.

In conclusion, the inferential statistic showed that growth of SMMEs was explained by the independent variables. Therefore, appreciating that pooling of savings and access to credit were the predictor of growth of SMMEs.

Table 8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.088	.229		.386	.700
Pooling of saving	.365	.073	.291	5.008	.000
Allocation of capital	.094	.048	.113	1.950	.053
Access to credit	.522	.061	.494	8.532	.000

Conclusions and Recommendations

The study concludes that pooling of savings by manufacturing firms will promote the relationship with the financial institutions and this will ensure efficiency when they are seeking for funds needed for investment which in turn brings firms growth such as opening new branches. Equally, capital allocation in different investment projects also determines growth and requires expertise so as to ensure risk diversification which may lead to high profits thus growth of the firm. Finally, the study concluded that access to credit has a strong association with the growth of small and medium manufacturing enterprises. Collateral is key when it comes to debt financing.

The SMEs acts as a catalyst in economic development and growth. Financial development initiatives such as pooling of savings, allocation of capital and access loan capital promote growth of manufacturing SMEs. The study established that pooling of savings plays a vital role in improving the relationship between SMMEs and financial institutions. The KMA should come up with ways in which they can control and encourage pooling of savings by the firms.

The study also recommends that the firms (small and medium) in the manufacturing sector should ensure qualified personnel with relevant expertise so as to ensure that allocation of capital is made on viable investments with high returns and embracing risk diversification as this will promote growth of the said firms for instance in terms of profitability. The study finally recommends that KMA should come up and/or formulate policies meant to increase accessibility of financial services by SMMEs state corporations in Kenya. This will give financial institutions confidence to lend to the said firms thus growth in terms of financial performance.

On areas for further research, the study recommends research to consider other relevant sectors in economy such as transport, service industry and retail business. Equally, future research needs to expand geographical survey to other counties and outside Kenya.

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