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THE INFLUENCE OF ACCESS TO FINANCE AND GOVERNMENT POLICIES ON THE GROWTH OF SMALL AND MICRO-ENTERPRISES GROWTH IN KENYA

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ABSTRACT: *Small and Micro Enterprises (SMEs) in developing countries and Kenya in particular face numerous challenges in their path to growth and expansion. Despite the many startups and government effort to improve the regulatory and institutional framework in Kenya, most SMEs do not evolve into medium enterprises. This paper sought to determine influence of access to finance and government policies on the growth SMEs in Kenya. The research design employed in this study was the descriptive cross sectional design that used a purposive survey. The study targeted SMEs situated in Nairobi City and operating in four sub-sectors of the economy namely: transportation and storage; accommodation and services activities; information and communication; financial and insurance activities; and professional, scientific and technical activities. A total of 395 SMEs were sampled using stratified technique and response rate registered was 88.1%. Primary data were collected through questionnaires administered on owners and managers of SMEs by the researcher by way of structured interviews. Data analysis procedures were carried out and the data coded before running the initial summaries in Statistical Package for Social Sciences (SPSS). Chi-square test of association at a 5% level of significance was used to explore the relationship between variables. The study found out that, access to finance is a critical factor in the establishment, development and growth of the SME sector. The financial system although relatively developed in Kenya is still skewed towards the established businesses. Despite the focus on policy on development of SMEs, it was found out that, government policies had the least influenced on the growth of SMEs. Consequently, there is need for review of the banking capital requirement rules to allow more banks to operate in the market. There should be use of the established mobile money technology platforms to allow individuals to directly purchase treasury bills for transparency in the financial market. This will have a positive impact on the interest spread and allow cheaper credits to private sector especially the SME sector. There is need for specialized financial institutions funded by government and development partners that will house all the government special funds destined for the SME sector.*

KEYWORDS: SME, Technology, Capital, Government Policies

INTRODUCTION

It has been widely acknowledged that Small and Micro Enterprises (SMEs) play a very crucial role in most world economies but particularly in emerging and developing economies with major employment and poverty challenges (Kongolo 2010). The establishment and development of SMEs are vital to the well-being of economies of developing countries and failure to nurture the growth of SMEs can pose a serious risk to governments' poverty reduction strategies (Fatoki and Garwe 2010). One of the most defining characteristics of a growing economy is successful and thriving Small and Micro Enterprise sector. With the advent of the

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developing countries and their integration to the world economy, it is now generally accepted that the next wave of globalization and economic growth will be driven by SMEs (Eriksson et al. 1997).

SMEs contribute to economic development and prosperity of a country in many multiple ways: job creation and employment for both rural and urban populations, by stimulating innovation and inspiring entrepreneurship especially in the emerging market countries. Further, a large proportion of populations in emerging economies depend on SMEs either directly or indirectly. SMEs have a significant impact on the socio-economic situation of any country and play an important role on social income distribution, widening of tax revenue base, stability of family income by supporting job creation (McPherson 1996). Further, (Advani 1997) agrees that from a growth economic perspective, SMEs provide the stimuli that are needed to accelerate economic growth confirming that a well-structured and developed SME sector is likely to support economic growth in the same manner as large corporations (Abraham 2003).

Although precise information on the number of SMEs is hard to ascertain, it was estimated that 95% of business enterprise are SMEs accounting for over 65% of all jobs in the private sector (Ayyagari, T and Dermiguc-Kunt 2007). Japan is considered as the country with the highest number of SMEs with over 95% of all businesses being SMEs whilst India had more than 13 Million SMEs in 2008 which constituted 80% of the total businesses. This trend is repeated in all major emerging markets such as China, Malaysia and Brazil. In these large emerging market economies, SMEs dominate the economic activity (Tang, Paul and Yuli 2007). In EU, it is estimated that SMEs make up 99% of all companies and employ well over 65% of all the labour force.

Many developing countries in Africa such as South Africa, Egypt, and Nigeria are known to have a large and growing SME sector. In Kenya, the SME sector plays a key role in the national economic development. As a key engine for growth, SME sector is acknowledged as the biggest employer outside the traditional agriculture sector. According to Economic Survey (Economic Survey 2014), SME share of total employment has increased from 48% a decade ago to more than 68% currently. Another study by (Bowen, Morara and Mureithi 2009) showed that this sector contributed 50% of all new jobs in 2005, and grew to over 65% of job creation in 2012 with overall contribution of 20% of the country's GDP. This phenomenal growth in the share of job creation by SME sector has increased government focus on the development of this sector as a key driver for economic growth, new job creation and poverty reduction. This is in line with the government's focus of prioritizing the private sector as the key enabler in future growth and poverty reduction strategy.

Studies by (Akorsu and Agyapong 2012) conducted in Ghana clearly show that due to many challenges faced by small enterprises both in the formal and informal sectors; these enterprises fail to develop into medium sized firms. Further observations by (Katua 2014) also show that despite the many SME startups in Kenya, most of them do not evolve into medium enterprises. Despite government effort to improve the regulatory and institutional framework in Kenya, much more work needs to be done especially in the areas of coordination of government implementing agencies. Equipping SME owners and managers with management and entrepreneurial skills will enhance their ability to surmount the barriers to growth and this will lead to sustainable development. A combination of formal entrepreneurial on-job training, coaching and support are a crucial undertaking that lays the solid foundation for success (Ladzani and Van Vuuren 2002).

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The lack of clear intervention policies to support the development of SME sector is a source of concern to both owners and managers. Although the Kenya government has initiated SME support programs, these tend to be more of short term government policies rather than long term sector plans to drive expansion of the SME sector. Most of the government initiatives are spread across different departments sometimes with conflicting priorities. An enabling environment supported by targeted legislative framework will provide a safety net for SMEs in times of economic upheaval. Despite this challenge, the advent of Business Development Service Providers (BDSPs) in Kenya have recently began playing an important role by providing significant levels of support to small businesses in the country. However, whereas BDSPs are effective in providing support to SMEs, they are, according to (Hellen, OlomiDonath and Kiraka 2013), "operating under very weak regulatory framework" which limits them from providing the much-needed non-financial services to the SMEs: namely training, marketing support, consultancy advocacy, infrastructure and access to modern business practices.

The advent of microfinance institutions such as Faulu Kenya, Choice Micro Finance Ltd amongst other is of vital for development of SMEs, as they provide small scale loans to support SMEs with startup capital. These microfinance institutions have become the source of financing for the SMEs that are unable to obtain financing from traditional sourcing of financing such as banks and equity participation.

The study finding will be important since it provided crucial insights and understanding of the challenges faced by SME in developing countries. The development of SME is seen as key to the attainment of national goals of many developing countries and form key plank of poverty reduction strategies of policy makers in both the developing countries and development partners (Majanga 2015). Given the similarities of economic structure of developing countries, these findings will be also useful for policy interventions agencies, governments, development partners, NGOs and international investors interested in investing the developing economies of Africa.

On the specific case of Kenya, these study findings will be of great importance to the government and policy makers as they will highlight policies and government regulations which influence negatively on the growth of SMEs. As a key engine of growth, the SME sector is crucial for the governments' plan to move the country into middle level income status.

METHODOLOGY

The research design employed qualitative and descriptive cross sectional design that used a discriminative/purposive survey to obtain the empirical data to determine the linkages between variables. A cross-sectional survey design collects data from a target population at a point in time. Data was collected from various cases at the same time - although the time taken to collect the data span over more than one month.

The total population consisted of 113,034 registered SMEs in Nairobi city, Kenya, cutting across the following sub-sectors: Agriculture, forestry and fishing; Mining and quarrying; Manufacturing; Wholesale and retail trade, repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities; Information and communication; Financial and insurance activities; Professional, scientific and technical

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activities; Education; Human health and social work activities; and Arts, entertainment and recreation sectors.

The Study targeted the following sub-sectors due to their accessibility and ease of data collection: Transportation and Storage; Accommodation and services activities; Information and communication; Financial and insurance activities; Professional, Scientific and technical activities. The SMEs in these sub-sectors were a total of 31,943 (see Table 1 below for details).

The study categorized the SMEs into various sectors under the target population. Due to the differences in the various sectors, total representation was determined by the use of stratified random sampling procedure where proportional allocation was employed to draw samples in the different SME sectors.

The sample size was determined by the Yamane (1967) formula:

$$n = \frac{N}{1 + N\left(e^2\right)}$$

Where, N is the size of the target population and e is the allowable error (in our case e = 5%). This gives:

$$n = \frac{31,943}{1 + 31,943\left(0.05^2\right)} = 395$$

This was shared across the sectors as follows:

Table 1: Distribution of the samples

SN	SME Sector	Total number	Sample
1	Transportation and storage	5,566	69
2	Accommodation and food service activities	8,804	109
3	Information and communication	668	8
4	Financial and insurance activities	1,468	18
5	Professional, scientific and technical activities	15,437	191
	Total	31,943	395

The validity of the information collected by the questionnaire was checked by running a pilot study. According to (Baker, 1994), pilot study can be the pre-testing or 'trying out' of a particular research instrument. The merit underpinning the pilot study is that the pilot study may highlight the weakness in the data collection instrument before embarking into the actual data collection, thereby giving an opportunity to revise the tool. The anomalies pointed out were corrected before the actual data collection exercise and they aided in reducing the ambiguities in the questionnaire which resulted in a very low degree of non-response.

Associations between the above statements and the growth variables were tested using the Chi-square test (of association at 5% level of significance. Again the Chi-square test which is a non-parametric test was preferred to its parametric counterparts due to the nature of the data. The Chi-square was preferred because it dealt with categorical data and the aim was to arrive

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at the associations between the dependent variable, that is, SME growth, and the independent variables.

The collected data was a mix between the categorical and narratives from the closed and open-ended questions, respectively. Data analysis procedures started by examination of the collected data in order to check for data collection and entry errors; that included entries that were miss-spelt, and not captured from the question detail ~~etc~~. The data was then coded before running the initial summaries. For the five-point Likert scale questions that were grouped into each of the variables under study, modes were obtained in order to arrive at a single observation per respondent. This is a highly-recommended measure, together with medians, than the counterpart, the mean, that is applied for quantitative continuous data. The modes gave a general pattern from the sections and so the following statements were drafted for each of the variables: A favourable access to finance is key to successful SME business start-ups; and Government policies support the establishment and growth of SME businesses.

The statements aided in achieving the main aim of the research. These general statements were then cross tabulated together with the variables measuring the growth of SMEs, that is, production/output/volumes, profitability and workforce. Associations between the above statements and the growth variables were tested using the Chi-square test (of association at 5% level of significance. The Chi-square was preferred because it dealt with categorical data and the aim was to arrive at the associations between the dependent variable, that is, SME growth, and the independent variables, that constituted the different variables from the hypothesized constructs. It was the most suitable test for this kind of data given that it used the Chi-square, a non-parametric test that does not make any strict distributional assumptions but it can give a concrete measure of association.

RESULTS AND DISCUSSION

Access to finance (credit) and SMEs Growth

The response rate for the study was 88.1%. Various aspects of access to finance were explored. These included the source of finance, other income generating activities, the startup capital base, and record keeping. They were later summarized and their relationship with the SMEs growth sought.

The study sought to establish the association between the sources of financing and age groups. There was a significant association (Chi-square value = 46.012, df = 20 p-value 0.001) between the sources of financing and the age groups with the older SMEs owners accessing finance from banks and other financial institutions. The younger SME owners (below 21 years) established their SMEs majorly (81.8%) out of personal savings as shown on Table 2.

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Table 2: Source of the finance with respect to the age groups

Respondents	Source of investment capital						Total
	Personal savings	Family and friends	Micro finance institution	SACCO	Bank loan	other	
Below 21 years	81.80%	9.10%	0.00%	0.00%	9.10%	0.00%	100.00%
21-30 years	61.20%	15.30%	7.10%	8.80%	6.50%	1.20%	100.00%
31-40 years	47.00%	7.00%	14.80%	18.30%	12.20%	0.90%	100.00%
41-50 years	40.00%	4.00%	0.00%	28.00%	28.00%	0.00%	100.00%
Above 50 years	53.30%	6.70%	0.00%	20.00%	13.30%	6.70%	100.00%
Total Count	185	37	29	46	35	4	336
% within respondents age	55.10%	11.00%	8.60%	13.70%	10.40%	1.20%	100.00%

Most of the respondents are devoting their time to the SMEs with the highest percentage being those below 21 at 90.9% as shown on Table 3. There is a significant association (chi-square value = 40.992, df = 24, p-value = 0.017) between the age groups and the other income generating activities. Those above 50 year of age are predominantly in farming, investment, land and property while those between 21 and 50 years have a number of other income generating activities. This could be a source of the much-needed boost in the event the SMEs are not profitable.

Table 3: Other income generating activities with age groups

Respondents	What other income generating activities do you engage in							Total
	1	2	3	4	5	6	7	
below 21 years	0.00%	0.00%	90.90%	0.00%	0.00%	0.00%	9.10%	100.00%
21-30 years	13.70%	4.00%	58.90%	8.00%	5.10%	8.60%	1.70%	100.00%
31-40 years	20.30%	5.10%	46.60%	12.70%	6.80%	2.50%	5.90%	100.00%
41-50 years	15.40%	15.40%	38.50%	3.80%	15.40%	7.70%	3.80%	100.00%
Above 50 years	33.30%	13.30%	46.70%	0.00%	6.70%	0.00%	0.00%	100.00%
Count	57	19	185	30	22	20	12	345
% within respondents age	16.50%	5.50%	53.60%	8.70%	6.40%	5.80%	3.50%	100.00%

Key: 1. Farming; 2. Investments; and, property development; 3. None; 4. Service jobs-repairs, transport, brokerage services; 5. Employed; 6. Others businesses; 7. Investment groups, chama (small community based investment groups)

The startup capital varied across the age group giving rise to a significant association (Chi-square value = 83.642, df = 12 p-value 0.000) between the two variables. More than half (54.5%) of those below 21 years has a startup capital below Kes 50,000 while those above 50 years had majority (80.0%), Table 4, started their SMEs with over Kes 150,000. This was

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because that the seniors had worked elsewhere and they were investing their retirement benefits on most of the occasions as compared to the youth who did not have a strong financial base. Additionally, the majority of the youths (81.8%, Table 2) relied mostly on their personal savings which were not substantial.

Table 4: the startup capital base and the age group

Respondents	Total start-up capital for the business (Kes)				Total
	below 50,000	50,000 - 100,000	100,000 -150,000	above 150,000	
Below 21 years	54.50%	36.40%	9.10%	0.00%	100.00%
21-30 years	40.70%	33.50%	12.00%	13.80%	100.00%
31-40 years	15.70%	24.30%	18.30%	41.70%	100.00%
41-50 years	19.20%	3.80%	7.70%	69.20%	100.00%
Above 50 years	6.70%	6.70%	6.70%	80.00%	100.00%
Total Count	98	90	45	101	334
% within respondents age	29.30%	26.90%	13.50%	30.20%	100.00%

Record keeping which is a good ingredient in the recipe of good business management was adopted by 89.2% of the all the total respondents, Table 5. However, those below the age of 21 years all kept records, although the proportions of those keeping records did not differ significantly (Chi-square value = 1.983, df = 4 p-value 0.739) across the age groups.

Table 5: Record keeping and Age group

Respondents	Do you keep business records?		Total
	Yes	No	
below 21 years	100.00%	0.00%	100.00%
21-30 years	89.20%	10.80%	100.00%
31-40 years	87.30%	12.70%	100.00%
41-50 years	91.70%	8.30%	100.00%
Above 50 years	91.70%	8.30%	100.00%
Count	289	35	324
% within respondents age	89.20%	10.80%	100.00%

The relationship between access to finance and aspects of SMEs growth was explored in Tables 6, 7, and 8 with the test statistics calculated in Table 9. In relation to the increase in production volume and/or output, 58.3% of the respondents agreed that favourable accesses to finance conditions are key to successful SME business start-ups and, Table 6. Those who reported a decrease and stagnation were 46.1% and 55.6% respectively.

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Table 6: Relationship between access to finance and Productivity/output/volume

Change in production/ volume/output over the last one year	Favourable access to finance conditions is critical to successful SME business start-ups.					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	9.90%	48.40%	2.20%	34.10%	5.50%	100.00%
Decreased	0.00%	55.60%	11.10%	22.20%	11.10%	100.00%
Remained constant	5.10%	41.00%	5.10%	33.30%	15.40%	100.00%
Total Count	29	158	10	110	23	330
% within the group	8.80%	47.90%	3.00%	33.30%	7.00%	100.00%

From Table 7, 55.7% of those who reported an increase in their profits supported that favourable accesses to finance conditions are key to successful SME business start-ups. Those who reported profit stagnation was 60.0% same as those whose profit dropped shared the same view, that favourable access to finance conditions are important. These large proportions, that is, for the decline and stagnation, have a direct implication that there was no favourable access to finance/credit conditions.

Workforce was also used to gauge SMEs growth, Table 8, with a majority (71.4%) of those who said that favourable accesses to finance conditions are key to successful SME business start-ups reporting a decline in their workforce over the last one year. This further supports the unfavourable access to finance/credit conditions in the market.

Table 7: Relationship between access to finance and Profitability

Over the last one year, your profit has	Favourable accesses to finance conditions is key to successful SME business start-ups.					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	9.30%	46.40%	2.50%	36.80%	5.00%	100.00%
Decreased	0.00%	60.00%	4.00%	20.00%	16.00%	100.00%
Remained constant	12.00%	48.00%	8.00%	16.00%	16.00%	100.00%
Total Count	29	157	10	112	22	330
% within the groups	8.80%	47.60%	3.00%	33.90%	6.70%	100.00%

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Table 8: Relationship between access to finance and Workforce

Over the last one year, your workforce has	Favourable accesses to finance conditions are key to successful SME business start-ups.					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	9.30%	47.00%	3.30%	35.00%	5.50%	100.00%
Decreased	14.30%	57.10%	0.00%	21.40%	7.10%	100.00%
Remained constant	6.80%	47.00%	3.40%	34.20%	8.50%	100.00%
Total Count	29	157	10	110	22	328
% within the group	8.80%	47.90%	3.00%	33.50%	6.70%	100.00%

When the aspects of SMEs growth were tested and ranked with respected to access to finance/credit; profitability was found to be significantly the most affected by the favourable access to finance conditions, Table 9. This was followed by production/volume/output and lastly workforce, two of which were not significantly affected.

Table 9: Association between access to finance and SMEs growth

Aspect of SMEs growth	Chi-Square value	df	p-value
Production/volume/output	14.208	8	0.076
Profit	18.004	8	0.021
workforce	5.371	8	0.717

Government Policies and SMEs Growth

Government policies were taken to moderate the relationship between the study's independent variables and the dependent variable. A total of 76.1% (Table 10) of all the sampled SMEs were legally operating by the virtue of their registration. The proportions of the registered businesses across the age groups did not differ significantly (Chi-square value = 2.341, df = 4, p-value 0.673) implying uniform conformity to government regulation. Out of the registered, 89.0% were reported to be sole proprietor ventures with the remaining 11.0% being corporations.

Table 10: Respondents age group distribution and whether their businesses are registered

Respondents	Is your business registered?		Total
	Yes	No	
Below 21 years	63.60%	36.40%	100.00%
21-30 years	73.90%	26.10%	100.00%
31-40 years	79.40%	20.60%	100.00%
41-50 years	79.20%	20.80%	100.00%
Above 50 years	81.80%	18.20%	100.00%
Total Count	242	76	318
% within the age group	76.10%	23.90%	100.00%

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According to the study, government policies influenced the least when it comes to the growth aspects of SMEs. Tables 11, 12, and 13 indicate that less than half (42.3%) of the respondents supported that government policies are important in the establishment and growth of SMEs. This implies that the government's support is not adequately felt at the SMEs level.

Table 11: Relationship between government policies and production/volume/output

Over the last one year, your production/volume/ output has	Government policies support the establishment and growth of SME businesses					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	8.20%	36.80%	10.00%	35.30%	9.70%	100.00%
Decreased	0.00%	25.00%	18.80%	43.80%	12.50%	100.00%
Remained constant	2.60%	28.20%	17.90%	30.80%	20.50%	100.00%
Total Count	23	114	37	114	36	324
% within the group	7.10%	35.20%	11.40%	35.20%	11.10%	100.00%

Table 12: Relationship between government policies and profitability

Over the last one year, your profit has	Government policies support the establishment and growth of SME businesses					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	7.90%	35.70%	9.40%	37.50%	9.40%	100.00%
Decreased	4.30%	21.70%	30.40%	34.80%	8.70%	100.00%
Remained constant	0.00%	41.70%	16.70%	12.50%	29.20%	100.00%
Total Count	23	114	37	115	35	324
% within the group	7.10%	35.20%	11.40%	35.50%	10.80%	100.00%

Table 13: Relationship between government policies and workforce

Over the last one year, your workforce has	Government policies support the establishment and growth of SME businesses					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	8.30%	33.90%	11.10%	37.20%	9.40%	100.00%
Decreased	0.00%	18.50%	33.30%	29.60%	18.50%	100.00%
Remained constant	7.00%	41.70%	7.00%	33.90%	10.40%	100.00%
Total Count	23	114	37	114	34	322
% within the groups	7.10%	35.40%	11.50%	35.40%	10.60%	100.00%

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However, despite the low presence of government support, her policies significantly influence profitability and workforce, Table 14, but did not have a significant association with the growth in production/volume/output of the SMEs.

Table 14: Tests of relationship between government policies and the SMEs growth aspects

Aspect of SMEs growth	Chi-Square value	df	p-value
Production/volume/output	10.765	8	0.215
Profit	24.591	8	0.002
workforce	21.505	8	0.006

CONCLUSIONS

The significant difference between age groups in the investment start capital was due to the fact that the senior SME owners had worked for a longer period and had accumulated capital through personal savings while the majority of youth (81.8%) lacked a strong financial base and relied on meagre savings and family for startup investment capital. The findings suggest that while access to finance is a major factor that influences the development and growth of SMEs across all groups, the impact is more significant impact among the youth. The study further suggests that youth seeking to start and establish SMEs face more difficulties and resistance from banks owing to lack of collaterals. In some cases where they manage to provide collaterals, it is often viewed as inadequate because most banks and financial institutions rate the SMEs startup assets at very low value making it impossible for them to secure working capital or long term loans. Additionally these firms often lack financial and credit history and a proven track record of managing profitable projects. In addition to structural and organization inadequacies, lack of experience, poor management capabilities and lack of proper accounting processes are seen to compromise reliability and accuracy of information on their financial ability to repay debt. Because of these challenges most SMEs within this category have difficulties mobilizing cash hence constraining their ability to grow (Binks, Ennew and Reed 1992)

Further the challenges faced by most SMEs in accessing credit facilities and financing can be traced to their perception as high risk ventures (Gichuki, Njeru and Tirimba 2014). Financial and lending institutions tend to regard SMEs as riskier ventures compared to more established companies for a number of factors which include;

1) Unpredictable competitive market environment
2) Inadequate accounting and control environment
3) Volatile and unpredictable environment especially in developing countries
4) Assets such as land that are not properly registered
5) Delayed payment for supplies and services rendered
6) Inadequate human and financial resources to withstand markets volatility

A critical factor in the establishment, development and growth of the SME sector is access to finance. Financial institutions are crucial in serving this sector. According to data collected by

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The World Bank, lack of access to finance is acknowledged as the main constraint to doing business. A number of studies have shown that financing is a greater challenge for SMEs than more established firms especially in the developing markets in Africa (Gichuki, Njeru and Tirimba 2014). SMEs in Africa have little or no leverage in terms of access to financing which hinders their emergence and development. Often their main sources of capital are informal savings, family, and loans from small cooperatives which are unpredictable, insecure and unsustainable. Access to structured and formal finance is relatively poor because of risk of default associated to many emerging SMEs and due to the lack of widely available financial support facilities. Access to favourable financing conditions was therefore singled out as the most important factor in SME establishment, growth and profit generation, implying that when you make conditions favourable profits increase significantly.

The financial system although relatively developed in Kenya is still skewed towards the established businesses. Historically the financial system was structured to serve established businesses, a situation that has resulted in lack of adequate financial instruments focused on the SME sector. The emergence of non-banking institutions such as the Micro credit finance institutions were meant to address this financial lacuna but most of them also lack strong capital base, which constraints them. Recently, the Kenya Government has launched a series of financing initiatives focused on marginalized groups, young entrepreneurs and women. However, these are still at infancy stage because of lack proper structures.

SMEs sector in Kenya has registered a tremendous growth over the past 20 years despite poor government policy framework and implementation of action plans in the sector. This growth however has been defined by poor productivity despite the fact that this sector is the cornerstone in the government's poverty reduction and job creation strategy (Katua 2014). Many developing countries today boast a large and growing SME sector.

In Kenya for example the SME sector provides the highest number of jobs outside the traditional agricultural sector. This contribution to the economy has resulted in increased policy focus towards the development of the sector as key engine of growth and job creation. Despite the focus on policy on development of SMEs the study found government policies influenced the least when it comes to the growth of SMEs but at the same time the respondents agreed that government policies are critical in the establishment and growth of their businesses. This implies that the government policy initiatives are not adequately felt by SMEs suggesting that the top down approach is not the best way to formulate support policies.

RECOMMENDATIONS

The government should review the policies for the support and promotion of SMEs in Kenya. This review should be based on the following:

i) Creating an enabling environment by government by ensuring that a level playing field through the targeted investment of public resources in areas that benefits the growth of SMEs;

ii) Access to credit has been singled out as the most important factor that impedes the growth of SMEs in Africa and Kenya is no exception. Lack of access to credit is not reduced to a single factor but a combination of factors.

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To address this challenge requires a set of broad actions. Kenya like most developing countries faces great challenges in generating revenues because of limited resources, low levels of output very common in developing economies (Fielding 1999). Additionally the big banks in Kenya exhibit cartel like behaviour because of their size and dominance. Further the credit squeeze in Kenya is aggravated by the government appetite for heavy domestic borrowing which crowds out the private sector from accessing investment capital. The emergence of micro financial institutions although welcome has not had the desired effect because most of them lack adequate capital to support the vulnerable SME sector. To address the credit challenge, a number of policy interventions are at the disposal of the government. This study recommends that the government of Kenya review the banking capital requirement rules to allow more banks to operate in the market. The opening up of the banking sector through review of the capital requirements will encourage the numerous cooperative savings to become more structured and provide more lending sources to the SME sector. The study further recommends that the government reviews the processes of selling government paper to allow competition in the market. The breaking of the hold on government paper (Bonds and Treasury Bills) by big banks will allow competitive bidding which in turn should lower the interest rates spreads. In addition it is recommended that the government use the established mobile money technology platforms such as MPESA (Kesenwa, Oima and Oginda 2013), to allow individuals to directly purchase treasury bills and the net effect of this is open transparency in the financial market that will have a positive impact on the interest spread and allow cheaper credits to private sector especially the SME sector. Another important government intervention recommended is the setting up of specialized financial institution funded by government and development partners that will house all the government special funds destined for the SME sector. Further the study recommends that the government should consider introducing tax incentives to Commercial banks to encourage them to set up SME advisory business and lending divisions. The setup of an alternative stock exchange for small capital companies is also recommended. This will encourage growing SMEs to build more formal set ups and governance structures in order to attract capital and external investors.

iii) The new governance devolved system in Kenya presents further challenges to the development of SMEs in Kenya. Whereas the new government structure since 2010 is part of the constitutional changes to enable the government disburse resources across the country, this new government structure if not managed properly may place more regulatory burdens to businesses. The risk of increased tax levies and other administrative taxes is real (Mugure and Gachunga 2014). The Government should take an extensive review of current regulations by undertaking a cost benefit analysis of the regulations and pieces of legislation that place excessive burden on SMEs. The new Kenya governance structure may result in duplication of legislation by county governments there by creating operational complexities to the SME sector. The success of government policy on poverty reduction through support of private sector programs especially on SMEs depends on the enactment of institutional and regulatory frame work that will support the SME sector in the new devolved governance structure. The new devolved units have autonomy to enact legislature but this study recommends that central government develop a national institutional frame work that will support the emergence of SME sector. A national policy frame work will help guide the new devolved units in creating enabling environment for SMEs. Most of the devolved government's economic future growth will largely depend on the SME sectors which are predominant business entities in rural Kenya (Njuguna 2015). Given the importance of SME sector in the new devolved government economies the study

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recommends the setup of national policy frame work that brings under one umbrella all business associations networks in the county level. The government should offer support in terms of resources and partnering opportunities with development partners. The government should also encourage the setup of lobby groups of local businesses to provide a forum where local legislators will work with these interest groups in formulating policies that favour the development and growth of SMEs. The challenge to access of credit is more pronounced at the local county government's level. The study further recommends that government set up special incentives such as tax breaks and government cash deposits to financial institutions that will set up operations in the devolved counties. These devolved financial institutions should be encouraged to either deal directly with individual members or use the local cooperative as source of information and collateral to advance loans to SMEs. There are multiple agencies within national governments that deal with different aspects of SME policies. The study recommends setting up a central body to harmonize all different government programs under one roof for ease of policy implementation. This central body should be the bridge between central government and county governments and should provide a forum where SMEs can meet and engage with strategic partners. In addition, this study recommends the setup of Entrepreneurial Training Institutes across the counties. A training levy could be set up to support the training Institutes. Finally, the government should recommend the set-up of preferential county government procurements opportunities for local SMEs. This will allow them to build economies of scale and improve their governance structures.

iv) Government procurement serves as a channel where private businesses interact with governments. How the government manages this interaction is important in widening the relationship between governments and the private sector (Gitari and Karanja 2014). Most of government procurements consist of very large and complex products and services that are out of the reach of SMEs. But as the largest economic agent in the market, the government is an important captive market for SMEs. Recently the government of Kenya has enacted a policy through a presidential directive reserving 30% of government contracts to the Youth Enterprises but despite this directive the uptake by the Youth enterprises remain small compared to the more established companies (Memba and Karanja 2012). One of the biggest challenges encountered by most SMEs in accessing this procurement quota is tendering costs and the lack of competences to respond to the tender documents. The study recommends that the government in addition to the 30% quota should provide training on tendering processes to the emerging SMEs. Further the government should waive tendering upfront costs and allow the SMEs to pay the tender costs upon securing the tender. The study further suggests that government should streamline the tender processing through an open tender system where SMES can bid on line and thus avoid the government bureaucracy and unethical practices by government functionaries.

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