International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

http://gssrr.org/index.php?journal=JournalOfBasicAndApplied

The Effects of Financial Intermediaries on the Economic Growth in Kenya: (A Case Study of Mombasa County)

Eric Samuel Ayany[a*], Moses Otieno[b]

[a]Department of Economics and Commerce, School of Human Resource Development (SHRD), Jomo Kenyatta University of Agriculture and Technology,P. O. Box 81310, Mombasa, 80100, Kenya

[b]Graduate Student,Department of Economics and Commerce, School of Human Resource Development (SHRD), Jomo Kenyatta University of Agriculture and Technology, P. O. Box 81310, Mombasa, 80100, Kenya

[a]Email: eric.ayany@yahoo.com

[b]Email: mosotieno6@gmail.com

Abstract

The main objective of the study is to investigate intermediation efficiency and productivity in the financial intermediaries sector in the post liberalization period in Kenya in relation to the growth of Mombasa County. The study is motivated by the fact that though the banking sector constitutes a large part of the financial system in Kenya, little is known about its intermediation efficiency and productivity status. Further banks are awash with liquidity despite private sector credit demand indicating some inefficiency in the intermediation process in Kenya. The research employed descriptive research design using simple random sampling which enables every member of the population to have an equal and independent chance of being selected as respondents and also simplest, most convenient and bias free selection method. The data was collected by use of questionnaire thereafter analyzed using both quantitative and qualitative techniques. The results show that though the banks were not fully efficient in all respects, they performed fairly well during the period under study. Banks still have reason and scope to improve performance by improving their technology, skills and enlarging their scale of operations so as to be fully efficient.

----

* Corresponding author.

E-mail address: eric.ayany@yahoo.com.

Based on the main conclusions, policies encouraging competition, products diversification to advance loans, risks minimization through increased capital regulation and privatization of some banks are generally recommended.

Keywords**:** Microfinance, Integrated Program Areas, Small and Medium Enterprises, Open Innovation

1. Introduction

1.1 Background Information

Participants in this study include first, local and foreign commercial banks located in Mombasa County, secondly, ECLOF Kenya which was set up in 1994 and is an affiliate of the ECLOF International Network. ECLOF Kenya provides both financial and non financial services to micro, small and medium entrepreneurs predominantly under the group lending with recent introduction of individual lending. Thirdly, Equity Bank was founded in 1984 and began operations as Equity Building Society before successively transforming into a rapidly growing MFI and later into a commercial bank. Equity Bank caters to diversified target clients profiles with a wide array of products including financial and non-financial services. Equity bank is at the front line in developing accredited innovative services that have revolutionalized the payment system with the use of integrated mobile banking platform.

Fourth, Faulu Kenya began as a programme of Food for the Hungry International (FHI) and started microfinance operations in 1991. In May 2009, Faulu Kenya became the first microfinance institution to be credited as a deposit taking institution after receiving the licence from CBK. Faulu Kenya offers both savings and credit services targeting the low income people in both rural and urban areas. Fifth, Jamii Bora Trust that was founded as a charitable trust in 1999 to provide microfinance solutions to low income earners. It later transitioned to Jamii Bora Kenya to act as a microfinance vehicle, and thereafter the acquisition by City Finance Bank in March 2010, it transformed into Jamii Bora Bank. The bank focuses on the bottom end market. Sixthly, Jitegemea Credit Scheme (JCS) which started in 1998 as a programme of the Presbyterian Church of East Africa (PCEA) and was registered as a separate company limited by guarantee in 2003. JCS provides financial services and trainings to clients through the Jitegemea Advisory Services wing and its target profile includes the micro and small enterprises. Seventh, KADET which was established by World Vision in 2000 providing credit services for small and micro entrepreneurs as well as to the marginalized community members located in the Integrated Program Areas (IPAs) of World Vision Kenya and has overall deepened rural outreach. Postbank that was established in 1910 and is wholly owned by the Government of Kenya. It primarily engages in the mobilization of savings for national development operating under the Kenya Post Office Savings Bank Act Cap 493(B). Postbank has designed savings accounts for businessmen, salary payments, the youth, pensioners and children to instil the savings culture nationwide. K-Rep Bank was formed by the K-Rep Group [3] and in 1987, K-Rep Ltd took form as a local NGO to run its micro-credit lending program. With growth of operations, K-Rep Bank was established in 1999 to concentrate on microcredit lending activities serving small and micro enterprises.

KWFT was founded by a group of professional women in the year 1981 to address the financial needs of women exclusively and to bridge the gap in outreach to the financially excluded. KWFT has since then grown, building on an extensive network coverage deepening outreach in the urban and rural set up targeting women entrepreneurs. The CBK awarded the deposit-taking license to KWFT in 2010, to become the second MFI licensed in Kenya. Rafiki DTM, a low end deposit taking microfinance was established in 2011 to become the sixth licensed DTM. Rafiki DTM is wholly owned by Chase Bank. The Company offers financing solutions targeting the economically active low income market with a specific focus on the youth segment. The product offer is diversified with the most recent introduction of the housing microfinance facility.

SMEP DTM began as a program of the National Council of Churches of Kenya (NCCK) to offer microcredit services and was incorporated as SMEP Ltd. by Guarantee in 1999. SMEP was awarded the deposit-taking nationwide license in December 2010 to become the third deposit taking MFI in Kenya. Yehu [8] that was founded in 1998 as a project of Choice Humanitarian Kenya, an international NGO based in the US. In July 2007, it was transformed into a Trust company and in April 2011 into a private company limited by shares. Yehu covers 7 of the 13 Coastal districts and mostly serves women through the group lending methodology.

financial sector is the engine that drives economic growth through efficient allocation of resources to productive units [20]. According to the Central Bank of Kenya Act, one of its primary roles is to foster liquidity, solvency and proper functioning stable financial system. This legislated function essentially implies a stable and efficient financial system that underpins intermediation process for economic growth and development. The Kenyan financial system comprises banks, non-bank financial institutions, insurance companies, microfinance institutions, stock brokerage firms, fund managers. The banking industry with asset base of over Kshs. 1.3 trillion is the largest sector in the Kenyan financial sector [16]. With a limited and under developed capital market, the banking sector plays pivotal role in intermediation process between savers and investors.

1.2 Statement of the problem

Access to credit has been considered as one of the main problems that SMEs have to deal with in order to survive and keep growing [5]. An appropriate combination of access to credit, credit conditions, and adequate financial and operational policies, is the only way to deal with the complex problem of SMEs survival and growth [21]. This study assessed the effect of Financial Intermediation in promoting the growth of Small and Medium Enterprises (SMEs) with a special focus on businesses in Mombasa. It is about providing the poor with a starting point that can enable them to enjoy the fruitfulness of economic growth. Inclusive growth mirrors the teaching of Mahatma Gandhi that developing nations cannot develop via mass production but by production by the masses. One of the surest routes to production by the masses is an entrepreneurship [2].

It further implies the few Kenyans who start their own micro and small businesses lack the entrepreneurial skills to sustain the businesses hence the observed high mortality rate of such enterprises leading to a dominance of a few large scale units (what Gandhi called mass producers) that generate unevenly distributed GDP [9]. Indeed a 2005 study by scholars from Kenya's Daystar University reported that Kenyan MSEs referred to by Gandhi as production by the masses, are faced with the threat of failure with past statistics indicating that three out five fail within the first few months.

On the one hand high MSE mortality rate coupled with a blue collar job culture limits national total entrepreneurial activity (call it lack of production by the masses after Gandhi's teachings) hence lack of inclusive growth. On the other hand high MSE mortality rate leads to poor competition to large scale producers (call them mass producers) who generate unevenly distributed GDP hence lack of inclusive growth. Persistent lack of inclusive growth leads to perceived and real inequalities with the associated grave consequences [21]. Clearly therefore one sure route to inclusive growth for Mombasa is the design and implementation of an entrepreneurship policy. But before we discuss the policy let us define entrepreneurship.

A universally accepted definition is elusive. One view is that entrepreneurship is an individual's ability to turn creative and innovative ideas into action. It includes creativity, innovation and risk taking, as well as the ability to plan and manage projects in order to achieve objectives. The rate of entrepreneurship in a country is best measured by the number of new and innovative business start-ups. The decision to start a new business largely depends on the intensity of latent or potential entrepreneurship which in turn largely depends on the psychological attitudes of people towards self-employment. The level of entrepreneurship culture in a country may be measured by the number of people with a positive attitude towards self-employment and wanting to enter self-employment. Encouraging the enterprise spirit (culture) is a key to creating jobs and improving inclusive economic growth in Kenya [14]. KIPPRA's findings that more Kenyans look for wage employment than those wanting to start their own businesses are a partial revelation of lack of an entrepreneurship culture among the populace.

1.3 Objectives of the Study

1.3.1 General Objective

The broad objective of this study is to assess the effects of Financial Intermediation in promoting the economic growth in Mombasa.

1.3.2 Specific Objectives

1. To examine the role of Financial Intermediaries' in creation of employment opportunities for Mombasa residents.
2. To establish the effect of provision of funds/ resources to Small and Medium Enterprises in the growth of Mombasa's economy.
3. To find out how participation rate of individuals/ groups in entrepreneurships influence growth in Mombasa's economy.

1.4 Research questions

1. How do financial intermediaries create job opportunities in Mombasa County?
2. How does provision of funds/ resources to SME's within the county lead to its economic growth?

3. How does the number of participants in entrepreneurship influence economic growth of Mombasa County?

1.5 Justification of the Study

Clearly there is the problem of lack of inclusive growth in Kenya. Casual observation reveals that a big contributor to this problem is lack of an entrepreneurship culture and we conceptualize it in.

The author in [21] suggests that the root cause of lack of inclusive growth is lack of an entrepreneurship policy. Lack of this policy contributes to lack of an entrepreneurship culture among the populace. This in turn leads to a dominance of a blue collar job culture with a majority of the population wanting to be employed rather than employ themselves and/or be employers leading to minimal total entrepreneurial activity. Indeed a KIPPRA study published in June 2010 and entitled, Unemployment in Kenya: a Situational Analysis reveals that an overwhelming proportion of the unemployed population in Kenya (94%) only looks for paid employment, while only 3% were interested in involvement in business operations (call it self-employment). This is a clear indication of the low level of entrepreneurship culture in Mombasa. It is also interesting to note that of the 3% interested in business operations, females accounted for a much larger proportion compared to males. This tells us that entrepreneurship policies to support women would be helpful.

The major development challenges include among others; poor road networks, rapid urbanization and housing problems, inadequate education facilities, inadequate health care delivery points, high unemployment among the youthful, insecurity, weak land ownership regime, perennial water shortages and growth of unplanned and informal settlements, all that need to be addressed effectively [23].

Mombasa is the centre of coastal tourism in Kenya. Mombasa Island itself is not a main attraction, although many people visit the Old Town and Fort Jesus. The Nyali, Kenyatta, Bamburi, and Shanzu beaches are located north of the city. The Shelly, Tiwi, and Diani beaches are located south of Mombasa. Several luxury hotels exist on these beaches, while the less expensive hotels are located further away.

Mombasa's northern shoreline is renowned for its vibrant 24-hour entertainment offers, including both family entertainment (water parks, cinemas, bowling, etc.), sports (watersports, mountain biking and gokarting), culinary offers (restaurants offering a wide range of specialties from Kenya, China, Japan, India, Italy, Germany and other countries) and night life(bars, pubs, clubs, discothèques, etc).

1.6 Limitation of the Study

Getting access to some information and reaching targeted interviewee was hard. Some of the interviewees were not fully conversant with the study. The researcher however met the interviewees during non-office hours to clarify on any questionnaires' questions not clear to the respondents.

Some enterprises lacked proper records to facilitate their response. However, this was minimized through explanation of the subject matter in the questionnaire and the assurance that the information was to be treated confidentially. The respondent's level of education determined the response time because some respondents took time to respond.

It was difficult to get adequate reading materials for better understanding of the topic. There were insufficient materials on the research topic in the university library. The researcher however got some relevant materials from the internet and other universities' libraries.

2. Materials and Methods

2.1 Introduction

This chapter outlines the research methodology that was employed by the researcher in carrying out the study. It describes the research design, target population and size, sampling techniques, data collection and instruments that were used and data analysis.

2.2 Research Design

The data was collected using both questionnaire and interview methods. Questionnaires were distributed to entrepreneurs and management of financial intermediaries. The research was also conducted by a way of interviewing the entrepreneurs to find out if there are any challenges which they are facing regarding financial intermediaries.

2.3 Target Population Study

The survey was carried out at Changamwe , Mvita, Nyali and Kisauni constituencies. The research covered a target population of 112 respondents included all the Small and Medium enterprises operating in Mombasa, and which are licensed by the County council.

Table 2.1 Target Population

Population Category	**Respondents**	**Percentage**
Banking Institutions	30	26.8
Non Banking Institutions	20	17.9
MicroFinance Institutions	40	35.7
Insurances	15	13.4
Fund Managers	7	6.2
Total	**112**	**100**

Source: Author's own research

2.4 Sample size

From the target population of 112, a sample of 50 respondents was selected using stratified random sampling to ensure equitable distribution of respondents among the five categories as illustrated below.

2.2 Target Population and Sample size

Population Category	**Respondents**	**Ratio**	**Sample**
Banking Institutions	30	0.27	30
Non Banking Institutions	20	0.18	20
MicroFinance Institutions	40	0.36	40
Insurances	15	0.13	15
Fund Managers	7	0.06	7
Total	**112**	**1.0**	**100**

Source: Author's own research

2.5 Sampling Frame

The sampling procedure used was random selection with 60% of the target population sampled from the various categories. Sub groups within the categories were used as stratified samples from which random selection was done. These subgroups were financial intermediaries' heads and supervisors.

2.6 Sample and Sampling Techniques

The study employed stratified random sampling techniques to develop the sample components. [3] discussed that if a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample. The target population in financial intermediaries was divided into several sub populations that are individually more homogeneous than the total target population.

2.7 Data Collection Instruments

Research Instruments are measurement tools which will be designed to obtain data on the research topic. Questionnaires were administered on the entrepreneurs within the various categories. This was necessary so as to find out their views at different levels. [3]defined a questionnaire as consisting of a number of questions printed or typed in a definite order on a form or set of forms. The researcher preferred to use this instrument as is free from bias from the interviewer, respondents have adequate time to give well thought out answers and even large samples can be reached. Interviews were also used as a method of data collection

2.8 Data Collection Procedure

The researcher introduced the objective of the research to the candidates included in the sample. Questionnaires were then circulated to the various employees who were then asked to answer the questions on their own and return the duly completed questionnaires to the researcher within a week time.

2.9 Data Processing and Analysis

The data collected was coded with a view to retain and adopt only the relevant data. The relevant data collected was analyzed and the retail descriptive statistics of frequencies and percentages was used for data analysis and presented inform of tables and pie charts.

3. Results and Discussions

3.1 Introduction

The data collected from the various respondents was presented in tables before it was analysed. The analysis was done with the help of graphs and pie chart for better interpretation and understanding.

3.2 Response Rate

The target population sample size who responded was analysed as below:-

Table 3.1: Response Rate

Financial Intermediaries	**Number of Questionnaires Distributed**	**Number of Questionnaires received back**	**Percentage**
Banking Institutions	38	36	29.00
Non-Banking Institutions	12	9	7.26
MicroFinance Institutions	56	54	43.55
Insurances	16	12	9.68
Fund Managers	2	1	0.80
Total	**124**	**112**	**90.29**

Source: Author’s own research – Financial Intermediaries (Mombasa)

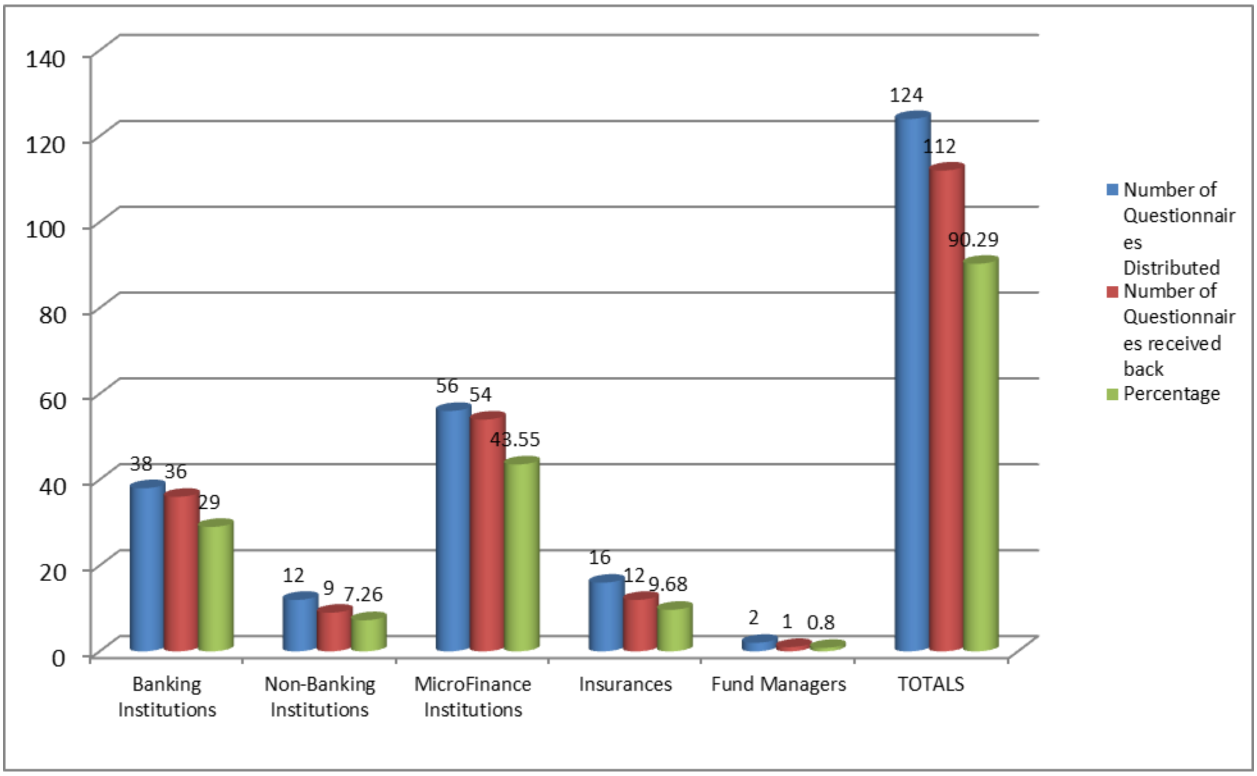

Figure 3.1 Response Rate

Table 3.1 and Figure 3.1 above indicated that 29% of the respondents received support from the banking institutions, 7.26% of the respondents received support from Non banking Institutions, 43.55% of the respondents received support from Micro finance Institutions, 9.68% of the respondents received support from Insurance companies and 0.80% of the respondents received support from fund managers.

It was clear that majority of the respondents received support from two financial institutions – Banking and micro Finance Institutions with 29% and 43.55% respectively. These two financial intermediaries account for an important part of the researcher's study since they deal with most of the respondents on a daily basis.

Banking and Micro Finance Institutions had the best response as almost all sampled employees returned back their fully completed questionnaires. For a long time, the commercial banks have played a supplier position to the respondents for all their funds thus directly affect the choice of the respondents. However, Micro Finance Institutions have come out strongly to challenge this assumption by providing innovative products competing directly with commercial banks. Their products have been of great acceptance among the respondents indicated by the larger response numbers compared to the banking institutions. It was thus clear that majority of the sampled employees responded well and represented fairly the targeted population.

From the total 124 questionnaires distributed, 112 questionnaires which reflected 90.29% of the questionnaires distributed indicated a good response rate and a good representation of the sample size of the target population.

3.3 Gender of Respondents

The gender of the sample size which responded was composed as below:

Table 3.2: Gender of Respondents

Gender of respondents	Frequency	Percentage
Male	44	39.29%
Female	68	60.71%
Total	**112**	**100%**

Source: Author's own research – Financial Intermediaries (Mombasa)

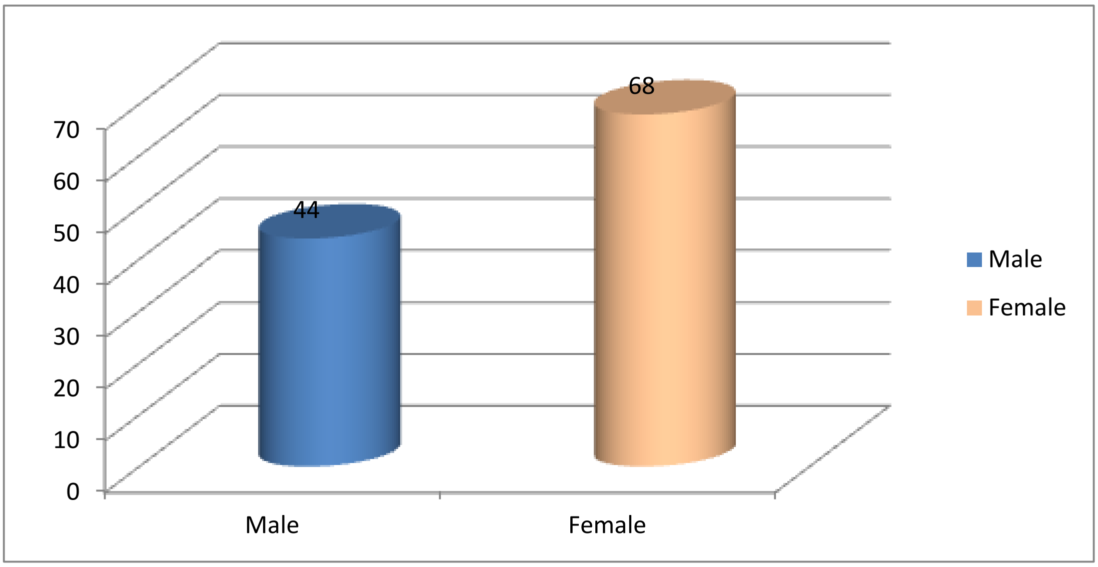

Figure3.2: Gender of Respondents

Table 3.2 and Figure 3.2 above showed that there were significantly high number of female respondents as compared to the male respondents which is reflected by 68% of the respondents being female and 44% of the respondents being female. This was attributed to the fact that significant portion of the entrepreneurial ventures are began and run by female.

3.4 Age of Respondents

The respondents' age is analysed as below:

Table 3.3: Age of Respondents

Age	**Below 25 Years**	**25 - 35 Years**	**36 - 45 Years**	**Above 45 Years**	**Totals**
Frequency	4	42	54	12	112
Percentage	3.57%	37.50%	48.21%	10.72%	100%

Source: Author's own research – Financial Intermediaries (Mombasa)

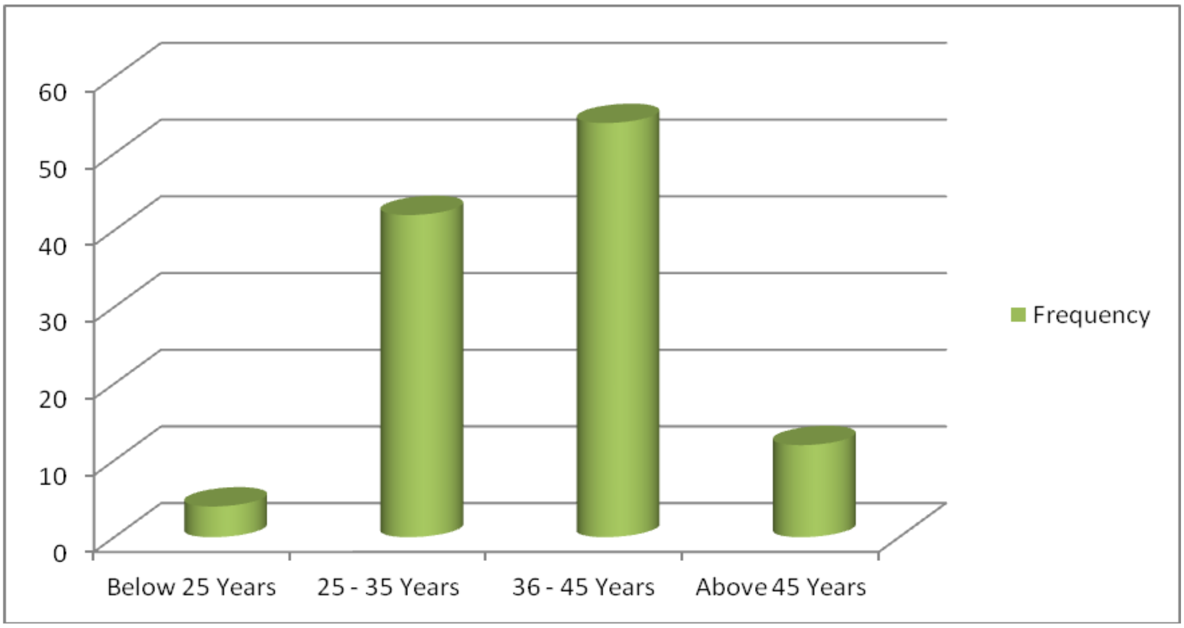

Figure 3.3: Age of Respondents

Table 3.3 and Figure 3.3 above showed that, 3.57% of the respondents were below 25years of age, 37.50% of the respondents were between 25 - 35 years, 48.21% of the respondents were between the ages of 36 and 45 Years, 10.72% of the respondents were above 45 years.

This data clearly shows that a majority of the entrepreneurs fall between 36 - 45 years of age in Mombasa.

3.4 Employment status of respondents

Respondents in this study were either employed or unemployed in other organisations as analysed below

Table 3.3: Employment status of respondents

	Frequency	**Percentage**
Employed	44	39.29
Unemployed	68	60.71
Total	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

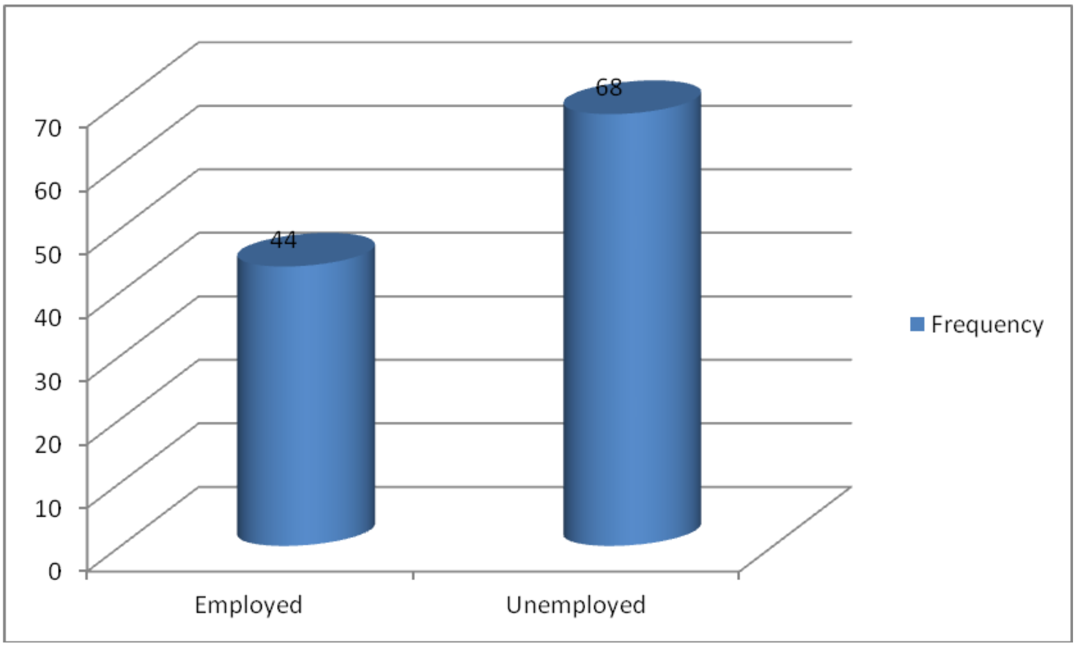

Table 3.4: Employment status of the respondents

Table 3.4 and Figure 3.4 above showed that there were significantly high numbers of respondents that only venture in the business ran with support from financial Intermediaries ventures as compared to the respondents who also have other income generating employment opportunities and take these businesses as side job. 60.71% of the respondents said they had no other side job compared to 39.29% who had other employment opportunities.

3.5 Reasons for starting up the business

I had three options for respondents to state how they came up with the idea of venturing into the current business and analysed them as below:

Table 3.4: Reasons for starting up the business

Reasons	Frequency	Percentage
Due to lack of any Income	8	7.14
Nurtured desire for the business	72	64.29
From others in the industry	32	28.57
Total	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

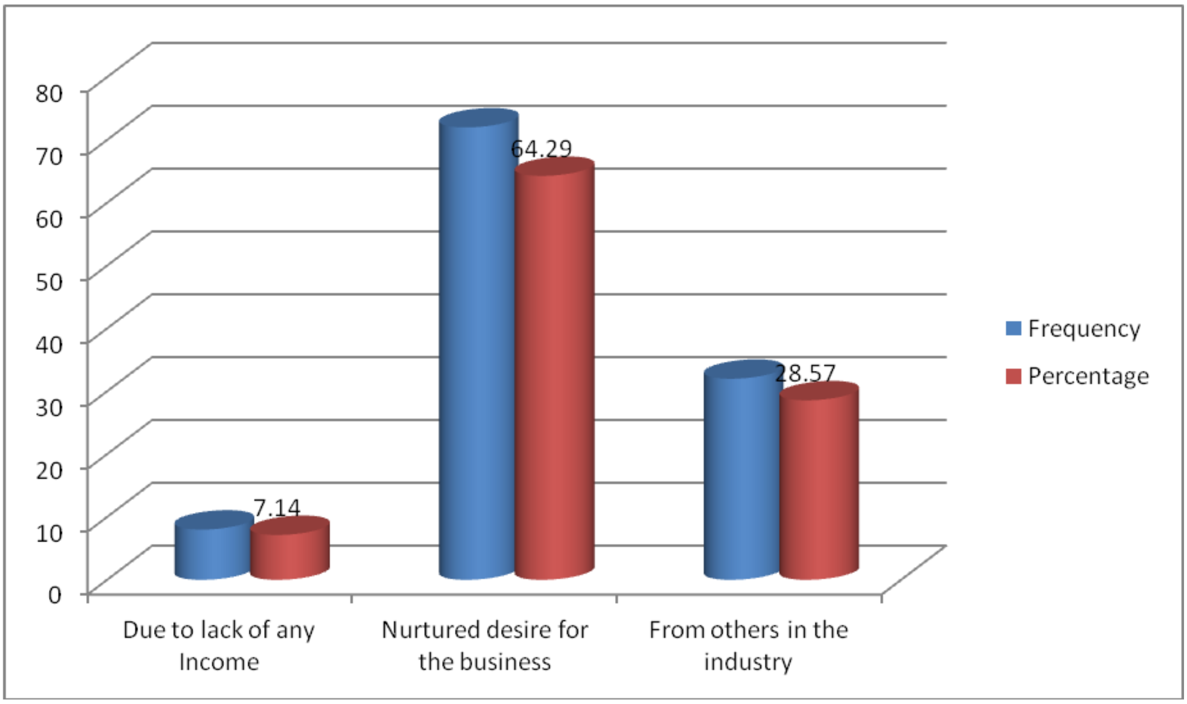

Figure 3.4: Reasons for starting up the business

Table 3.4 and Figure 3.4 above indicated that only 7.14% of the respondents entered into their business venture due to the fact that they lacked any income, 64.29% of the respondents entered into the current business venture due to interests they have nurtured for a long time while 28.57% of the respondents entered into the business venture due to what they perceived as success from others who are already in the industry.

3.6 Initial Business capital

The respondents' overwhelmingly gave their source of capital for starting their business to be from financial intermediaries as analysed below:

Table 3.5: Initial Business Capital

	Frequency	Percentage
Agree	101	90.18
Don't Agree	11	9.82
Totals	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

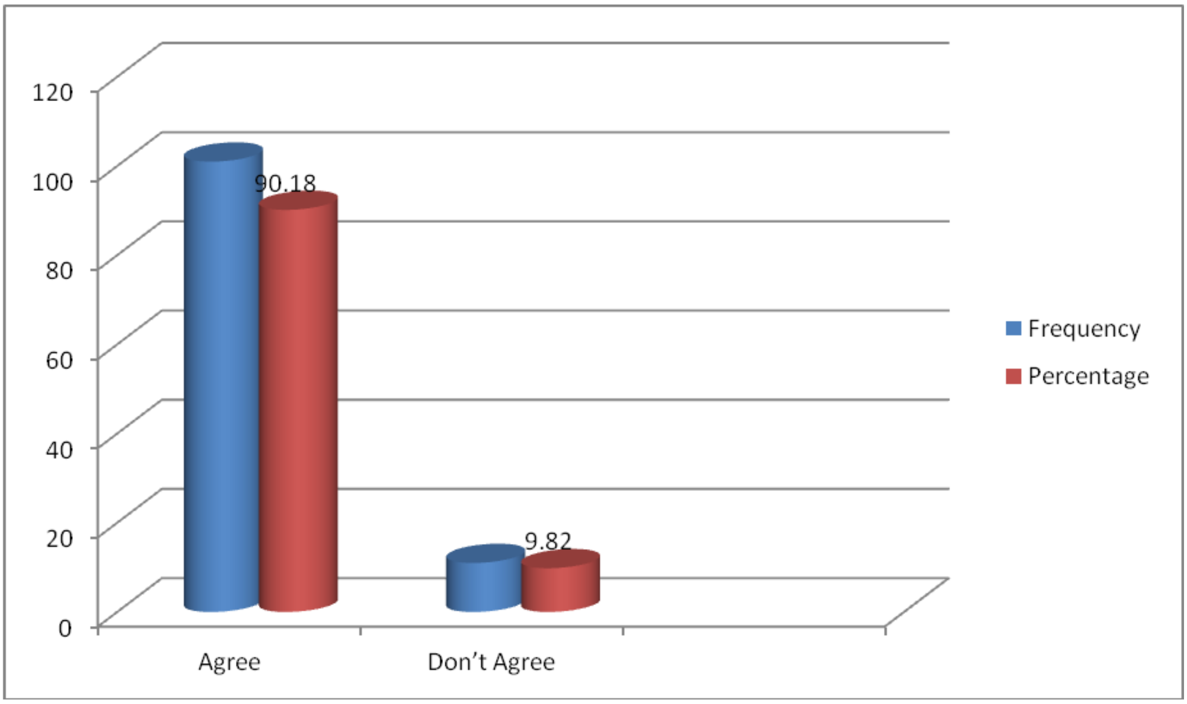

Figure 3.5: Initial Business Capital

Table 3.5 and Figure 3.5 above showed that 90.18% of the respondents agreed to have began their businesses from funds issued to them by various financial intermediaries while 9.82% of the respondents stated to have started from funds offered to them by relative and friends.

3.7 Ownership status of the business venture

The respondents' response on whether they individually own their business or as a group was presented and analysed as below:

Table 3.6: Ownership status of the business

	Frequency	Percentage
Individual	55	90.18
Group	57	9.82
Total	**112**	**100.00**

Source: Author’s own research – Financial Intermediaries (Mombasa)

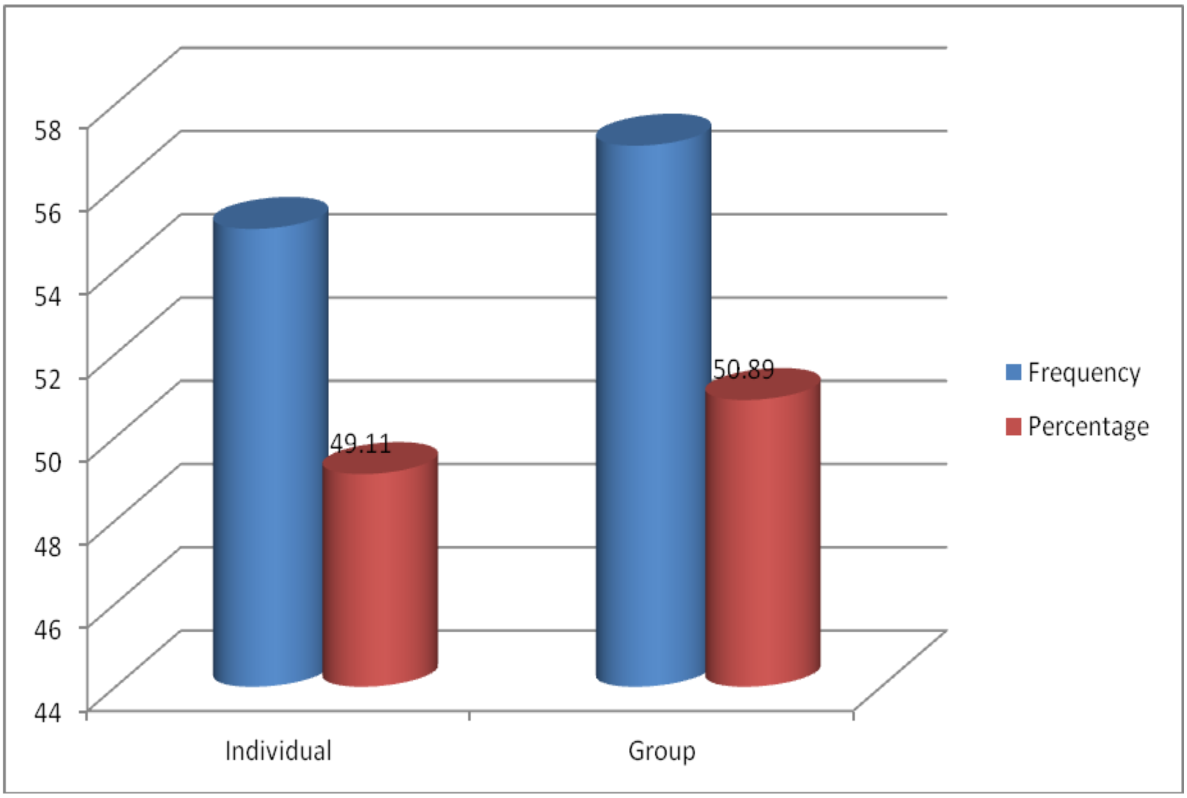

Figure 3.6: Ownership status of the business

Table 3.6 and Figure 3.6 above indicated that 49.11% of the respondents individually owned their businesses while 50.89% of the respondents owned their businesses as a group. Something that came out clearly from this question is that even though a business was registered on individual basis, there was high interdependence on the family members and relatives for labour support.

3.8 The nature of support issued by Financial intermediaries

Responses collected from the respondents was presented and analysed as below:

Table 3.7: The nature of support issued by Financial intermediaries

Nature of support	Frequency	Percentage
Offering depository and withdrawal services	32	28.57
Offering credit to the businesses	38	33.93
Training the owners of the businesses	16	14.28
Supporting customer expansion for the businesses	26	23.22

Source: Author's own research – Financial Intermediaries (Mombasa)

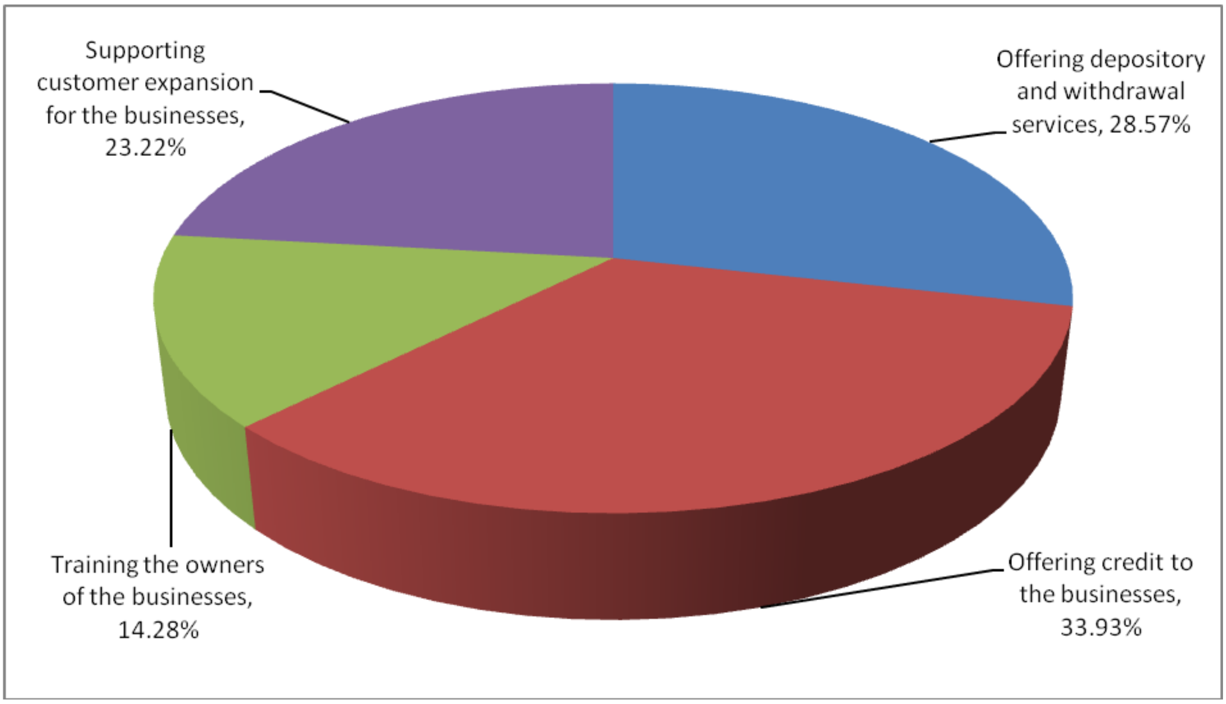

Figure 3.7: The nature of support issued by financial intermediaries

Table 3.7 and Figure 3.7 above indicated that 23.22% of the respondents described that financial

intermediaries contribute to customer base expansion for their businesses; 28.57% of the respondents indicated that financial intermediaries has been offering depository and withdrawal services as the crucial support received from them and that has enabled their businesses to flourish; 33.93% of the respondents described that financial intermediaries have been offering credit to their businesses as a crucial support that has enabled them survive in the industry that they are operating; 14.28% of the respondents indicated that financial intermediaries have offered them training services which has impacted positively into the growth of their businesses.

3.9 Reason for growth of business

The respondents' identified reasons for growth in their businesses and attributed them to financial intermediaries' intervention. This was presented and analysed as below:

Table 3.8: Reason for growth of business

	Frequency	Percentage
Agree	110	98.22
Not Agree	1	0.89
No Idea	1	0.89
Total	112	100.00

Source: Author's own research – Financial Intermediaries (Mombasa)

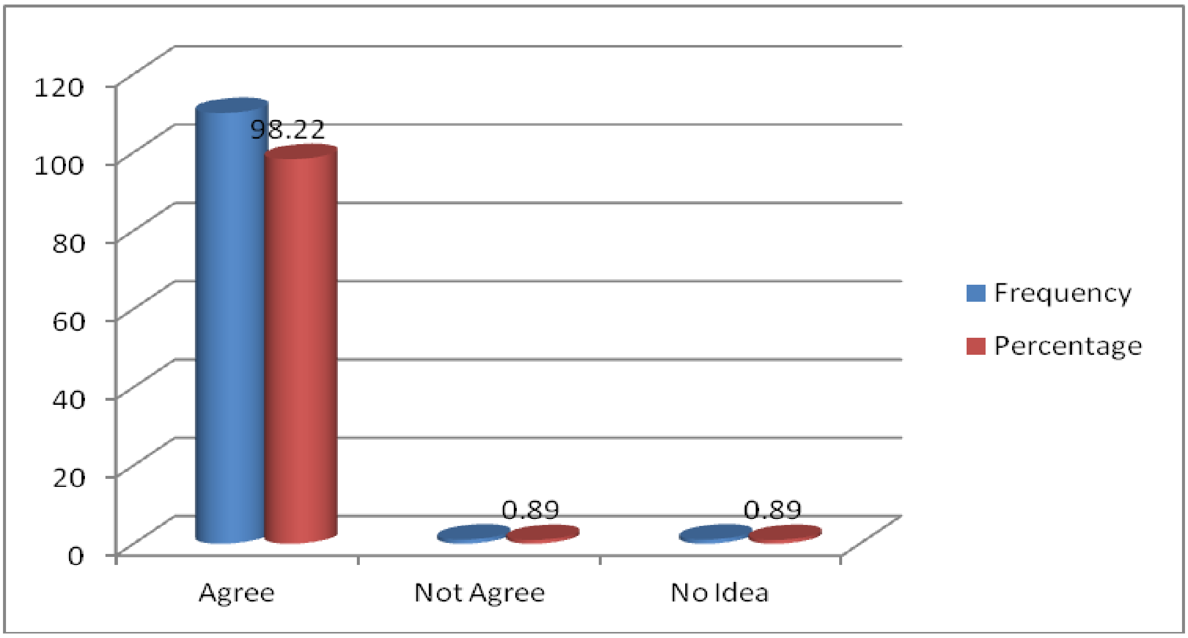

Figure 3.8: Reason for growth of business

From the above Table 3.8 and Figure 3.8 indicates that 98.22% of the respondents agreed that support given to them by financial intermediaries is the reason for growth in their businesses; 0.89% did not agree to this while another 0.89% described had no idea of what made their businesses grow.

3.10 How safe are business proceeds kept

The respondents' response on how they kept savings and business proceeds were analysed below:

Table 3.9: How safe are business proceeds kept

	Frequency	**Percentage**
Commercial Banks	43	38.39
Micro Finance	47	41.97
MPESA	22	19.64
In the House	0	0
Total	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

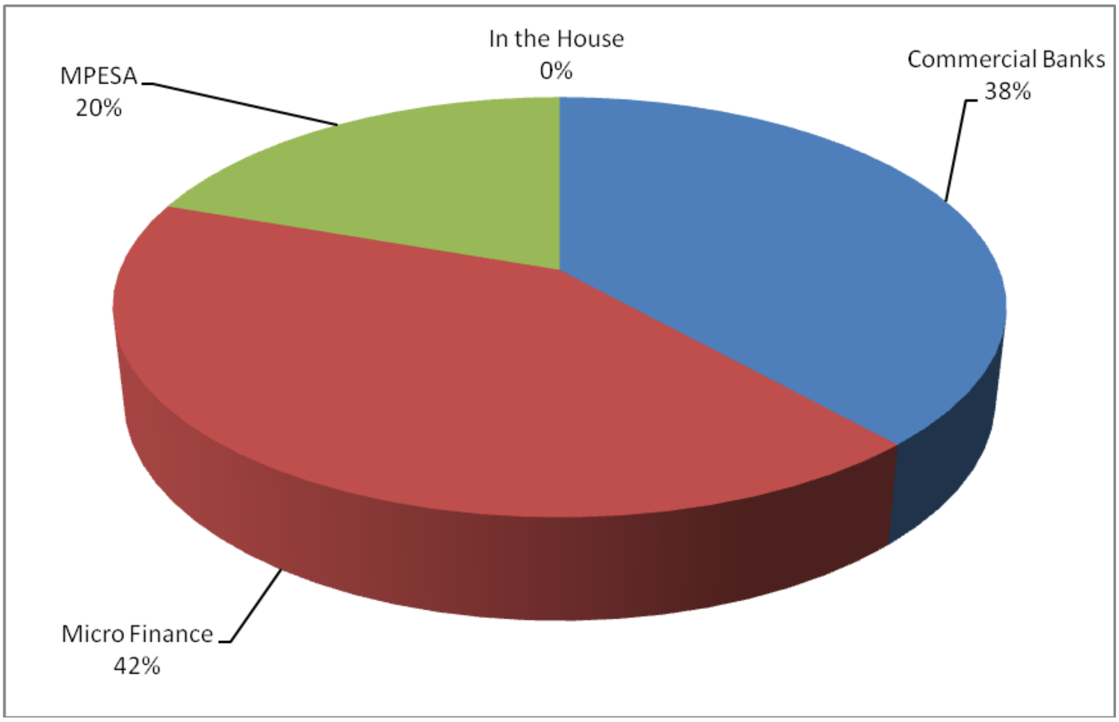

Figure 3.9: How safe are business proceeds kept

Table 3.9 and Figure 3.9 above reflected that 20% of the respondents kept their business proceeds on MPESA services by Safaricom; 38% of the respondents kept it in commercial banks while 42% of the respondents kept them with Micro Finance institutions. It was clear from the analysis that all of those involved in business venture practiced safe keeping of business proceeds since none of them kept the proceeds in the house.

3.11 Effects of safe keeping of business proceeds

The respondents' responses on how effective their decision to keep their business proceeds under financial intermediaries was presented and analysed as below:

Table 3.10: Effects of safe keeping of business proceeds

	Frequency	**Percentage**
Growth of Business	97	86.61
No effect	4	3.57
No Idea	11	9.82
Total	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

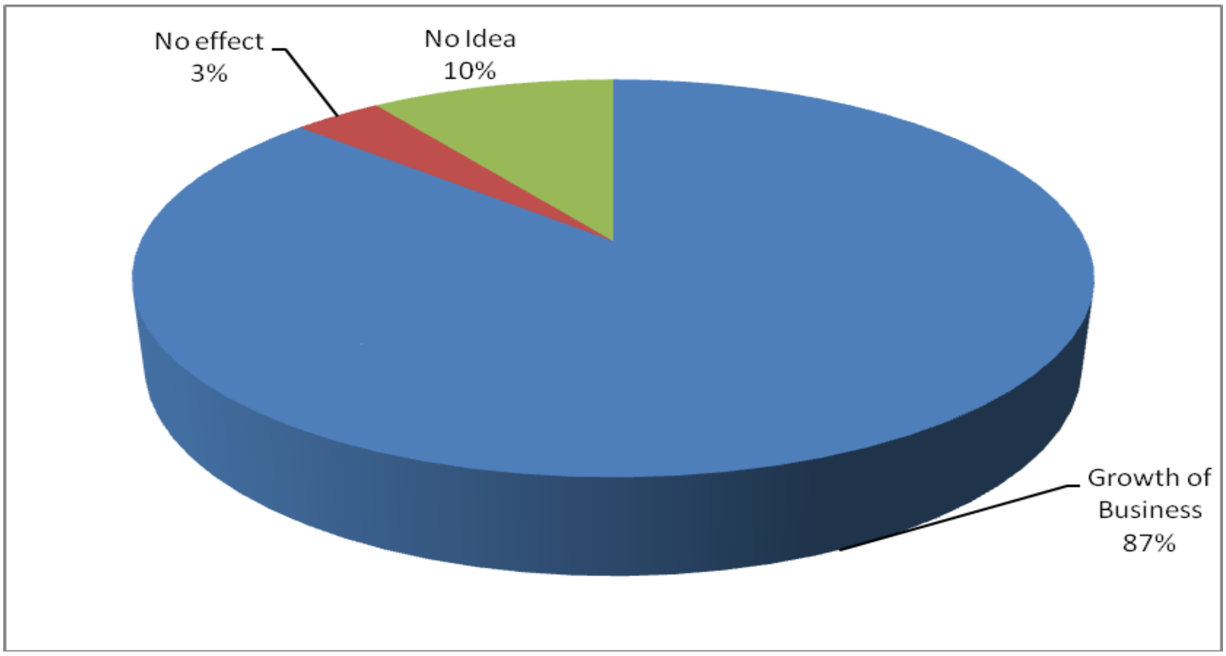

Figure 3.10: Effects of safe keeping of business proceeds

From Table 3.10 and Figure 3.10 above, 87% of respondents described that safekeeping of business proceeds has enabled them grow their business; 3% of the respondents stated that they saw no effect in keeping their business proceeds with financial intermediaries while 10% of the respondents stated that they had no idea into the effects of keeping their business proceeds with financial intermediaries.

3.12 Loan processing time

The respondents' results on whether financial intermediaries had lengthy requirements before issuing them funds was analysed as below:

Table 3.11: Loan processing time

Period	Frequency	Percentage
Less than 24 Hours	33	29.47
24- 48 Hours	47	41.97
49 Hours - 7 days	29	25.89
Above 1 week	3	2.67
TOTAL	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

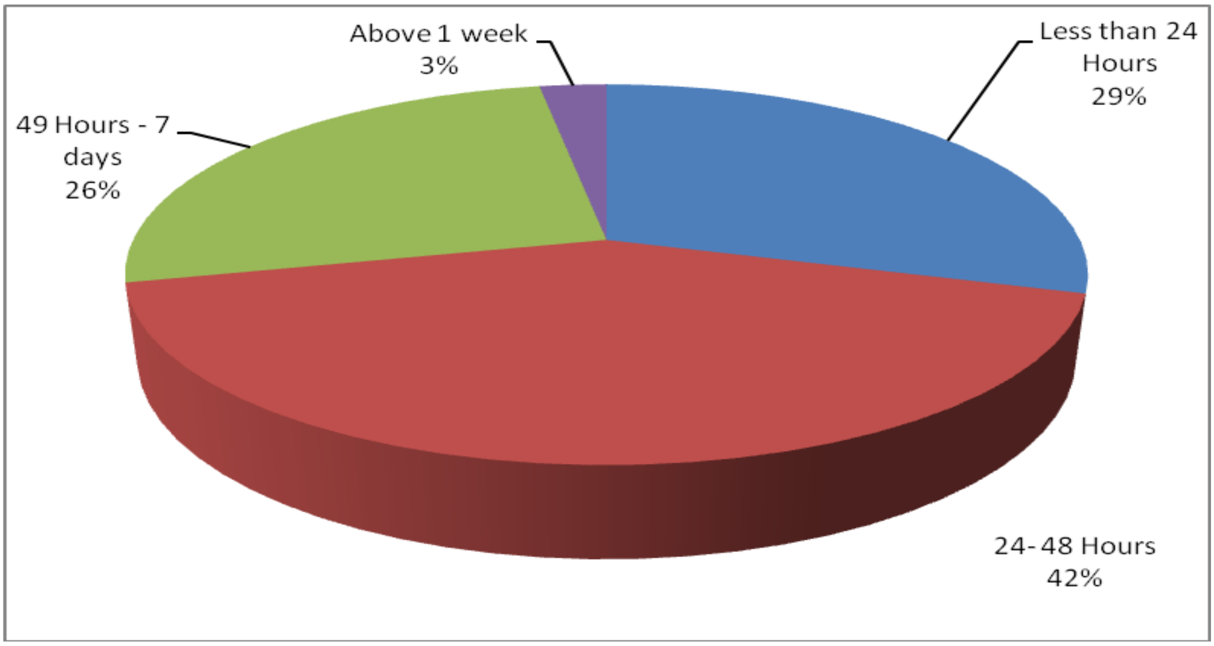

Figure 3.11: Loan processing time

Table 3.11 and Figure 3.11 above, 42% of the respondents stated that financial intermediaries took less than 24 hours to process their loans; 29% of the respondents stated that it took financial intermediaries less than 24 hours to process their loans; 26% of the respondents stated that it took the financial intermediaries between 49 hours to 1 week to process their loans while 3% of the respondents stated that they had to wait for over a week to receive loans applied via financial intermediaries.

From the above analysis, it can be noted that that financial intermediaries are doing well in meeting expectations on would be business entrepreneurs' needs.

3.13 Ease of loan payback instalments

The results of the respondents on how difficult or easy they are able to pay back their loan instalments.

Table 3.12: Ease of loan payback instalments

	Frequency	**Percentage**
Agreed	107	95.54
Not Agreed	5	4.46
TOTAL	**112**	**100.00**

Source: Author's own research – Financial Intermediaries (Mombasa)

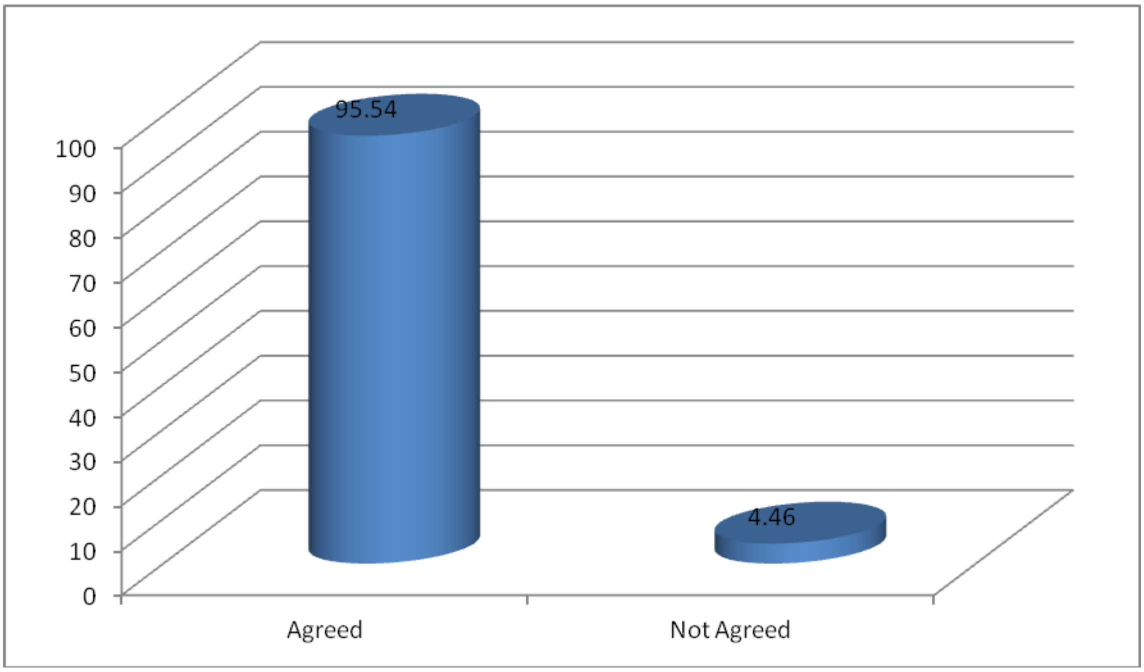

Figure 3.12: Ease of loan payback instalments

Table 3.12 and Figure 3.12 above indicated that 95.54% of the respondents described that financial intermediaries allow them to re-pay back their loans via easy instalments while 4.46% of the respondents stated that financial intermediaries don't offer them easy repayment of their loans.

4. Conclusions

1. The study showed that the financial intermediaries played a significant role by offering banking services and extending credit facilities to SME businesses.
2. Other support offered by financial intermediaries included; advisory services, training and financing the start of businesses.
3. The study revealed that the existing evaluation procedures adopted by financial intermediaries were a big hindrance to credit access because they were stringent and bureaucratic. Evaluation procedures made it difficult for businesses to access support from financial institutions. The existing evaluation procedures wasted a lot of business time and made financial intermediaries services inaccessible to most businesses.
4. Based on the statistical analysis performed, it can be concluded that the most significant aspects of financial intermediaries that affected the growth of SMEs included; support received, regulatory framework, and managerial competencies. These were found to have contributed significantly to the growth of manufacturing SMEs.
5. SMEs evaluation procedures were found to have contributed to the current growth of SMEs hence the need to keep the existing financial intermediaries' evaluation procedures. This will definitely contribute to the growth of manufacturing SMEs in the region even in the long run.

Acknowledgements

I would like to thank my supervisor, Dr. Moses Otieno who took his precious time to help me and offered me unyielding support and advice that steered my study throughout.

Finally, I would like to thank all lecturers for their excellent lectures upon which this project was based. In addition, I extend my profound gratitude to my classmates and all those who interacted with me during my time of study.

References

[1] Abuodha, C. (1996). Small-scale industrial financing in Kenya: Case for venture capital in D. McCormic and P-Over Pedersen (Eds.) *Small enterprise: Flexibility and networking in an African context*. Nairobi: Longhorn

[2] Atieno, R. (2001). *Formal and Informal Institutions lending policies and access to credit by small scale enterprises in Kenya: An empirical assessment.*

[3] Aryeetey, E. (1995). *On-lending to saving collector in Ghana. Studies in Rural and*

Microfinance, No. 2 Africa Region, The World Bank, Washington, D.C.

[4] Awadh S (2008), *Role of Microfinance in Empowering Women Research paper,* Mombasa University of Nairobi campus

[5] Becchetti, L., & Trovato, G. (2002). The determinants of growth for small and medium sized firms: The role of the availability of external finance, Small Business Economics, 19(4), 291-306.

[6] Bennet, R., & Dann, S. (2000). The changing experience of Australian female Entrepreneurs: Gender, work & organization, 7(2), 75-83.

[7] Bless, C.& Hiason-Smith, C. (1995). *Fundamentals of social Researc methods- An African perspective*. (2nd ed.) Kenwyn –Juta

[8] Chell, E., Haworth, J. & Brearly, S.(1991). The entrepreneurial personality: Concepts, cases and categories. London: Routledge.

[9] Chittenden, F & Brag, R. (1997). Trade credit, cash flow and SMEs in the UK, Germany and France. *International Small Business Journal*,

[10] Cliff, J. (1998). Does one size fit all? Exploring the relationship between attitudes towards growth, gender, and business size. *Journal of Business Venturing*, 13, 523-542.

[11] Dondo and Oketch(2001),*Microfinance Development in Kenya. Africa Economic Policy paper No.70.*Nairobi K-Rep Bank

[12] Faulu Kenya (2007), *Quarterly Monitoring Report; October – Dec 2007.*Retrieved from www.faulu.org.com

[13] Kiiru, W. K (1991). *Ä review of the institutional lending to the* jua kali *and small enterprise sector in Kenya*. Geneva: International Labour Organisation.

[14] Kimuyu, P. & Omiti, J. (2000). *Institutional Impediments to Access to Credit by Micro and Small Scale Enterprises in Kenya.* IPAR Discussion Paper No.026/2000. IPAR. Nairobi.

Liedholm, C. & Mead, D. (1993). The Structure and growth of Microenterprise in Southern and Eastern Africa: Evidence from Recent Surveys. Working Paper No. 36. Gemini.

[15] Kimuyu P (2002), *Micro-level Institutions and Revenue Generation, Institute of Analysis and Research,* Retrieved from http;//www.kippra.org

[16] K-Rep Bank (2007, March 5). Micro finance institutions can help small business. *Daily Nation,* Leutkenhorst et al. (2004), OECD Article: A guide for policy review process and strategic plans for micro, small and medium enterprises development for private sector development, Istanbul

[17] Luo, J. D. (1998). The savings behaviour of small investors: A case study of Taiwan . *Economic Development and Cultural Change*, 46(4) pp.771-778.

[18] Lunnddvall, K., Ochoro, W.O., & Hjalmarsson, L. (1998). The productivity of the Kenyan manufacturing sector. In Bigstein, A. and P. Kimuyu (Eds.) *The structure and performance of manufacturing in Kenya.* World Bank Washington DC.

[19] Miller, P.H. (1999).*Theories of development psychology*. W. H. Freeman publishers.

[20] ROK. (2006). Economic reviews Ministry of Planning and Economic Development: Government Printer.

[21] ROK. (2008). Economic survey. Nairobi: Government Printer.

[22] Rono, P. (2001). Gender differences in the performance of second hand Clothes traders in Nakuru and Eldoret. In Alila, P.O. & Pedersen, P.O. (Eds), *Negotiating social space East African Micro Enterprises.* Asmara: Africa World Press, Inc Pp. 175-195.

[23] Tomecko, J & Dondo, A. (1992). *Improving the potential of small scale and informal sector.* Nairobi: K-REP and GTZ.

[24] Torraco, J.R. (1997). Theory building research methods. In R. A. Swanson and E.F. Holton III (Eds.). *Human resource handbook Linking research and practice*. San Francisco, CA:Berret-Koehler publishers.

[25] Wierssma, W. (1995). Research methods in education: An introduction (6th ed.) Boston, MA: Allyn and Bacon.

[26] Winborg, J. & Landstrom, H. (2001).Financial bootstrapping in small businesses: Examining small business managers' resource acquisition behaviors, *Journal of Business Venturing,* 16(3), 235.

[27] Zeller, M. (1993). *Participation of rural households in informal and formal credit markets in Madagascar*. Washington, D.C.: IFPRI.