

## ABSTRACT

Micro and Small Enterprises (MSEs) are vital for the growth, especially for developing countries as they create jobs and distribute the national wealth among rural communities. It is believed that their development is mostly influenced by availability of financial services. Mogotio District has a number of micro financial institutions. It was not clear the extent to which they interacted with MSEs so as to support their growth especially in rural areas of Mogotio. This study sought to determine the role of microfinance on the growth of MSEs in Mogotio district. The study was guided by the objectives; to

0 ermine usage of microfinance services by MSEs; examine the changes in the growth of MSEs necessitated by microfinance; determine the microfinance policies and delivery mechanisms and establish the business challenges facing MSEs in embracing microfinance services in Mogotio district. The study applied descriptive survey design

which was appropriate for the study because it enables the collection and analysis of both quantitative and qualitative data. Stratified sampling technique was used to group MFIs into 2. Purposive sampling technique was applied to select 4 MFIs that covered the entire district. Simple random sampling technique was applied in selecting 233 clients and 8 staff from the 4 MFIs. The staff register of each of the 4 institutions were used as sampling frame to randomly select the staff. The sample size totaled up to 241 respondents. This constitutes 10.3% of 2345 clients and staff from the 4 MFIs that took part in the study. Data was collected using questionnaires and interview schedules from both the clients and staff from the 4 microfinance institutions. Both closed and open ended questionnaires were used. Reliability of the instruments was measured at 0.72 through a pilot test. Data collected was analyzed by descriptive and inferential statistics. This was done using Statistical Package for Social Sciences (SPSS) version 17.0. The study results were presented in themes using words, pie charts, bar graphs, cross tabulations and percentage to show the change in micro-enterprise growth that occurred. The research findings were that: 70% of MSEs joined MFIs to access loans and used such loans to start and expand their businesses; 85.97% realized positive growth while 14.03% realized no growth. The research findings are expected to help MFIs improve their services to clients and for the government to develop a policy and legal framework for high growth of MFIs and MSEs in Kenya. The study concludes that MFIs have a

positive role in the growth of MSEs in the district. The study recommends that interest rates on loans be reduced, dwell more on training and education of clients, the go government develop a proper policy and legal framework for high growth of MFIs and MSEs and the need to replicate the study in an urban and other rural areas in Kenya so as to provide data across a broader spectrum.