Entrepreneurial Financing Practices and Growth of Youth Owned Micro and Small Enterprises in Kenya

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Abstract

Despite the importance of MSEs to the Kenyan economy, the rate at which new firms are formed, have stagnated and the already established MSEs younger than 5 years are collapsing a great deal. This study thus sought to establish the effect of entrepreneurial financing on growth of youth owned Micro and Small Enterprises in Kenya. The study was guided by the following specific objectives; to establish the effect of digital credit on growth of youth owned Micro and Small Enterprises in Kenya, to assess the effect of banks and microfinance lenders on growth of youth owned Micro and Small Enterprises in Kenya, to determine the effect of equity financing on growth of youth owned Micro and Small Enterprises in Kenya, and to find out the effect of investors on growth of youth owned Micro and Small Enterprises in Kenya. The study was anchored on technology adoption theory, influential theory, pecking order theory, and agency theory. The researcher used descriptive research design. The target population for this study was 2672 MSEs in Kenya. Yamane formula was used to determine study sample size which was 348 owners of the MSEs. The researcher used simple random sampling to select the sample. Questionnaire was used as the research tool. The study piloted the questionnaire on 17 MSEs from Kiambu County (5% of sample size). The study employed both quantitative and qualitative methods of data analysis. Qualitative data analysis involved coding and systematically putting into themes the open ended questions which was analyzed through content analysis and presented in prose form. Quantitative data was analyzed using descriptive and inferential statistical techniques. Descriptive statistics was used to present the main characteristics of the sample and involved use of mean, measures of dispersion and percentages. Correlation analysis was used to investigate the relationship between study variables. The study used SPSS version 25 software to carry out regression analysis. Data was presented using tables, and figures to make them reader friendly. The study concludes that digital credit has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. In addition, the study concludes that banks and microfinance lenders has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. Further, the study concludes that equity financing has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. The study also concludes that investors have a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. In addition, the youth owned SMEs should consider interest rates charged, repayment duration and collateral required before accessing the credit facility

Keywords: *Entrepreneurial Financing Practices, Growth, Micro and Small Enterprises*

1.1 Background of the Study

Youth-owned micro and small enterprises (MSEs) have increasingly been seen as playing an important role in the economies of many countries (Olawe & Garwe, 2019). Many, governments throughout the world have focused on the development of MSE sector in order to promote economic growth. Micro and small enterprises (MSEs) are widely recognized as a major source of employment and income in developing countries (Mano et al., 2017). If they grow in size, they would contribute to economic growth and poverty reduction among the youth.

Youth-owned MSEs evolve in difficult business environments that are characterized by globalization, the internationalization of markets and there is a need to enhance greater efficiency, effectiveness, and competitiveness that are based on innovation and knowledge (Mateev & Anastasov, 2019). The MSEs have faced many barriers that have prevented their start-up or growth and hinder their potential (Amyx, 2017). A great deal of the development studies literature has focused attention on the difficulties Micro and Small Enterprises (MSEs) face in their daily operations. Generally, there is the view that SMEs decry their level of access to finance and the cost involved in obtaining such funds where available (Berger & Udell, 2016). Obstacles include those created by financial institutions, institutional imperfections and SMEs themselves (Aryeetey, 2018).

The accessibility of finance by MSEs has stirred attention of academicians and policy makers worldwide for many decades. Discussion on the problem of access to finance by MSEs in has taken place in form of seminars and several debates for the purpose of improving the finance line for MSEs and to formally integrate their contributions in the economy (MIC, 2017). This is because finance is a significant element for determining the growth and survival of MSEs (ACCA, 2019). Access to finance allows micro and small businesses to undertake productive investments and contribute to the development of the national economy and alleviation of poverty in most of the countries (Beck & Demirguc-Kunt, 2016).

Entrepreneurial financing for micro and small enterprises is essential for boosting start-up businesses (Cassar & Holmes, 2017). In addition, without external finance, micro and small and enterprises will probably not be able to compete in an international market, to expand the businesses and strike linkages of business with the large firms (Macharia, 2018). Further, access to finance is the most serious barrier to expansion of businesses and start-ups which have been mentioned by existing MSEs and potential operators (Olomi & Urassa, 2018). This study therefore seeks to determine the influence of entrepreneurial financing on growth of MSE in Kenya.

1.2 Statement of the Problem

Youth owned enterprises contribution to the Kenyan economy is widely acknowledged (Akwalu, 2018). The Government of Kenya revealed that 64 percent of its population was engaged in Micro and Small Enterprise (GoK, 2017). According to the economic survey of 2018, the youth enterprises accounted for 74.2% of the total persons engaged in employment and contributed up to 18.4% of the Kenya's GDP in 2013. There is therefore need to establish and maintain a favourable environment for the growth of the youth owned enterprises that can have capacity to create more employment opportunities.

Eighty-five per cent (85%) of all the youth enterprises in Nairobi fail within the first five years of operation (KNBS, 2017). The high mortality rate of youth led MSEs has been highly associated with loss of economic development and social injustices among the youth among other poverty-tied prospects (UNDP, 2018). Despite the importance of MSEs to the Kenyan economy, the rate at which new firms are formed, have stagnated and the already established MSEs younger than 5 years are collapsing a great deal (Ngui, 2018). For Kenya to realize vision 2030 of being an industrialized economy, then effort should be done to promote the MSEs and this can be made possible by investigating what really can improve their growth. Access to finance is considered to be the engine behind the growth because without enough funds for working capital and investments no firm can survive (Agnew, 2019).

There are several studies that have been conducted on Micro and Small enterprises in Kenya. Mutuku (2019) studied on the impact of microfinance institutions on MSEs in Kenya; Ngugi (2019); Kioko (2019); Makena (2017) studied on the financial challenges faced by MSEs. Kemei (2017) studied on the relationship between microfinance services and financial performance of MSEs. Cooper (2016) studied on the impact of microfinance services on the growth of MSEs in Nairobi and found a strong positive impact. There are limited studies on Youth owned MSEs and how their growth is affected by entrepreneurial financing. This study thus sought to fill this research gap by examining the effect of entrepreneurial financing on growth of youth owned Micro and Small Enterprises in Kenya.

1.3 Objectives of the Study

i. To establish the effect of digital credit on growth of youth owned Micro and Small Enterprises in Kenya.
ii. To assess the effect of cost of credit by banks and microfinance lenders on growth of youth owned Micro and Small Enterprises in Kenya.
iii. To determine the effect of equity financing on growth of youth owned Micro and Small Enterprises in Kenya.
iv. To find out the effect of investors on growth of youth owned Micro and Small Enterprises in Kenya.

2.1 Theoretical Review

The study was anchored on the Technology Adoption Theory, Influential Theory, Pecking Order Theory and the Agency Theory.

2.1.1 Technology Adoption Theory

According to Oliveira and Martins, (2017) the theory is of how and why, and at what rate new ideas and technology are spread through cultures, operating at the individual and firm level. The theory, however, does not specifically point out at specific business types in addressing issues of technology adoption. The theory evaluates innovations as a process that is communicated through certain channels over a period of time and within a particular system in the society (Rogers, 1995). The theory also argues that business owners must be in possession of different capabilities and the willingness to adopt innovations, and thus it is normally observed that the percentage of the population adopting an innovation is approximately normally distributed over time, (Rogers, 1995).

The theory of financial innovations helps us understand how new innovations such as digital credit in the financial sector enhance allocation of scarce resources, enhance financial markets liquidity and improves accessibility to upcoming prospects and this activities lead to deepening of financial inclusion Blach (2017). The very nature of digital credit, characterized by fast, automated, and off-site access can however cause consumer protection risks that are distinct from those of more conventional consumer and microenterprise credit models (Mazer & McKee, 2017). The youth are an especially susceptible group given their lack of experience and awareness of these issues, limited alternatives and the challenges they have in articulating grievances effectively (Wyman, 2017).

2.1.2 Influential Theory

According to the influential theory of Churchill and Lewis (1983), growth is part of the natural evolution of a firm. The author identifies five stages of growth: existence, survival, success, and take off and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success. Growth thresholds may exist as obstacles to the transition from one stage to another. Accordingly, in the take-off stage – most relevant in a study of rapid growth – there are two major concerns or obstacles to business growth: the ability of the owner to hire new people and delegate responsibility. The business will also need enough cash to satisfy the greater demand for financial resources brought about by growth.

Many smaller local banks and credit unions offer special loans for local business owners that may have lighter restrictions than the larger, national banks. This can offer a huge advantage for small business owners. First, you will be competing against far less people because of the smaller regional area. Second, a credit union or other local bank will be more likely to want to help your community by putting funds into businesses.

The influential theory is relevant to this study because it shows that small businesses have trouble getting the start-up or additional capital that they need. Without a long list of assets or a proven track record, there is no way to show banks exactly how promising your soon-to-be bustling business really is. Luckily, there are places you can turn to for money when the national banks turn you down. This study deals with micro-finances as one of the many places that small businesses can turn to.

2.1.3 Pecking Order Theory

Donaldson in 1961 suggested Pecking order theory and it was modified by Stewart Myers and Nicolas Majluf (1984). According to this theory firms are financially constrained due to the information asymmetry between managers/ owners and investors and then firms adopt a hierarchy in selecting sources of finance. According to this theory firms have to rank their sources of finances (Njagi et al., 2017).

Depending on this theory firms have three main sources to fund the financial needs which are internal funds, debt and new equity. The theory claims that mostly firms prefer to use firstly internal finances such as excess liquid assets or retained earnings. If it is necessary to turn to external finance firms use debt with little or no risk, which usually corresponds to short term debt and in the last place, firms will select external equity (Njagi et al., 2017). Njeru (2017) puts it that finances contributed internally are preferred by SMEs since they are usually very cheap and easier to arrange for by giving a short notification. If internal financing is not

sufficient to fund investment projects, external funding may be sourced and if they do, in order to minimize costs, the managers have to choose debt before using equity.

This theory observes that businesses follow a hierarchy of financing and prefer internal financing first; debt is preferred over equity as equity would mean bringing external ownership into the company. The POT may fail to hold for SMEs where information asymmetry is an important problem (Njagi et al., 2017).

POT is important as it signals to the public how the company is performing. This means if the company finances itself internally it means it is a strong company and if the company has external financing then this shows high level of confident that the company has high chance of satisfying its obligations (Wahome, 2017). The critique of Pecking order theory is that it does not explain the influence of taxes and financial distress. The theory assumes that there is no target capital structure. The firms choose capital according to the following preference order; internal finance, debt finance and then equity finance. This may not be the case for most MSEs as they may lack retained earnings. The theory will be useful to this study by testing the effect of effect of equity financing on growth of youth owned Micro and Small Enterprises in Kenya.

2.1.4 Agency Theory

The Agency theory was developed by Jensen and Meckling (1976). They defined it as a contract between the principal party and the agent party whereby the agent is contracted to carry out some specific duties on their behalf. The principal normally relegates some decision-making functions to the agent and trust that the Agent will work towards maximizing their wealth. Under this theory, the Agents/Managers are seen to be focused on self-gain and will only carry out the process of PE investment if it contributes to their personal gains (Agrawal & Knoeber, 2008; Ghoss & Ruland, 2018). This objective does not necessarily increase PE investors returns (Firth, 2015).

The Agency theory concurs with Larcker (2017) argument that Agents are interested with decisions that are short term in nature and that they try to maximise the available firm resources within the limited time frame. On the other hand, shareholders prefer maximizing their returns in the long run and not in the short run hence an agency problem arises. To minimise this problem, PE fund investors provide their managers with performance incentives such as share options as well as signing of performance reward system. Travlos and Waegele (2017) suggested that companies with long term compensation plan perform better as compared to those without one. In addition, Lewellen, loderer and Rosenfield (2015) states that Companies with managerial stock ownership plan normally have higher returns.

However, through close monitoring and involvement of board of directors, better decisions that do not lead to conflicting interest can be made. The success of PE Investments requires that goals of managers and those of investors are well aligned and that they are focused towards wealth creation and maximization. The agency theory is thus very applicable to this study as it tries to align the interests of investors and those of managers. Engaging Managers whose personal wealth is closely linked to firms value lead to better investment decision for PE funds.

2.2 Empirical Review

Empirical research is based on observed and measured phenomena and derives knowledge from actual experience rather than from theory or belief. The following are the empirical reviews in relation to the variables of the study.

2.2.1 Digital Credit on Growth of Enterprises

Hwang and Telez (2016) conducted a study aimed at interrogating the growing penetration of digital credit. The study was done using 10 case examples, 5 of who were located in Sub-Saharan Africa. The study found that digital credit is serving an important role in widening financial inclusion. Further, it has created an avenue through which the poor can be provided with much needed financial services outside of digital payments. Ndungu, Morales, and Ndirangu (2016) assessed the nature and effect of the exponential growth of digital finance in Africa. The study explored the sector in Kenya, Uganda, Tanzania, Rwanda, Zambia and Nigeria. The conclusions of the study showed that financial inclusion in the Kenyan context is not merely limited to providing cheap credit to people. In fact, financial inclusion mainly hinges on granting excluded populations access to financial services.

Wathome (2020) researched on effects of digital credit on financial inclusion of the youth in Kenya: a survey of Kangemi, Nairobi County. The study applied a descriptive research design and quantitative research approach. The population of the study was drawn from 152,000 past and current users of digital credit within Kangemi, Nairobi County. Using stratified random sampling and Gill and Johnsons formula a sample size of 384 respondents was selected for inclusion in the study. Collected data was analyzed using SPSS and MS Excel worksheets. Descriptive statistics of frequency distributions, means and standard deviations were generated. Analyzed data was depicted using tables and figures. The study found that majority of the youth engaging in digital borrowing were male and aged between 18 and 25 years. In addition, digital credit use was rampant among youth who had attained an advanced level of education having at least completed secondary education. Most digital users were keen on bank-owned digital credit services directly linked to their mobile phone service providers with KCB-M-Pesa and M-Shwari being the most popular product names.

The study found out that the digital credit had led to creation of employment opportunities, reduction of poverty and increased financial independence among the youth. Also, the study found that digital credit had boosted the relationship between lenders and borrowers. The study concluded that digital credit had a direct impact on financial inclusion of the youth in Kangemi. It has granted the youth easy access to credit while difficult to get to loans, friendly credit appraisal practices and a greater ability to cope with fluctuations in income and personal emergencies. Further, digital loan services have assisted their clients to generate credit history data, which is key to future access to credit.

Michelle (2016) studied the effect of digital finance on financial inclusion in the banking industry in Kenya. In this study, digital financial services comprised of agency banking, mobile banking and internet banking while financial inclusion was measured by credit penetration. The study targeted 13 banking institutions in Kenya, which offer all of the three digital financial services. The findings of the study led to the conclusion that digital finance had no correlation with financial inclusion in Kenya's banking sector. The researcher observed that banks adopt digital financial services to lower operating costs thereby improving profitability and financial

performance. However, the study was arguably pre-mature because digital credit is a relatively new innovation, which by the time of her study, was barely two years old.

Agola (2017) researched access to M-Shwari loans for youth-owned micro and small enterprises in Ongata-Rongai, Kenya. Safaricom's Mshwari has disbursed 230 million loans since inception in 2012; with the youth forming the majority of M-shwari users. The results showed that that access to the loan was vital in restocking of businesses, bridge finance and generally boosting levels of working capital in youth-owned Medium and Small-sized Enterprises. Gubbins and Tololo (2017) investigated the evolution of digital lending in Kenya. They sought to establish among other facts, the purposes for which Kenyans in various population sub-groups procured digital credit. Data for the study was drawn from a sampling frame of 6,710 adults who had been interviewed during a previous survey. The conclusions of the study included the observation that business owners are 66% more likely than employed adults to use digital loans for production rather than personal consumption.

2.2.2 Banks and Microfinance Lenders on Growth of Enterprises

Maina (2016) did a survey on microfinance services contribution to entrepreneurial development in Kenya. The study employed a case study design and focused on SMEs within Nairobi. In his study, Maina noted that the banking sector in Kenya is fairly vibrant by the standards of developing third world countries. However the sector is 90% emphatically dominated by the formal commercial banks. Credit policy for banking institutions catered mainly for big businesses only, thus implying lack of access to credit facilities for small and medium enterprises. Maina study further observed that MFIs had come up to address the gap in finance requirements for small and medium enterprises (SME). The study finding indicated the MFI intervention to SMEs financing was faced by hurdle of Lack of collateral and inappropriate legal and regulatory framework that does not recognize innovative lending policy coupled with limited access to credit and financial services, there was no structural institutional mechanism to facilitate flow of financial resources from banks to MFI, and then to the SMEs hence increasing cost of credit.

Muthengi (2016) conducted a study on the impact of microcredit on the growth small and microenterprises in Kitui District. His findings were that 80% of the sampled population used credit before. The result also showed that microcredit had impacted positively on the growth of SMEs in the District. The study recommended that the government should improve the existing facilities and establish those which are lacking in order to better the working atmosphere and hence performance of SMEs operating in the district.

Pius (2019) investigated on the influence of microcredit finance on the growth of small scale women entrepreneurs in Kenya. She used survey research designs to conduct the study. The target population as the small scale women entrepreneurs in Mosocho division, Kisii central district. The sample study constituted 36 respondents out of 120 entrepreneurs spread over three markets. Simple random sampling technique was used to determine the study sample. The research findings revealed that 13 the small scale entrepreneurs faced problems in operating their businesses. Lack of collateral to access loans came up as a major challenge in the study.

The study established that the entrepreneurs did not receive as much loan as they needed and the process involved in accessing loans was lengthy. The further revealed the repayment period

affected the cash flow into the business. The other major finding was that most of the entrepreneurs had not been trained on the basic business management skills and therefore most of them had no focused strategies but operated on trial and error methods. Despite many challenges, the study found out that most of the entrepreneurs depended wholly on their businesses. They said that they could still take loans even with the high interest rates long as the loans are available. The entrepreneurs seemed positive about the loans they get from the lenders.

2.2.3 Equity Financing on Growth of Enterprises

Heshmati (2018) in his study on dynamics of capital structure of Micro and small firms in Sweden found that listed companies have easier access to the equity market compared to smaller companies because of low fixed cost thus indicating a negative relationship between firm size and debt levels. Shubita and Alsawalhah (2016) in a study of the relationship between capital structure and profitability of industrial Jordan companies suggested that firms with high profits depend heavily on equity as their main financing option.

Kihinde (2016) studied relationship between capital structure mix of SMEs and overall performance of firms in Nigeria. The study revealed that most of the SMEs have all equity finance structure and have less debt finance compared to equity finance. It also revealed that the earnings survival and performance of the SMEs is strongly influenced by capital structure mix. Kamau (2019) conducted a study on the relationship between the capital financing and financial performance of insurance companies in Kenya. The study found that there was a weak relationship between financial performance and capital structure hence, debt and equity ratios accounted for a small percentage of financial performance.

Birundu (2017) examined the effect of capital structure on the financial performance of small and medium enterprises in Thika sub-County, Kenya. In his findings there was no significant effect of capital structure, asset turnover and asset tangibility on the financial performance of SMEs in Thika sub County, Kenya. Karanja (2018) carried out a study on effect of capital structure on financial performance of Kenyan SMEs. The study concluded that equity financing has significant impact on the financial performance.

Mwende, Muturi, and Njeru (2019) researched on the effect of equity finance on financial performance of Small and Medium Enterprises in Kenya. The target population of the study was 291,449 licensed SMEs in the selected counties by operational wholesale and retail trade. Simple random techniques were used to collect the sample for the study. 384 respondents made up the sample and were selected from the six selected counties which comprised of Nairobi County, Mombasa County, Machakos County, Makueni County, Kajiado County and Kitui County. Secondary and primary data were useful to provide information in this study which was either quantitative or qualitative. Through a structured questionnaire data was collected and these questionnaires were dropped and later picked as the method gave respondents enough time to think about their responses carefully without interference. Determining of the reliability of the questionnaire was done by using Cronbach Alpha. The study made use of Statistical Package for Social Sciences (SPSS) version 22.0 to aid in coding, entry and analysis of quantitative data. By using regression and correlation analysis data was analyzed and this helped to test the connection between the independent and dependent variables. Data was analyzed by use of descriptive and inferential statistics and then presented through figures,

tables, percentages, arithmetic means, standard deviation and tabulation to show differences in frequencies.

The findings revealed that there is a statistical significant relationship between the independent variables which comprised of Loans, Trade credit, Equity financing and Informal financing and the dependent variable Financial performance of the SMEs in Kenya. The study established that the trade credit had the strongest relationship with the financial Performance of SMEs in Kenya, then equity financing, loans and finally informal financing respectively.

2.2.4 Investors on Growth of Enterprises

Brown (2017) undertook a study on the nexus between venture capital and firms' long term performance. He carried out a study on US based firms that were listed during 2010-2017 in seven key-hi tech industries. He presented separate findings for a small sample of firms that are backed up with venture capital-and those that were not backed up, carefully matched, based on a three-digit industry and firm size before the initial public offer (IPO). The methodology of matched sample, also used by Megginson and Weiss (2011) and Jain and Kina (2015), provided an analysis on the complete sample results and helped to make sure that the venture-capital supported firms were evaluated against a set of firms with no back up from venture Capital and which possible similarities. The results indicated that venture-backed firms raised considerably higher amount of funds from the IPO, and that both types of firms showed considerable increase investment spending as well as on their size as they go through the IPO. The IPO proves to be more important to the non-venture-backed firms in terms of financing capital expenditure and on R&D. After the IPO, firms that are venture-supported survive longer and have less hazard rates.

Prince Baah-Peprah and Priscilla Serwaah (2017) analyzed the impact of private equity on the organizational performance of firms in emerging markets. A multiple-approach was utilized to collect primary and secondary data which was then analyzed using a mixed methodology. From the analysis, the study established that the companies that the financial performance of firms that were funded through private equity was relatively higher than that of publicly quoted firms. In addition, the study established that the firms higher private equity ownership stake had marginally higher growth rate and return on equity (ROE) than the firms that had lower private equity ownership stake.

Bernstein, Lerner, Sørensen and Per Strömberg (2018) analyzed the effect of private equity on industry performance. They combined two datasets to analyze how PE investments affect industries. One dataset contained information on private equity investments and other contained industry activities and performance data across member states of the Organization for Economic Cooperation and Development (OECD) that are captured in the OECDÅs Structural Analysis. The study found that firms in which PE funds had invested in the previous five years had grown much faster. They also found that there were minimal significant variations between industries with high and low PE activity, implying that the findings were partially driven by spillover effects from PE-backed firms to other firms in the industry. Again, they found no support showing that economic activities in industries that had private equity support was more exposed to aggregate shocks.

Amenya (2015) undertook a study on how capital structure influences the organizational performance of firms listed in Nairobi stock exchange. He established a negative relationship between higher financial leverage and organizational performance of firms. The study established that higher total debts led to less return on equity and thus a reduction in the shareholders wealth. This implies that there is need to inject more capital rather than borrowing more funds. This implies that injecting more capital in form of private equity will lead to a positive impact on performance as compared to borrowings.

Mwirigi (2018) carried out a research on the effect of Private equity in emerging markets. His study conducted a research on books, articles data and information on the PE industry and its activities in Kenya. He concluded that the PE has contributed significantly to the growth of firms in emerging markets, though not without challenges posed by poor legal and institutional settings. In an earlier study, Kiprop (2017) analysed the relationship between capital structure and the value of companies quoted in Nairobi stock exchange. He collected and analysed quantitative data so as to unravel the correlation between the two variables. Based on the analysis, a conclusion was made that there was a significant positive correlation between capital structure and the value of the firms. This empirical review is significant in this study since PE fund affect the capital structure of a company and so the value of the firm.

3.0 Research Methodology

In this study, the researcher used the descriptive research design. For this study, the target population consists of registered youth owned MSEs in the service industry in Nairobi Kenya. These are enterprises that are owned by people aged 18 to 35 years, both male and female. The unit of analysis for this study was MSES in Kenya while the unit of observation was owners of these MSEs. According to county records, there are 1825 and 847 MSEs in Kenya respectively. Therefore, the target population for this study was 2672 owners of the MSEs as shown in Table 1 below.

Table 1: Target Population

County			Population
Nairobi -Trade	608		1825
-Manufacture	608		
-Service	-609		
Total			**2672**

The sample frame for the study was 2672 youth owned micro and small enterprises in Nairobi County. The study used the following Taro Yamane formula to get a sample size;

$$n = \frac{N}{1+Ne^2}$$

Where;
n is the sample size.
N is the population (2672 firms)
e is the margin of error (5%).

$$n = \frac{2672}{1+2672(0.05)^2}$$

n=347.9166667
Therefore, the sample size *n* was 348 owners of the MSEs.

Table 2: Sample Size

County	Population	Sample
Nairobi	1825	238
Total	**2672**	**348**

The study used questionnaires to collect primary data. A pilot study was conducted to establish the reliability and validity of the questionnaire. The study employed both quantitative and qualitative methods of data analysis.

Qualitative data analysis involved coding and systematically putting into themes the open-ended questions which was analyzed through content analysis ad presented in prose form. Quantitative data was analyzed using descriptive and inferential statistical techniques. Descriptive statistics were used to present the main characteristics of the sample and involved use of mean, measures of dispersion and percentages. The findings were presented in tables and figures. In addition, inferential statistics were used to test the hypotheses of the study.

Multiple regressions were done to establish the effect of entrepreneurial financing on growth of youth owned Micro and Small Enterprises in Kenya. Data was presented using tables. The regression equation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where

Y is the dependent variable (Growth of Youth owned MSEs),

β_0 is the regression constant,

β_1, β_2, β_3 and β_4 are the coefficients of independent variables,

X_1 is Digital Credit

X_2 is Banks & Microfinance lenders

X_3 is Equity financing

X_4 is Investors

ε is the error term

4.0 Findings and Discussions

This section discusses the data analysis as well as the interpretation of the findings. The main objective of this study was to establish the effect of entrepreneurial financing on growth of youth owned Micro and Small Enterprises in Kenya.

4.1 Response Rate

The researcher sampled 348 respondents who were each administered with the questionnaires. From the 348 questionnaires 338 were completely filled and returned hence a response rate of 97.1%. The response rate was considered as suitable for making inferences from the data collected.

4.2 Descriptive Statistics

This section discusses the level of agreement on various statements relating to entrepreneurial financing on growth of youth owned Micro and Small Enterprises in Kenya. A 5 point Likert scale was used where 1 symbolized strongly disagree, 2 symbolized disagree, 3 symbolized neutral, 4 symbolized agree and 5 symbolized strongly agree.

4.2.1 Digital Credit and Growth of Youth Owned Micro and Small Enterprises

From the results in Table 3, the respondents agreed that digital credit has enabled them to access loan which they were not able to access through the bank. This is supported by a mean of 3.868 (std. dv = 0.636). In addition, as shown by a mean of 3.880 (std. dv = 0.972), the respondents agreed that digital loan is the first loan they have ever borrowed from a bank. Further, the respondents agreed that with digital credit, they are more able to cope with emergencies such as illnesses. This is shown by a mean of 3.872 (std. dv = 0.987).

The respondents also agreed that they use digital credit as a source of operating capital for their business. This is shown by a mean of 3.841 (std. dv = 0.608). With a mean of 3.792 (std. dv = 0.983), the respondents agreed that digital credit has enabled me to take advantage of business opportunities that they would otherwise have lost. The respondents also agreed that digital credit has enabled them to build a credit history which is helpful for future access to loans. This is shown by a mean of 3.786 (std. dv = 0.786).

Table 3: Digital Credit and Growth of Youth Owned Micro and Small Enterprises

	Mean	Std. Deviation
Digital credit has enabled me to access loan which I was not able to access through the bank	3.868	0.636
Digital loan is the first loan I have ever borrowed from a bank	3.880	0.972
With digital credit, I am more able to cope with emergencies such as illnesses	3.872	0.987
I use digital credit as a source of operating capital for my business	3.841	0.608
Digital credit has enabled me to take advantage of business opportunities that I would otherwise have lost	3.792	0.983
Digital credit has enabled me to build a credit history which is helpful for future access to loans	3.786	0.786
Aggregate	**3.828**	**0.773**

4.2.2 Cost of Credit by Lenders and Growth of Youth Owned SMEs

From the results in Table 4, the respondents agreed that repayment rules and procedures influence accessibility of loans. This is supported by a mean of 3.892 (std. dv = 0.799). In addition, as shown by a mean of 3.841 (std. dv = 0.898), the respondents agreed that application procedures influence accessibility of loans. Further, the respondents agreed that duration of processing the application influence the accessibility of loans. This is shown by a mean of 3.815 (std. dv = 0.900). With a mean of 3.791 (std. dv = 0.908), the respondents agreed that microfinance lenders increases the grace period of loan repayment.

The respondents also agreed that some microfinance lenders do not require collateral when securing loans. This is shown by a mean of 3.769 (std. dv = 0.878). The respondents also agreed that microfinance lenders are flexible when determining loan repayment duration. This is shown by a mean of 3.753 (std. dv = 0.786).

Table 4: Cost of Credit by Banks and Microfinance Lenders on Growth of Youth Owned SMEs

	Mean	Std. Deviation
Repayment rules and procedures influence accessibility of loans	3.892	0.799
Application procedures influence accessibility of loans	3.841	0.898
Duration of processing the application influence the accessibility of loans	3.815	0.900
Microfinance lenders increases the grace period of loan repayment	3.791	0.908
Some microfinance lenders do not require collateral when securing loans	3.769	0.878
Microfinance lenders are flexible when determining loan repayment duration	3.753	0.786
Aggregate	**3.792**	**0.841**

4.2.3 Equity Financing and Growth of Youth Owned Micro and Small Enterprises

From the results shown in Table 5 below, the respondents agreed that they sometimes raise capital through sale of assets in order to reduce dilution of ownership. This is supported by a mean of 3.955 (std. dv = 0.850). In addition, as shown by a mean of 3.927 (std. dv = 0.658), the respondents agreed that the firm considers the savings from reduced capital when raising capital. Further, the respondents agreed they use contribution from friends to finance the business operations. This is shown by a mean of 3.917 (std. dv = 0.974).

As shown in the results, the respondents agreed that retained profit is used to finance long term growth of the business. This is shown by a mean of 3.837 (std. dv = 0.928). In addition, with a mean of 3.789 (std. dv = 0.865), the respondents agreed that, Angel investors are not an option for equity as a source of finance. Further, with a mean of 3.777(std. dv = 0.987).

Table 5: Equity Financing and Growth of Youth Owned SME

	Mean	Std. Deviation
I sometimes raise capital through sale of assets in order to reduce dilution of ownership	3.955	0.850
The firm considers the savings from reduced capital when raising capital	3.927	0.658
I use contribution from friends to finance the business operations	3.917	0.974
Retained profits is used to finance long term growth of the business	3.837	0.928
Angel investors are not an option for equity as a source of finance.	3.789	0.865
Ploughing back profit is what I use to finance the business operations	3.777	0.987
Aggregate	**3.879**	**0.865**

4.2.4 Investors and Growth of Youth Owned Micro and Small Enterprises

The results in Table 6 show that the respondents agreed that the investors enter into investment that could easily be made liquid. This is supported by a mean of 3.855 (std. dv = 0.902). In addition, as shown by a mean of 3.788 (std. dv = 1.010), the respondents agreed that the age of the business determines the investors choice. Further, the respondents agreed that the investors invest in target firms whose expected return equal to at least 10 times its investment within five years. This is shown by a mean of 3.730 (std. dv = 0.935). With a mean of 3.727 (std. dv = 0.935), the respondents agreed that the investors is not expected to make subsequent investments in the target firms. Further, with a mean of 3.698 (std. dv = 0.786) the respondents agreed that the Private Equity engages in investments with low operation cost and generates high income. The respondents also agreed that investors enter into investments low risk and high return on investment (ROI). This is shown by a mean of 3.690 (std. dv = 0.786).

Table 6: Investors and Growth of Youth Owned Micro and Small Enterprises

	Mean	Std. Deviation
The investors enters into investment that could easily be made liquid	3.855	0.902
The age of the business determines the investors choice	3.788	1.010
The investors invest in target firms whose expected return equal to at least 10 times its investment within five years	3.730	0.935
The investors is not expected to make subsequent investments in the target firms	3.727	0.935
The Private Equity engages in investments with low operation cost and generates high income	3.698	0.786
Investors enter into investments low risk and high return on investment (ROI).	3.690	0.786
Aggregate	**3.759**	**0.867**

4.2.5 Growth of Youth Owned Micro and Small Enterprises

From the results in Table 7, the respondents agreed that sales volume in their business keeps on increasing in the same proportion of resource input. This is supported by a mean of 3.915 (std. dv = 0.776). In addition, as shown by a mean of 3.908 (std. dv = 0.636), the respondents agreed that their business's market share is relatively higher compared to others. Further, the respondents agreed that they control a large market based on profit margin of their business. This is shown by a mean of 3.910 (std. dv = 0.972). The respondents also agreed that diversification of services and products is the main factor which leads to market growth. This is shown by a mean of 3.812 (std. dv = 1.005). With a mean of 3.752 (std. dv = 0.608), the respondents agreed that they have reduced the cost of my business operations through adoption of technology. The respondents also agreed that due to easy access of funds, they have been able to cease emerging business opportunities. This is shown by a mean of 3.687 (std. dv = 0.786).

Table 7: Growth of Youth Owned Micro and Small Enterprises

	Mean	Std. Deviation
Sales volume in my business keeps on increasing in the same proportion of resource input	3.915	0.776
My business's market share is relatively higher compared to others	3.908	0.636
I control a large market based on profit margin of my business	3.910	0.972
Diversification of services and products is the main factor which leads to market growth	3.812	1.005
I have reduced the cost of my business operations through adoption of technology	3.752	0.608
Due to easy access of funds, I have been able to cease emerging business opportunities	3.687	0.786
Aggregate	**3.875**	**0.786**

4.3 Inferential Statistics

Inferential statistics such as correlation analysis and regression analysis were used to assess the relationships between the independent variables (digital credit, cost of credit, equity financing and investors) and the dependent variable (growth of youth owned Micro and Small Enterprises in Kenya).

4.3.1 Correlation Analysis

This research adopted Pearson correlation analysis determine how the dependent variable (growth of youth owned Micro and Small Enterprises in Kenya) relates with the independent variables (digital credit, cost of credit, equity financing and investors). The findings were as depicted in Table 8.

From the results, there was a very strong relationship between digital credit and the growth of youth owned Micro and Small Enterprises in Kenya (r = 0.820, p value =0.000). The relationship was significant since the p value 0.000 was less than 0.05 (significant level). The findings are in line with the findings of Hwang and Telez (2016) who indicated that there is a very strong relationship between digital credit and SME growth.

Moreover, there was a very strong relationship between cost of credit and the growth of youth owned Micro and Small Enterprises in Kenya (r = 0.841, p value =0.001). The relationship was significant since the p value 0.001 was less than 0.05 (significant level). The findings are in line with the findings of Maina (2016) who indicated that there is a very strong relationship between cost of credit and SME growth.

Further, there was a very strong relationship between equity financing and growth of youth owned Micro and Small Enterprises in Kenya (r = 0.832, p value =0.002). The relationship was significant since the p value 0.002 was less than 0.05 (significant level). The findings are in

line with the findings of Heshmati (2018) who indicated that there is a very strong relationship between equity financing and SME growth.

The results also revealed that there was a very strong relationship between investors and growth of youth owned Micro and Small Enterprises in Kenya ($r = 0.845$, p value $=0.001$). The relationship was significant since the p value 0.001 was less than 0.05 (significant level). The findings are in line with the findings of Brown (2017) who indicated that there is a very strong relationship between investors and SME growth

Table 8: Correlation Coefficients

		SME growth	Digital Credit	Cost of Credit	Equity Financing	Investors
SME growth	Pearson Correlation	1.000				
	Sig. (2-tailed)					
Digital Credit	Pearson Correlation	.820**	1.000			
	Sig. (2-tailed)	.000				
Cost of Credit	Pearson Correlation	.841**	.297	1.000		
	Sig. (2-tailed)	.001	.060			
Equity Financing	Pearson Correlation	.832**	.382	.281	1.000	
	Sig. (2-tailed)	.002	.070	.076		
Investors	Pearson Correlation	.845**	.199	.195	.280	1.000
	Sig. (2-tailed)	.001	.079	.081	.071	

**. Correlation is significant at the 0.01 level (2-tailed).

4.3.2 Regression Analysis

Multivariate regression analysis was used to assess the relationship between independent variables (digital credit, cost of credit, equity financing and investors) and the dependent variable (growth of youth owned Micro and Small Enterprises in Kenya).

The model summary was used to explain the variation in the dependent variable that could be explained by the independent variables. The r-squared for the relationship between the independent variables and the dependent variable was 0.851. This implied that 85.1% of the variation in the dependent variable (growth of youth owned Micro and Small Enterprises in Kenya) could be explained by independent variables (digital credit, cost of credit, equity financing and investors).

Table 9: **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923[a]	.851	.853	.10482

The ANOVA was used to determine whether the model was a good fit for the data. F calculated was 622.12 while the F critical was 2.411. The p value was 0.002. Since the F-calculated was greater than the F-critical and the p value 0.002 was less than 0.05, the model was considered as a good fit for the data. Therefore, the model can be used to predict the influence of digital credit, cost of credit, equity financing and investors on the growth of youth owned Micro and Small Enterprises in Kenya.

Table 10: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	102.028	4	25.507	622.12	.002[b]
Residual	13.668	333	.0410		
Total	115.695	337			

a. Dependent Variable: growth of youth owned Micro and Small Enterprises

b. Predictors: (Constant), digital credit, cost of credit, equity financing and investors

The regression model was as follows:

$$Y = 0.332 + 0.390X_1 + 0.389X_2 + 0.340X_3 + 0.328X_4 + \varepsilon$$

According to the results, digital credit has a significant effect on growth of youth owned Micro and Small Enterprises in Kenya β_1=0.390, p value= 0.001). The relationship was considered significant since the p value 0.001 was less than the significant level of 0.05. The findings are in line with the findings of Hwang and Telez (2016) who indicated that there is a very strong relationship between digital credit and SME growth.

The results also revealed that cost of credit has a significant effect on growth of youth owned Micro and Small Enterprises in Kenya, β_2=0.389, p value= 0.000). The relationship was considered significant since the p value 0.000 was less than the significant level of 0.05. The findings are in line with the findings of Maina (2016) who indicated that there is a very strong relationship between cost of credit and SME growth.

Furthermore, the results revealed that equity financing has a significant effect on the growth of youth owned Micro and Small Enterprises in Kenya β_3=0.340, p value= 0.003). The relationship was considered significant since the p value 0.003 was less than the significant level of 0.05. The findings are in line with the findings of Heshmati (2018) who indicated that there is a very strong relationship between equity financing and SME growth.

In addition, the results revealed that investors has a significant effect on growth of youth owned Micro and Small Enterprises in Kenya β_4=0.328, p value= 0.002). The relationship was considered significant since the p value 0.002 was less than the significant level of 0.05. The

findings are in line with the findings of Brown (2017) who indicated that there is a very strong relationship between investors and SME growth

Table 11: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.332	0.091		3.648	0.002
digital credit	0.390	0.092	0.391	4.239	0.001
cost of credit	0.389	0.089	0.390	4.370	0.000
equity financing	0.340	0.098	0.341	3.469	0.003
investors	0.328	0.088	0.327	3.727	0.002

5.0 Conclusions

The study concludes that digital credit has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. Findings revealed that source of digital credit, amount obtained and number of platforms used influence growth of youth owned Micro and Small Enterprises in Kenya.

In addition, the study concludes that banks and microfinance lenders has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. Findings revealed that interest rates charged, repayment duration and collateral required influence growth of youth owned Micro and Small Enterprises in Kenya.

Further, the study concludes that equity financing has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. Findings revealed that source of equity, shares sold out and profit retained influence growth of youth owned Micro and Small Enterprises in Kenya.

The study also concludes that investors have a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. Findings revealed that angel investors, venture capitalists and personal investors influence growth of youth owned Micro and Small Enterprises in Kenya.

6.0 Recommendations

The study found that digital credit has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. This study therefore recommends that the youth owned SMEs should make use of digital credits to increase their credit sources to be able to finance their businesses hence improve growth of the SMEs.

Further, the study found that banks and microfinance lenders has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. This study therefore recommends that the youth owned SMEs should consider borrowing from lenders with favourable repayment terms

In addition, the study found that equity financing has a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. This study therefore recommends that

the youth owned SMEs should consider interest rates charged, repayment duration and collateral required before accessing the credit facility

The study found that investors have a positive and significant effect on growth of youth owned Micro and Small Enterprises in Kenya. This study therefore recommends that the youth owned SMEs should consider including angel investors, venture capitalists and personal investors in their business.

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