

EFFECT OF FINANCIAL DEEPENING ON GROWTH OF SMALL AND MEDIUM-SIZED ENTERPRISES IN KENYA: A CASE OF NAIROBI COUNTY

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ABSTRACT

Small and medium enterprises (SMEs) in Kenya represent a vital part of the economy, being the source of various economic contributions through the generation of income, providing new job opportunities, introducing innovations, stimulating competition, and engine for employment. Present economy is known as knowledge based economy where, knowledge, information and soft assets have more importance rather than the physical assets. The role and importance of SMEs in a knowledge-based economy has been highly appreciated and acknowledged. Moreover, in the present economy, SMEs are facing tremendous challenges and threats to survive in a competitive environment. The study sought to examine the effect of financial deepening on growth of SMEs in Nairobi County. The study sought to find out the effect of financial innovation, financial sector regulation and inflation and general interest rates on growth of SMEs. It was also determine the effect of credit access on growth of SMEs in Nairobi County. The study adopted an exploratory design and applied stratified sampling to identify the 100 SMEs in Nairobi County registered by the industrialization ministry that were used in the study. Regression models were used to examine the effect of financial deepening on growth of SMEs. The study found that access to credit positively influenced the growth of 92% of SMEs. Most SMEs were found to be hindered by high cost of finance and lack of collateral for the new

SMEs. Financial innovation was also found to have a strong positive influence on the growth of SMEs. High financial sector regulation, inflation and interest rates were found to hinder growth of SMEs. The study recommends for establishment of subsidized credit for SMEs and a research organ to steer ahead financial innovation as well as financial sector deregulation.

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