

Affirmative Action Funds and The Growth of Small and Medium Enterprises (SMEs) In Nairobi County

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doi: <https://doi.org/10.37745/ijbsber.2013/vol14n25374>

Published June 01, 2026

Citation: Abdi A.I. and Waswa F.N. (2026) Affirmative Action Funds and The Growth of Small and Medium Enterprises (SMEs) In Nairobi County, *International Journal of Small Business and Entrepreneurship Research*,14, (2), 53-74

Abstract: *Small and medium-sized enterprises (SMEs) are critical drivers of economic growth, yet many face barriers such as limited financing and weak managerial capacity. This study examined the influence of affirmative action funds on SME growth in Nairobi County, focusing on the Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF). Anchored on growth, human capital, and social capital theories, the study adopted a cross-sectional survey design with a sample of 376 SMEs selected using Yamane's formula. Data was collected through questionnaires and analyzed using SPSS, applying descriptive statistics, regression, and correlation methods. Findings revealed that all three funds positively impacted SME growth: Uwezo Fund enhanced credit access through group lending, YEDF strengthened managerial skills via training, and WEF provided affordable financing that enabled expansion. The study recommends broadening fund outreach, simplifying access, and integrating mentorship and market linkages to foster inclusive, sustainable SME development in Kenya.*

Keywords: Affordable credit, business development, group lending, loan products, revolving funds

INTRODUCTION

Across the globe, Small and Medium Enterprises (SMEs) are universally acknowledged as engines of economic growth, innovation, and employment creation. They contribute to industrial diversification, poverty reduction, and social inclusion by offering localized solutions and fostering entrepreneurial resilience (Lee, 2020). Their adaptability makes them indispensable to national development strategies, particularly in contexts where large-scale industries cannot absorb labor or stimulate grassroots innovation. Consequently, governments worldwide have prioritized SME development through targeted interventions such as financial support, training, and favorable policy frameworks. These measures aim to enhance competitiveness, sustainability, and resilience, ensuring SMEs remain viable contributors to long-term economic prosperity (Schildberg et al., 2023).

Internationally, affirmative action financing mechanisms have emerged as critical instruments for addressing structural inequalities in entrepreneurship and promoting inclusive participation. In the

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United States, the Small Business Administration pioneered specialized loan programs targeting minority-owned businesses, fostering diversity and inclusion (Schotte et al., 2023). The United Kingdom's Diversity Fund supports underrepresented groups, while Portugal's Compete 2020 initiative enhances SME competitiveness through tax incentives and training (Dogan & Yildiz, 2023). These interventions alleviate capital constraints, stimulate innovation, job creation, and equitable participation in national economies. Collectively, they demonstrate the transformative potential of affirmative action funds in bridging systemic gaps and ensuring marginalized entrepreneurs contribute meaningfully to sustainable development (Khan et al., 2024).

In Africa, affirmative action financing has played a pivotal role in promoting SME growth and advancing inclusion. South Africa's Small Enterprise Finance Agency provides targeted funding to black-owned SMEs, addressing historical inequalities in capital access (Burger et al., 2022). Nigeria's Bank of Industry implements the Youth Entrepreneurship Support scheme, empowering young entrepreneurs through affordable financing and training. Ghana's National Board for Small Scale Industries supports women and youth enterprises with mentorship and skill development (Avudufu, 2022). These initiatives extend beyond financial resources by incorporating mentorship and training, fostering entrepreneurship, reducing unemployment, and enhancing self-reliance. Collectively, they demonstrate how affirmative action financing transforms disadvantages into opportunities for inclusive growth.

Within East Africa, affirmative action funding has strengthened SME resilience and inclusive growth. Uganda's Youth Venture Capital Fund provides financial and advisory support to young innovators, while Tanzania's Women Economic Empowerment program enhances women's participation in entrepreneurship (Malima, 2024). Rwanda's Business Development Fund supports SMEs through innovation financing, while Somalia and Ethiopia empower marginalized groups with training and start-up capital (Abdullahi, 2021). These initiatives promote employment creation, resilience, and inclusive development, underscoring the importance of affirmative action financing in addressing structural barriers to SME growth in the region (Okedele, 2021). By equipping disadvantaged entrepreneurs with resources and mentorship, East African programs highlight the role of targeted interventions.

Kenya has embraced affirmative action financing as a cornerstone of SME development, recognizing the sector's role in driving inclusive growth. Government-led initiatives such as the Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (WEF), and Uwezo Fund target youth, women, and grassroots communities with affordable financing and training opportunities (Agolla, 2024). These programs complement the Micro and Small Enterprises Authority, which facilitates skill-building and mentorship. By bridging capital gaps and enhancing entrepreneurial competencies, affirmative action funds promote job creation, poverty alleviation, and social equity. Their impact underscores Kenya's commitment to empowering marginalized groups and fostering sustainable enterprise growth aligned with Vision 2030 (Mutukaa, 2019).

This study aimed to evaluate the impact of affirmative action funds on SME growth in Nairobi County by examining pathways from funding access to capacity enhancement and measurable growth outcomes. Nairobi hosts diverse SMEs across retail, agriculture, tailoring, beauty services, and small-scale manufacturing (Wachira & Mungai, 2023). As of June 2023, Nairobi City County reported 14,232

Publication of the European Centre for Research Training and Development-UK active SMEs, underscoring their importance (NCC, 2023). Yet many remain stagnant due to systemic challenges such as limited financing, weak managerial capacity, and inadequate mentorship (ILO, 2023). Addressing these barriers is critical for evidence-based policymaking and designing effective support mechanisms that empower marginalized entrepreneurs and ensure sustainable SME development.

LITERATURE REVIEW

Uwezo Fund and Growth of SMEs

Interest-free loans have become a feasible way of financing SMEs, particularly in regions where bank financing services are inaccessible. Ahmed et al. (2022) examined the effect of interest-free loans on SME growth in rural Pakistan, focusing on 150 SMEs through structured questionnaires. Their findings revealed that SMEs using interest-free loans increased revenues by 35 percent and workforce by 20 percent within two years. This demonstrates the potential of interest-free financing to stimulate enterprise expansion, reduce reliance on costly debt, and enhance sustainability. Such financing models provide marginalized entrepreneurs with opportunities to scale operations and strengthen financial independence.

Zhao and Liu (2023) evaluated the usefulness of interest-free loans to SMEs in China using a mixed-methods approach combining surveys and interviews. Their results revealed that these loans increased financial freedom and decreased dependence on expensive debt, thereby establishing long-term growth. By reducing financial burdens, SMEs were able to reinvest in operations, expand product lines, and improve competitiveness. The study highlights how interest-free loans not only provide immediate relief but also foster disciplined financial management practices. These outcomes underscore the importance of innovative financing mechanisms in supporting SME resilience and sustainable development across diverse economic contexts.

Community-driven financing has also emerged as an important mechanism for promoting SME development, especially in disadvantaged areas. Moyo and Nkosi (2021) conducted qualitative research in South Africa with 50 entrepreneurs, examining the role of community-based financing. Their findings revealed that such mechanisms increased local investment and collaboration, leading to a 30 percent rise in business activity among participants. This approach fosters collective responsibility, strengthens social capital, and enhances entrepreneurial networks. By leveraging community resources, SMEs gain access to affordable financing and mutual support systems. These findings emphasize the transformative role of community-driven financing in empowering SMEs and promoting inclusive economic growth.

Youth Enterprise Development Fund and Growth of SMEs

Group lending has proven useful in advancing SME growth by alleviating credit accessibility and enhancing borrower accountability. Nguyen and Tran (2021) conducted a survey of 200 SMEs in Vietnam, analyzing financial parameters such as revenue growth and loan repayment performance. Their findings revealed that SMEs engaged in group lending experienced a 40 percent increase in revenue compared to non-participants. This demonstrates how collective responsibility fosters financial discipline and strengthens repayment patterns. Group lending thus emerges as a powerful

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tool for expanding credit access, reducing default risks, and promoting sustainable SME development in urban and rural contexts.

Houdhury et al. (2023) examined the correlation between social capital and the effectiveness of group lending in Bangladesh. Based on responses from 150 SMEs, the study found that human connections created through group lending improved repayment patterns and provided essential business support resources. These networks facilitated knowledge sharing, mentorship, and collaborative problem-solving, which enhanced SME sustainability. The findings underscore the importance of social capital in complementing financial mechanisms, ensuring that SMEs not only access credit but also gain the support needed to thrive. Group lending thus integrates financial and social dimensions to strengthen enterprise resilience.

Business Development Services (BDS) also play a critical role in SME expansion by offering specialized services related to financial planning, marketing, and operational management. Mwangi and Muriuki (2022) explored the impacts of BDS on SME growth in Kenya using mixed-design research with 250 SMEs. Their findings revealed that tailored BDS improved revenue and operational efficiency, reflected in increased employment levels. Similarly, Owusu et al. (2023) surveyed 180 SMEs in Ghana and found that BDS enhanced market penetration and innovation. These studies highlight the importance of non-financial support mechanisms in complementing credit access, ensuring SMEs achieve sustainable growth and competitiveness.

Women Enterprise Fund and Growth of SMEs

A diverse portfolio of loan products is essential for SME growth, as it accommodates specific financial needs and operations. Adeoye and Fadeyi (2021) conducted a quantitative study of 300 SMEs in Nigeria, examining the effects of varied loan products. Their findings revealed that SMEs with access to diverse financing options, including microloans and equipment funding, experienced higher revenue growth compared to those with limited choices. Similarly, Muriithi and Muli (2022) studied 150 SMEs in Kenya and found that diverse loan products improved liquidity, innovation, and market access. These results demonstrate that tailored financial tools enhance SME success and sustainability.

Access to affordable credit is another critical factor in SME growth, enabling firms to expand operations and invest in innovation. Okeke and Eze (2023) surveyed 250 SMEs in Nigeria and found that affordable credit significantly increased revenue and employment over two years. Ngugi and Karanja (2022) studied 200 SMEs in Kenya using a mixed-methods approach, confirming that cheaper borrowing facilities enhanced technological investment and operational expansion. These findings emphasize the importance of minimizing borrowing costs to create favorable environments for SME development. Affordable credit thus remains a cornerstone of inclusive and sustainable enterprise growth.

Local Purchase Order (LPO) financing has emerged as a vital funding source for SMEs, enabling them to execute government and corporate contracts. Karanja and Mwangi (2021) analyzed 180 SMEs in Kenya and found that LPO financing improved contract execution by 55 percent and increased revenues by 30 percent. Ibrahim and Othman (2023) studied 150 SMEs in Nigeria using mixed methods, revealing that LPO financing enhanced liquidity and fostered strategic ties with larger companies. These outcomes highlight the role of LPO financing in strengthening SME

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competitiveness, expanding market exposure, and unlocking significant growth potential in dynamic business environments.

Growth of SMEs

Expanding branch networks serves as a significant measure of SME growth, reflecting enhanced market presence and operational scale. Eijdenberg et al. (2016) noted that branch expansion generates economies of scale, reducing production costs and improving efficiency. Kauffman and Alesandrini (2018) argued that local economies benefit from branch expansion through job creation. Calabrese and Corbari (2015) emphasized that more outlets enhance customer satisfaction and loyalty. Collectively, these studies demonstrate that branch expansion not only boosts business potential but also contributes to broader economic development. SMEs that expand branches strengthen resilience, increase visibility, and foster sustainable growth trajectories.

Sales volume is another critical indicator of SME growth, reflecting effective market penetration and promotional strategies. Agolla (2024) highlighted that affirmative action funding enables SMEs to invest in product development and marketing, thereby increasing sales. Ayyagari et al. (2011) noted that higher sales improve cash flow, allowing reinvestment in growth opportunities. Zins and Weill (2016) emphasized that increased sales volumes enhance bargaining power with suppliers, resulting in favorable terms. Sustained sales growth thus signals competitiveness and viability, ensuring SMEs remain financially sound. This indicator underscores the importance of financing and strategic management in driving SME expansion.

The size of the customer base is equally critical for SME expansion, as it determines revenue growth and market penetration. Maina (2024) observed that affirmative action funding facilitates customer acquisition by enabling SMEs to invest in marketing and relationship management. Macdonald (2024) argued that access to funding broadens market reach through branch expansion and product diversification. Kauffman and Alesandrini (2018) noted that diversified customer profiles reduce vulnerability to market fluctuations. Hsu et al. (2014) added that larger customer bases boost word-of-mouth promotion, enhancing growth. Collectively, these findings highlight customer acquisition as a vital driver of SME sustainability and competitiveness.

Theoretical underpinning

This chapter presents a comprehensive review and evaluation of theoretical foundations relevant to the study, alongside empirical literature addressing the key research variables. It also introduces a conceptual framework that acts as a structural guide for the investigation. Moreover, the chapter critically examines existing scholarly work to identify various interconnections among the study variables, incorporating interpretations and insights offered by previous researchers and academics to enrich the understanding of the topic under investigation.

The theoretical review anchors this study on three key frameworks: growth theory, social capital theory, and human capital theory. Growth theory explains how enterprises expand in terms of size, profitability, and market share, offering insights into the dynamics of SME development. Social capital theory emphasizes the importance of networks, trust, and collective action in facilitating access to resources and opportunities. Human capital theory highlights the role of skills, knowledge, and training in enhancing entrepreneurial capacity and performance. Together, these theories provide a

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multidimensional lens for analyzing how affirmative action funds influence SME growth by addressing financial, social, and capacity-related constraints.

Social capital theory underscores the value of networks, trust, and collective action in facilitating access to resources and opportunities. In the context of affirmative action financing, group lending models such as those employed by the Uwezo Fund exemplify how social capital enhances financial discipline and repayment rates (Burger et al., 2022). By fostering collaboration among entrepreneurs, these programs build trust and create supportive ecosystems that enable SMEs to thrive. Social capital also facilitates mentorship, market linkages, and knowledge sharing, which are critical for sustaining enterprise growth. Thus, affirmative action funds leverage social capital to empower marginalized groups and strengthen SME resilience.

Human capital theory emphasizes the importance of skills, knowledge, and training in enhancing productivity and performance. Affirmative action funds integrate capacity-building initiatives such as training in financial literacy, marketing, and enterprise management (Agolla, 2024). These interventions equip entrepreneurs with the competencies needed to manage resources effectively, innovate, and adapt to changing market conditions. For instance, the Youth Enterprise Development Fund (YEDF) provides training and mentorship that improves managerial capacity and strategic planning. By investing in human capital, affirmative action funds ensure that SMEs not only access financing but also develop the skills necessary for sustainable growth and competitiveness.

METHODOLOGY

This study employed a cross-sectional descriptive survey design, appropriate for examining relationships between affirmative action funds and SME growth at a single point in time. The design allowed associations to be captured without manipulating the natural environment, making it useful for profiling SMEs, estimating proportions, and analyzing demographic and operational characteristics. The target population comprised 6,176 SMEs in Nairobi County that had benefited from the Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) between 2022 and 2024. Nairobi was selected due to its diverse economic environment and high SME concentration across sectors such as food, construction, healthcare, education, and financial services, ensuring broad representation of experiences and challenges.

A stratified sampling method was adopted to ensure proportional representation across SME sectors, with Yamane's formula yielding a sample size of 376. Respondents targeted were SME owners or managers, as they possess direct operational knowledge of affirmative action financing impacts. Data collection relied on structured questionnaires divided into demographic and fund-impact sections, measured using a five-point Likert scale. Indicators included branch expansion, sales volume, customer base growth, and revenue stability. A pilot test with 37 SMEs confirmed clarity and alignment with objectives. Validity was enhanced through supervisor oversight, while reliability was tested using Cronbach's Alpha, with values above 0.7 confirming strong internal consistency and stability of the instrument across repeated applications. Diagnostic tests were conducted to validate regression assumptions. Data was processed using SPSS v24, incorporating both descriptive statistics (means, percentages, standard deviations) and inferential methods (Spearman correlation and regression analysis). The regression model was explicitly specified as:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

where Y represents SME growth,

and X_1 , X_2 , and X_3 represent Uwezo Fund, YEDF, and WEF respectively.

RESULTS AND FINDINGS

The study achieved a strong response rate of 72.07%, with 271 out of 376 targeted SME respondents completing the questionnaires, surpassing Kothari's (2004) benchmark where rates above 70% are considered exceptional. Analysis of demographics revealed that most SMEs are micro-enterprises, with 41% employing fewer than 10 people, while 25% had 11–20 employees, reflecting lean staffing structures. Respondents were predominantly in the 29–39 age bracket (34%), highlighting a youthful and economically active entrepreneurial base, followed by 23% aged 40–49 years. Education levels were relatively high, with college diploma holders (29%) and university graduates (24%) forming the majority, while only 4% had no formal education. Experience levels were substantial, with 64% having worked in SMEs for more than three years, strengthening credibility of responses. Ownership structures were dominated by sole proprietorships (69%), and sectoral distribution showed strong representation in food and beverage (14%), construction (13%), and education (11%).

Uwezo fund and growth of SMEs: The evaluation of the Uwezo Fund revealed consistently positive perceptions of its influence on SME growth, with mean scores ranging from 3.41 to 4.20. Respondents emphasized that access to zero-interest capital was the most impactful, recording a mean of 3.841 and a standard deviation of 1.012. This underscores strong consensus that interest-free financing supports business continuity and enhances sustainability. The findings align with Zhao and Liu (2023), who observed that interest-free loans increase financial freedom and reduce reliance on costly debt, thereby fostering long-term growth. Revolving funds also emerged as critical, with a mean of 3.807, reinforcing their role in enabling incremental scaling and gradual expansion of SMEs.

Interest-free loans further demonstrated value, with a mean score of 3.766 and standard deviation of 1.051, confirming agreement that they reduce financial pressure and allow reinvestment into operations. This resonates with Ahmed et al. (2022), who found such loans increased SME revenues and workforce capacity. Sustainable fund cycles were similarly rated highly (mean 3.748), reflecting their importance in supporting long-term investments and effective cash flow management. The accompanying standard deviation of 1.045 indicates strong agreement among respondents. These findings are consistent with Indika et al. (2021), who concluded that revolving funds contribute positively to SME growth by increasing access to capital and facilitating equipment upgrades and production expansion.

Localized funding models were rated at 3.685, indicating their role in strengthening SME networks and promoting collaborative growth within communities. The standard deviation of 1.096 suggests shared perceptions of their community-level impact. Respondents noted that community-based financing fosters trust and accountability, enhancing loan repayment and business stability. This item recorded a mean score of 3.659 with a standard deviation of 1.073, the lowest among measured items

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but still within the “great extent” category. These findings align with Moyo and Nkosi (2021), who reported that community-based financing increased local investment and collaboration, resulting in a 30 percent rise in SME activity. The constructs significantly influenced SME growth, confirming consistent understanding of Uwezo Fund’s impact.

Table 1: Impact of Uwezo Fund on Growth of SMEs

Uwezo fund	Mean	STDev
Interest-free loans reduce financial pressure, enabling SMEs to reinvest earnings into expansion and operational improvements	3.766	1.051
Access to zero-interest capital supports business continuity and enhances long-term sustainability for small enterprises	3.841	1.012
Community-based financing fosters trust and accountability, improving loan repayment and business stability	3.659	1.073
Localized funding models strengthen SME networks and promote collaborative growth within targeted communities	3.685	1.096
Revolving funds ensure continuous access to capital, supporting incremental business scaling	3.807	1.027
Sustainable fund cycles allow SMEs to plan long-term investments and manage cash flow effectively	3.748	1.045

Youth enterprise development fund and growth of SMEs: The assessment of YEDF revealed strong perceptions of its positive influence on SME growth, with mean scores ranging between 3.695 and 3.963. Respondents consistently agreed that training and mentorship were the most impactful, recording the highest mean of 3.963 and a standard deviation of 0.987. This underscores consensus on the transformative role of capacity-building interventions in enhancing managerial competence and operational effectiveness. The findings align with Mango (2022), who reported that YEDF programs significantly improved access to institutional support services such as training, extension services, loans, and veterinary care. These results highlight the importance of non-financial support mechanisms in complementing credit access to strengthen SME leadership and performance.

Support services were also highly rated, with a mean of 3.874 and standard deviation of 1.015, underscoring their relevance in fostering competitiveness and innovation. Collective borrowing was valued at 3.796 (SD = 1.038), confirming its role in overcoming credit constraints and promoting collaborative ventures among youth-led SMEs. These findings conform to Mango (2022), who emphasized that YEDF initiatives contributed to competence-based skills development, thereby increasing the adoption of sound management practices among young agribusiness entrepreneurs. The results demonstrate that YEDF not only provides financial resources but also equips SMEs with strategic tools for market expansion, innovation, and adaptive growth, reinforcing its role in sustainable enterprise development.

Flexible loan terms and repayment options were recognized as critical for SME survival and liquidity control. Adjusted loan terms recorded a mean of 3.763 (SD = 1.049), while flexible repayment options scored 3.707 (SD = 1.072), both highlighting their importance in reducing financial strain and stabilizing operations. Group lending was rated at 3.695 (SD = 1.068), reflecting its contribution to

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reducing default risk and encouraging peer accountability. These findings agree with Mwangi and Muriuki (2022), who found tailored Business Development Services improved revenue and efficiency, and Houdhury et al. (2023), who observed that YEDF programs enhanced repayment patterns and provided essential support resources. Collectively, these mechanisms strengthen SME resilience and long-term sustainability.

Table 2: Youth enterprise development fund and growth of SMEs

Youth Enterprise Development Fund	Mean	STDev
Group lending reduces default risk and encourages peer accountability, improving financial discipline	3.695	1.068
Collective borrowing enhances access to credit and supports joint ventures among youth-led SMEs	3.796	1.038
Training and mentorship improve managerial capacity, directly influencing business performance	3.963	0.987
Support services equip SMEs with strategic tools for market expansion and innovation	3.874	1.015
Flexible repayment reduces financial strain, allowing SMEs to stabilize operations	3.707	1.072
Adjusted loan terms improve cash flow management and reduce early-stage business failure	3.763	1.049

Women enterprise fund and growth of SMEs: The evaluation of WEF revealed strong perceptions of its impact on SME growth, with mean scores ranging between 3.674 and 3.911. Respondents emphasized that low-cost credit was the most influential, recording the highest mean of 3.911 and a standard deviation of 0.978. This reflects consensus that affordable capital enables SMEs to invest in inventory, equipment, and marketing, thereby facilitating tangible expansion. The findings align with Muriithi and Muli (2022), who observed that diverse loan products improved liquidity, innovation, and market access. Product diversity was also highly rated (mean = 3.852, SD = 1.012), underscoring the importance of customized financial instruments tailored to sector-specific growth needs.

Tailored loan options were acknowledged for enhancing operational efficiency, with a mean of 3.800 and standard deviation of 1.034, suggesting flexible structuring supports day-to-day functionality. This agrees with Okeke and Eze (2023), who found that affordable credit significantly increased SME revenue and employment. Access to Local Purchase Order (LPO) credit was rated at 3.763 (SD = 1.049), highlighting its role in strengthening supply chain participation and boosting revenue potential through contract fulfillment. Ibrahim and Othman (2023) similarly reported that LPO financing improved liquidity and enabled SMEs to form strategic ties with larger companies, thereby gaining market exposure and unlocking growth opportunities.

Affordable financing was viewed positively (mean = 3.748, SD = 1.045) for improving competitiveness and supporting the scaling of women-owned enterprises. LPO financing, though lowest at 3.674 (SD = 1.089), was still recognized for bridging procurement gaps and enabling SMEs to fulfill larger contracts. These findings are consistent with Karanja and Mwangi (2021), who reported that SMEs accessing affirmative action funds improved contract execution by 55% and boosted

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 revenue by 30%. The results confirm that WEF provides critical financial tools ranging from low-cost credit to tailored loan options, that collectively enhance liquidity, innovation, and market access, thereby strengthening the sustainability and competitiveness of women-led SMEs.

Table 3: Women enterprise fund and growth of SMEs

Women Enterprise Fund	Mean	STDev
Tailored loan options meet varied business needs, enhancing operational efficiency.	3.800	1.034
Product diversity allows women-led SMEs to access sector-specific financing for targeted growth	3.852	1.012
Low-cost credit enables SMEs capital investment in inventory, equipment, and marketing.	3.911	0.978
Affordable financing improves competitiveness and supports scaling of women-owned enterprises	3.748	1.045
LPO financing bridges procurement gaps, enabling SMEs to fulfill larger contracts	3.674	1.089
Access to LPO credit strengthens supply chain participation and boosts revenue potential.	3.763	1.049

Growth of SMEs: The evaluation of SME growth revealed consistently positive perceptions, with mean scores ranging between 3.674 and 3.911, placing all indicators within the “great extent” category. Respondents emphasized sales volume as the most significant measure of growth, recording the highest mean of 3.911 and a standard deviation of 0.978. This reflects consensus that increased sales volumes signal effective market penetration and rising demand. Agolla (2024) supports this view, noting that affirmative action funding enables SMEs to invest in product development and marketing, thereby boosting sales. Branch growth was also highly rated (mean = 3.852, SD = 1.012), underscoring the strategic importance of physical presence in expanding customer accessibility and market reach.

Expansion into new locations was acknowledged as a key growth strategy, with a mean of 3.800 and standard deviation of 1.034, highlighting its role in increasing market reach and operational capacity. Growing clientele was rated at 3.763 (SD = 1.049), indicating its contribution to revenue stability and long-term viability by sustaining cash flow and reducing reliance on limited customer segments. Sales growth was also viewed positively (mean = 3.748, SD = 1.045), reinforcing its relevance in measuring product positioning and financial performance. These findings align with Macdonald (2024), who contends that access to funding enables SMEs to broaden their market reach, open new branches, and diversify products and services.

Customer base expansion was rated at 3.674 with a standard deviation of 1.089, the lowest among the indicators but still within the “great extent” category. Respondents recognized its importance in signaling brand visibility, service reliability, and market penetration. Maina (2024) agrees, noting that affirmative action funding facilitates customer acquisition by enabling SMEs to invest in marketing and relationship management tools. A growing customer base also enhances resilience by diversifying revenue streams and reducing vulnerability to market fluctuations. Overall, the findings confirm that

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 sales volume, branch expansion, geographic diversification, and customer acquisition are perceived as critical dimensions of SME growth, collectively strengthening competitiveness and sustainability.

Table 4: Growth of SMEs

Growth of SMEs	Mean	STDev
Expansion into new locations reflects increased market reach and operational capacity	3.800	1.034
Branch growth indicates business scalability and improved customer accessibility	3.852	1.012
Higher sales volumes suggest increased demand and effective market penetration	3.911	0.978
Sales growth reflects improved product positioning and financial performance.	3.748	1.045
Customer base expansion signals brand visibility and service reliability.	3.674	1.089
Growing clientele supports revenue stability and long-term business viability.	3.763	1.049

Diagnostic Test

Multicollinearity test: To evaluate whether multicollinearity existed among the predictor variables, Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF), Tolerance and Variance Inflation Factor (VIF) metrics were examined. Tolerance values above 0.2 generally indicate acceptable independence, while values below 0.1 suggest serious multicollinearity. In this study, all tolerance values exceeded 0.3 (UF = 0.412, YEDF = 0.385, WEF = 0.368), confirming that each variable contributed distinct information. VIF values below 5 are considered acceptable, with values above 10 indicating severe multicollinearity. Results showed UF at 2.426, YEDF at 2.597, and WEF at 2.717, all comfortably below the threshold. These findings confirm that multicollinearity was not a concern, ensuring regression estimates remained stable, reliable, and valid for interpreting the influence of affirmative action funds on SME growth in Nairobi County.

Table 5: Multicollinearity test

Predictor Variable	Tolerance	VIF
Uwezo Fund (UF)	0.412	2.426
Youth Enterprise Fund (YEDF)	0.385	2.597
Women Enterprise Fund (WEF)	0.368	2.717

Autocorrelation test: The autocorrelation test was conducted to verify whether residuals in the regression model were serially correlated, which would violate the independence assumption and compromise reliability. Using F-statistics and p-values, the hypothesis tested was that no autocorrelation exists among residuals. Results showed that all predictor variables—Uwezo Fund (p = 0.192), Youth Enterprise Development Fund (p = 0.181), Women Enterprise Fund (p = 0.204), and SME Growth (p = 0.167)—recorded p-values above 0.05, while corresponding F-statistics ranged between 1.598 and 1.812. Since all p-values exceeded the threshold, the null hypothesis of no autocorrelation could not be rejected. These findings confirm that residuals are independent and not serially correlated, thereby satisfying a key assumption of linear regression. The absence of

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autocorrelation strengthens the credibility of the regression estimates, ensuring stable, unbiased coefficients and validating the model's adequacy for reliable inference on SME growth.

Table 6: Autocorrelation test

Variable	F-Statistic	p-value
Uwezo Fund (UF)	1.684	0.192
Youth Enterprise Fund (YEDF)	1.743	0.181
Women Enterprise Fund (WEF)	1.598	0.204
SME Growth	1.812	0.167

Heteroskedasticity test: The heteroskedasticity diagnostic was conducted using the Breusch-Pagan and Cook-Weisberg tests to evaluate whether residual variance was consistent across independent variables. Heteroskedasticity, if present, can bias standard errors and weaken the validity of regression estimates. Both tests produced identical Chi-Square values of 2.317 with p-values of 0.128, exceeding the 0.05 threshold. This result means the null hypothesis of homoscedasticity cannot be rejected, confirming that residuals exhibit constant variance across predictor levels. Consequently, the regression model satisfies the assumption of equal error variance, ensuring coefficient estimates remain reliable and hypothesis testing valid. The uniform variance of residuals strengthens the credibility of the Ordinary Least Squares (OLS) approach, demonstrating that affirmative action funds—Uwezo Fund, YEDF, and WEF—can be analyzed without distortion from unequal error variance, thereby enhancing the adequacy of the overall model.

Table 7: Heteroskedasticity test

Test	Chi-Square	p-value
Breusch-Pagan	2.317	0.128
Cook-Weisberg	2.317	0.128

Normality test: The normality test was conducted using the Jarque-Bera (JB) statistic and corresponding p-values to assess whether residuals from the regression model followed a normal distribution, a critical assumption for valid Ordinary Least Squares (OLS) inference. The null hypothesis posits that data is normally distributed, and p-values above 0.05 indicate no significant deviation. Results showed all variables, Uwezo Fund ($p = 0.225$), Youth Enterprise Development Fund ($p = 0.153$), Women Enterprise Fund ($p = 0.194$), and SME Growth ($p = 0.137$), exceeding the threshold, confirming approximate normality. JB statistics ranged from 1.472 to 2.214, none reaching statistical significance, further supporting this conclusion. These outcomes demonstrate that residuals are normally distributed, satisfying a key regression assumption. Consequently, coefficient estimates are statistically valid, hypothesis testing is reliable, and the overall adequacy of the regression model is reinforced for analyzing the influence of affirmative action funds on SME growth.

Table 8: Normality test

Variable	JB Statistic	p-value
Uwezo Fund (UF)	1.472	0.225
Youth Enterprise Fund (YEDF)	2.038	0.153
Women Enterprise Fund (WEF)	1.689	0.194
SME Growth	2.214	0.137

Correlation analysis: The results presented in table 9 shows the Pearson correlation coefficients that examine the relationship between SME growth and three specific affirmative action funds: the Uwezo Fund (UF), the Youth Enterprise Development Fund (YEDF), and the Women Enterprise Fund (WEF). These coefficients, which range from 0 to 1, suggest the strength of the association, with values nearer to 1 signifying a stronger positive correlation. SME Growth shows a strong positive correlation with all three funds. Women Enterprise Fund has the highest correlation with SME Growth ($r=0.712$), suggesting that increased access to WEF is most strongly associated with enhanced business performance, expansion, and sustainability. Uwezo Fund follows closely ($r=0.684$), indicating that its financial support mechanisms also contribute significantly to SME development. Youth Enterprise Development Fund shows a moderately strong correlation ($r=0.659$), affirming its role in supporting youth-led enterprises. Interrelationships among the funds themselves are also positive but moderate: UF and YEDF ($r=0.623$), UF and WEF ($r = 0.648$), and YEDF and WEF ($r = 0.667$). These values suggest that while the funds are related in purpose and design, they operate with sufficient distinction to avoid redundancy or overlap, consistent with earlier multicollinearity diagnostics.

Table 9: Correlation analysis

Variables	SME Growth	Uwezo Fund	Youth Enterprise Fund	Women Enterprise Fund
SME Growth	1.000			
Uwezo Fund (UF)	0.684	1.000		
Youth Enterprise Fund	0.659	0.623	1.000	
Women Enterprise Fund	0.712	0.648	0.667	1.000

Inferential Statistics

Model summary: The overall model produced a multiple correlation coefficient (R) of 0.782, signifying a strong linear connection between the predictor variables and the growth of SMEs. The R-squared value of 0.611 suggests that about 61.1% of the variation in SME growth can be attributed to the combined effects of the Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund. The adjusted R-squared of 0.604 considers the number of predictors, confirming the model's reliability. Additionally, the standard error of estimate at 0.317 indicates that, on average, the actual values deviate from the predicted values by this amount, demonstrating that the model provides a reasonably accurate fit. The findings agree with Lee (2020) that Affirmative action funds are crucial to the promotion of businesses owned particularly SMEs. Such funds assist in filling capital gaps that SMEs cannot afford from conventional banks and financial institutions. Additionally, the finding

Publication of the European Centre for Research Training and Development-UK confers to Burger, et. al., (2022) that provision of affirmative action funds facilitates the elimination of institutional constraints affecting SME expansion. Many small businesses are burdened with insufficient funding, poor mentorship and lack of linkages to the market which restricts their expansion capabilities.

Table 10: Model summary

Model	R	R ²	Adjusted R ²	Std. Error of Estimate
Random Effects	0.782	0.611	0.604	0.317

ANOVA: The ANOVA results provide strong statistical confirmation of the regression model’s effectiveness in explaining SME growth through affirmative action funds—Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF). The regression sum of squares was 18.426 across three degrees of freedom, while the residual sum of squares stood at 11.728 with 267 degrees of freedom, yielding a total of 30.154. The mean square for regression was 6.142 compared to 0.044 for residuals, producing an F-statistic of 22.671, significant at $p < 0.001$. This high F-value rejects the null hypothesis, confirming the model’s explanatory power. The findings affirm Malima (2024) that affirmative action funds act as strategic instruments for building inclusive entrepreneurial ecosystems, and support Mujtaba (2023), who noted SMEs benefiting from such financing experience rapid growth through investments in technology, workforce development, and strategic marketing initiatives.

Table 11: ANOVA

Source	Sum of Squares	df	Mean Square	F-statistic
Regression	18.426	3	6.142	22.671
Residual	11.728	267	0.044	
Total	30.154	270		

Regression coefficients

The regression analysis confirmed that all three affirmative action funds, Uwezo Fund (UF), Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) significantly influence SME growth in Nairobi County, with results statistically robust at $p < 0.001$. Among them, WEF exhibited the strongest relative impact ($B = 0.341$, $Beta = 0.319$), underscoring its role in enabling women-led SMEs to expand customer bases, open new branches, and increase sales volumes. This highlights the importance of gender-responsive financing and tailored instruments such as low-cost credit and LPO support. Policymakers are encouraged to scale WEF programs, integrate them into national SME strategies, and strengthen post-financing support like inventory planning and market linkages to maximize sustainability and competitiveness among women entrepreneurs.

UF also demonstrated a strong positive effect ($B = 0.312$, $Beta = 0.296$), reflecting the value of interest-free loans and group lending in enhancing financial discipline, cash flow management, and operational capacity. YEDF showed significant influence ($B = 0.284$, $Beta = 0.271$), with training, mentorship, and flexible repayment terms enabling youth-led SMEs to stabilize operations, improve strategic planning, and penetrate new markets. Collectively, the magnitude and direction of coefficients confirm

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that increased access to affirmative action funds enhances SME performance, scalability, and sustainability. These findings align with Avudufu (2022) and Burger et al. (2022), who emphasized that affirmative action financing dismantles systemic barriers and fosters rapid growth through investments in technology, workforce development, and strategic marketing, reinforcing their role in inclusive economic development.

Table 12: Regression coefficients

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Uwezo Fund (UF)	0.312	0.058	0.296	5.379	0.000
Youth Enterprise Fund (YEDF)	0.284	0.061	0.271	4.656	0.000
Women Enterprise Fund (WEF)	0.341	0.054	0.319	6.315	0.000

DISCUSSION

The study findings highlight that affirmative action funds, Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) play a significant role in SME growth within Nairobi County. The Uwezo Fund demonstrates how group lending and peer accountability strengthen social capital, enabling entrepreneurs to access credit collectively. Regression and correlation results confirmed its positive impact, aligning with Social Capital Theory, which emphasizes trust-based networks as drivers of resource access and economic advancement. This resonates with Bourdieu's (1986) view that embedded social structures can be leveraged for economic gain. Furthermore, the revolving nature of the fund reflects Greiner's Growth Theory, supporting SMEs in overcoming early financial crises and transitioning toward structured growth stages.

The Youth Enterprise Development Fund (YEDF) discussion underscores its contribution to managerial capacity and competitiveness among youth-led SMEs. Training, mentorship, and support services were consistently rated highly, affirming Human Capital Theory's assertion that investments in skills and education enhance productivity. Regression analysis showed significant growth outcomes, while correlation results reinforced the positive association. These findings support Schultz (1961) and Becker (1964), who argued that skill development is central to economic performance. YEDF's interventions help youth-led enterprises move beyond informal operations by instilling financial literacy and strategic planning. This reflects Greiner's second stage of growth, where formal systems and managerial structures emerge, enabling SMEs to stabilize operations and pursue expansion more effectively.

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Implication to Research and Practice

The study enriches academic discourse by demonstrating how affirmative action funds, Uwezo Fund, Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) serve as effective instruments for SME development. It validates theoretical perspectives such as Social Capital Theory, Human Capital Theory, and Greiner's Growth Model within the Kenyan context, showing how financial and non-financial interventions foster enterprise resilience and expansion. By linking fund access to tangible growth outcomes, the research provides a foundation for future studies to explore sector-specific impacts, long-term trajectories, and comparative analyses across regions. This broadens the scope of inquiry into inclusive financing and strengthens the evidence base for integrating affirmative action funds into global debates on entrepreneurship, financial inclusion, and sustainable development.

For practice, the findings highlight the transformative role of affirmative action funds in strengthening SME competitiveness, sustainability, and inclusivity. WEF's strong influence underscores the importance of gender-responsive financing, while UF and YEDF demonstrate the value of interest-free loans, mentorship, and flexible repayment in enhancing managerial capacity and financial discipline. Policymakers and practitioners are encouraged to scale these funds, embed them into national and county-level SME strategies, and complement financing with post-support services such as market linkages, inventory planning, and digital entrepreneurship training. Development agencies and financial institutions can replicate these models to extend affordable credit and capacity-building to marginalized groups. Ultimately, the study positions affirmative action funds not merely as financial tools but as strategic levers for building resilient, innovative, and inclusive entrepreneurial ecosystems.

CONCLUSIONS

Based on the findings, several conclusions can be drawn regarding the contribution of each affirmative action fund to the growth of SMEs in Nairobi County. The Uwezo Fund has demonstrated a meaningful role in enhancing SME growth through mechanisms that promote financial discipline and collaborative credit access. Its group lending model and collective borrowing approach foster peer accountability and reduce default risk, which in turn supports operational stability. The fund's influence is further reinforced by its statistically significant relationship with SME growth, indicating that its design and implementation are aligned with the financial needs of youth-led enterprises. Overall, the Uwezo Fund contributes positively to enterprise development by facilitating access to credit and encouraging responsible financial behavior.

YEDF has shown itself to be instrumental in improving managerial capacity and strategic business performance among SMEs. Through training, mentorship, and support services, the fund equips youth-led enterprises with the tools necessary for market expansion and operational efficiency. The regression results confirm its positive contribution to SME growth, suggesting that its interventions are not only

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relevant but also impactful. The fund's correlation with SME growth further validates its role in fostering entrepreneurial development. In conclusion, the Youth Enterprise Development Fund plays an essential role in supporting young entrepreneurs to expand their businesses and enhance their competitiveness.

Women Enterprise Fund emerges as the most influential among the three, particularly in supporting women-led SMEs through affordable and tailored financing solutions. Its emphasis on low-cost credit and sector-specific product diversity enables targeted investment and operational growth. The significant statistical link between the fund and the growth of small and medium enterprises highlights its success in overcoming gender-related financial challenges and encouraging broader economic involvement. The observed positive relationship between the Women Enterprise Fund and SME development supports its crucial role in improving business sustainability and viability. Overall, the Women Enterprise Fund is instrumental in empowering female entrepreneurs and fostering enterprise growth across various industries.

Future Research

This research examined how the Uwezo Fund, Youth Enterprise Development Fund, and Women Enterprise Fund influence the development of small and medium-sized enterprises (SMEs) within Nairobi County. Although the results shed light on the effectiveness of these funding programs and the performance of supported businesses, further investigation is needed to assess the long-term viability of SMEs that receive such support. Future studies could explore the role of ongoing assistance, such as mentorship, access to markets, and digital tools in enhancing business continuity and expansion beyond the initial funding period. Moreover, since this analysis was confined to Nairobi and focused solely on three government-backed funds, subsequent research could broaden the geographic scope to include other regions. Incorporating private financing sources like savings and credit cooperatives (SACCOs), microfinance institutions, and financial technology (fintech) platforms would also provide a more comprehensive understanding. Comparative analyses between public and private funding approaches could offer valuable insights into their respective impacts on SME growth, guiding more effective and inclusive financing strategies.

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