

**THE IMPACT OF MICRO-CREDIT INSTITUTIONS ON THE GROWTH
OF SMALL AND MEDIUM SCALE ENTERPRISES IN KIBUYE
MARKET OF KISUMU KENYA**

BY

PATRICK CALEB OUMA ONDITI

BBA/32134/102/DF

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DECLARATION

I, **PATRICK CALEB OUMA ONDITI** here by declare that this report is my own work, as far as I am aware, it has never been submitted to any other institutions of higher learning for any degree or academic award.

Name of Student **PATRICK CALEB OUMA ONDITI**

Registration Number **BBA/32134/102/DF**

Signature



Date



APPROVAL

This is to confirm that this report has been prepared under my supervision as a university supervisor, and submitted to the college of Economics and Management sciences with my approval.

Name of supervisor **DR STANLEY KINYATTA**

Signature

[Handwritten Signature]

Date

28/05/2012.

DEDICATION

This Research Dissertation is dedicated to my beloved parents Mr. PHESTUS ONDITI and Mrs. MARY AKINYI my brothers and sisters, all friends and all my respondents for the great contribution they rendered to me in order to come up with this Research Dissertation. Above all I give thanks to Almighty God for the blessing upon this work in terms of life, resources and a good peace of mind. To you Makie, Uncle Joseph, Tabitha, Janet, Kamau, Martin and Dhen Vivie may God's blessing rain upon you for contribution upon this work.

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ABBREVIATIONS

KWFT- Kenya women finance trust

KMFI, s- Kenya micro-finance institutions

MFI, s- micro-finance institution

MFT- micro-finance trust

SME- small and medium enterprises

FONADER- national fund for rural development

SHG- self help group

NGO, s- non -governmental organization

MF- micro-finance

GDP- gross domestic product

DEFINITION OF TERMS AND VARIABLES

ENTERPRISE

This is a unit or an organization formed for the purpose of conducting or carrying out any form of economic activity. The basic purpose of its existence is to make profit for the owner after payment of other factors of production for example land, labor, rent and salaries.

ENTREPRENEUR

This is the person who starts and manages his/her own business (owner-manager). He/she has strong commitment to develop his/her vision into business activity.

CREDIT FACILITY

Credit means granting permission to delay payment for goods and services until a certain period. Credit facility according to this study therefore, means loan services provided for a purpose by micro finance institutions to women entrepreneurs.

INFRASTRUCTURE

The definition of infrastructure mainly focuses on economic infrastructure, which includes long life engineering structures, equipments, facilities, and services that are used in economic production and household use.

MICRO FINANCE INSTITUTIONS

Micro finance institutions is a term commonly used to define financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services

ABSTRACT

The purpose of the study was to assess the contribution of microfinance services on the growth of small scale businesses and the objectives were to establish the percentage growth of small scale businesses, to ascertain the services and products rendered by small scale businesses after accessing micro credit facilities, to establish the practices employed in paying back the loans and interest rate and to establish the tangible achievements arising from accessing financial services.

The fundamental objective of this study is to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Kisumu. Simple random sampling technique was employed in selecting the 100 SMEs that constituted the sample size of the research.

Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage.

Other than tax incentives and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions to support SMEs in Kisumu and the country as whole.

Securing micro-financing by SMEs is determined by the stage or level of development in which the business is. Businesses that are viewed as growing had it easy to get a loan. But the main criteria used were the ability to pay back and to meet the set requirements to obtain a loan. The main requirement is fixed tangible assets such as land.

CHAPTER ONE

1.0 Introduction

This chapter talks about the background of the study, statement of the problem, objective, purpose, hypothesis, research questions, significance and scope, limitations of the study.

1.1 Background of the study

Since independence, the government of Kenya has embarked on several attempts aimed at promoting the development of SME's in the country. Other efforts included the setting up of agencies like the National Fund for Rural Development (FONADER) and other rural SME' s and agricultural extension programmes. In spite of all these attempts, much is still needed to boost this sector, which is considered very vital in the economic life wire of the country. A recent development in this sector has been the increasing involvement of NGOs and the microfinance institutions in the process of enhancing the development of SMEs particularly at the rural level. Among the difficulties or complaints faced by these locals were the issue that most of them often save their money by hiding in some parts of the house, in which case ants often eat them up, again some farmers sold their crops before harvest due to fear of the lack of storage facilities. It is important to look at this because even though the government promotes SMEs in the rural areas through different institutions, microfinance institutions are not leaving any stone unturned to make sure that the acute poverty striking the rural population in Kisumu area is redressed. SMEs are the key sectors to the government and of course have a great influence in the socioeconomic development of the country but productivity and development keeps on dropping with a rising population. For this reason, innovation in microfinance has continued and providers of financial services to the poor continue to evolve. Today, the World Bank estimates that about 160 million people in developing countries are served by microfinance.

A micro-credit institution refers to the establishments that offer credit facilities to the investors e.g. small scale businessmen. Essentially these institutions provide some basic services as small short term low interest loans to investors and also financial advice to the

potential and final investors who are their clients. Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. While some studies indicate that microfinance can play a role in the battle against poverty, it is also recognized that is not always the appropriate method and that it should never be seen as the only tool for ending poverty.

It is worth noting that, small and medium enterprises are dynamic entities some grow into large enterprises, some stabilize without changing the scale of operation, while others disappear. Bhalla A.S (1992).

The meaning of small scale enterprises is here based on the criteria as the number of employees, initial investment and turn over rate which are relatively low. Indeed, the micro-credit institutions / sector in Kisumu-Kenya have been expanding as a source of credit for households and small enterprises. This sector is currently self regulated in mobilizing resources from the local financial market and outlive donor funding economic survey (2005).

The main objective of these services has been to determine the performance of the small scale businesses towards the economic development of the country.

Small scale businesses contribute 98% of the business activities in the country. It also contribute 30% of the employment creation and it is one of the main sectors in the Kenyan economy which is gaining credibility as away out of Kenya's economic consortiums.

In the recent past small scale businesses have not been borrowing funds due to lack of securities and ignorance among the small scale investors on the service offered by these institutions. This has affected the development and subsequently performance of these businesses.

1.2 Statement of the problem

According to Bernadine et al (1995) performance is the outcome of work because they provide the strongest linkage to strategic goals of the SME's, customer satisfaction and economic contributions.

The major problem facing the current performance of small scale enterprises in Kibuye market area is lack of focus in sustainability of micro-credit towards the small scale

businesses as well as potential contribution towards the national development of Kenya. And in addition to that there are other problems such as lack of available markets, insufficient access to technology and labor resources, inability to access financial capital to fund development, SME's inability to access financial resources they need for developing their businesses and microfinance institutions not providing funds to develop rural small businesses in an acceptable way and on reasonable terms. If this problem is not addressed properly, it may cause a cute poverty due to increased unemployment.

This study investigated the underlying issues rural small businesses are facing in their development. Particular attention was given to the issue of financing firm development, where the major microfinance institution in Kenya (KWFT), plays an active role. This problem was as a result of lack of securities by SME's required to secure the funds.

Small scale businesses are important in the economy, however little study has been done to determine the extent to which they have been successful in terms of their performance. It would appear that the micro –credit have the biggest impact of these small scale enterprises. The study therefore analyzed the impact of these micro-credit institutions on SME's and the level of performance of small scale businesses in Kibuye market.

1.3 Purpose of the study:

The purpose of the study was to establish the relationship between micro-credit institutions and the performances of small and medium enterprises.

1.4 Scope of the study

1.4.1 Geographical scope;

To cover all the regions in the entire country was impossible because of the limited time frame and amount of pages required for this research. For this reason, the research was limited to activities in the Kibuye market place in Kisumu where the researcher considered micro-credit from Faulu, and Kenya Women Finance Trust Funds. The study consisted of small scale investors from agricultural sectors and industrial (Juakali) sectors.

1.4.2 Content scope

The study examined men and women entrepreneurs in small-scale enterprises. The impact of microfinance to the development of SMEs in kibuye market area was analyzed, looked at its contributions, and in what form, and of course the response of entrepreneurs to the contributions of this institution to them.

1.4.3 Time scope

The research covered a period of 2 months from April- May.

1.5 Objective of the study

- ✓ To find out the contributions of MFI's to the entrepreneurs in developing their small and medium size businesses.
- ✓ To find out the challenges faced by SME's in an attempt to access micro-financing.
- ✓ To examine various ways in which micro-credit institutions can reduce the problems faced by SME's

1.6 Research questions:

- 1) What are the contribution made by the micro-credit institutions to the SME, s?
- 2) What are the challenges faced by SME's in accessing micro-financing?
- 3) What are the ways micro- credit institutions have tried to reduce problems faced by SME's?

1.7 Hypothesis:

There is a positive relationship between micro-credit institutions and the performances of small and medium enterprises.

1.8 Significance of the study

Most of small-scale enterprises are found in rural areas majority being women hence this study focused on creating awareness on the services offered by the MFI's.

This area of study is very important to the development of the socio-economic activities industrial and agricultural sectors and their contributions to the development of small and

medium size businesses in Kenya since it paves a way forward for potential NGOs wishing to help in the sustainable development of SMEs to understand the difficulties they may come across and how they can succeed in their development plans.

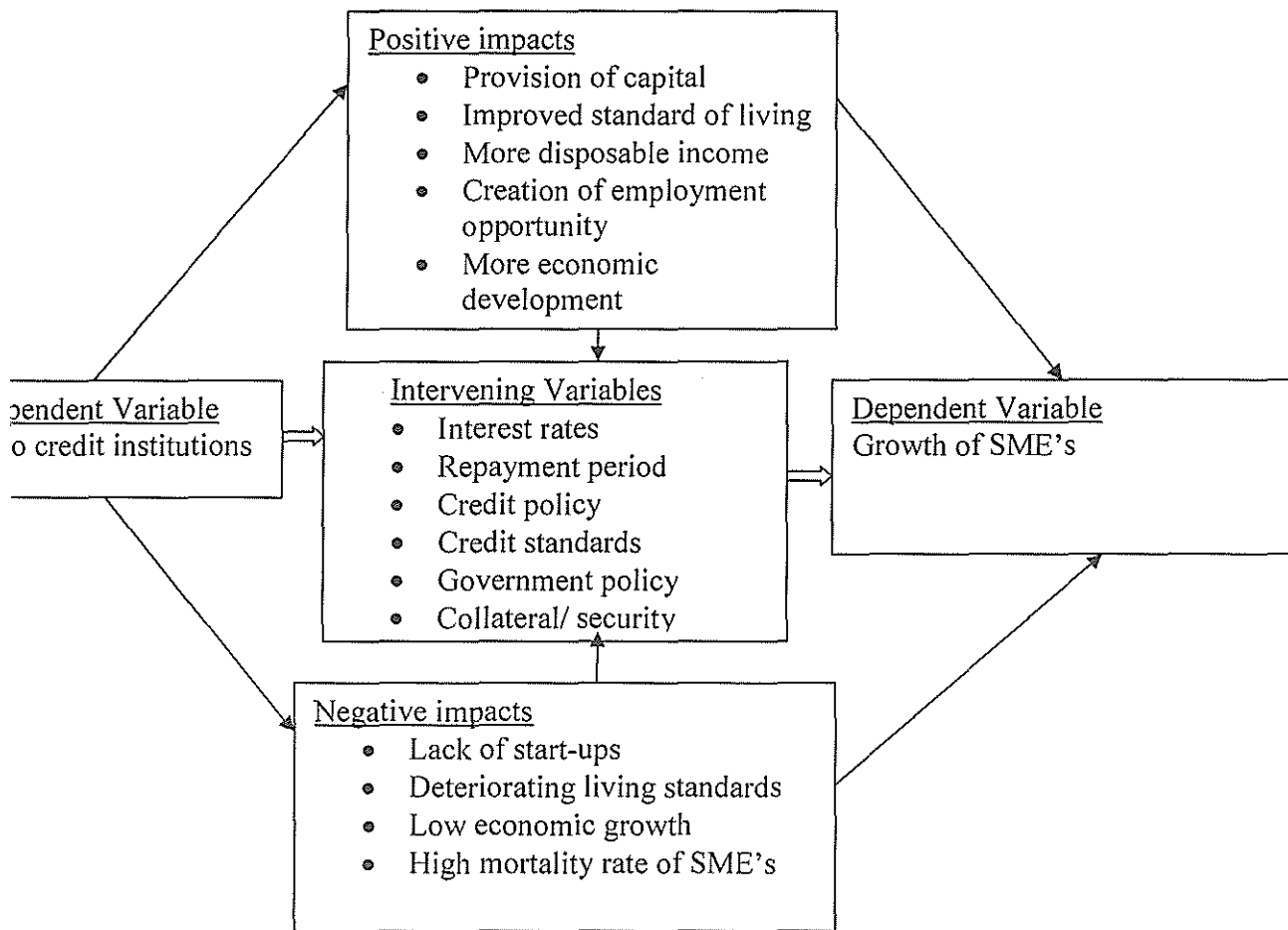
A study of this nature is equally very important because it is going to enlighten the government and the public on the role KWF is playing in the SMEs sector since it is in partnership with some international NGOs e.g. (LABALU) and with the government.

The government may also use these findings of this research to encourage its development partners to finance its small scale enterprises so that the country achieves the desired rate of economic growth.

1.9 conceptual frameworks:

A conceptual framework defines the topic of research study whereby it focuses on the explanation of the variables. Independent variables determine, predict, and influence the dependent variable. Dependent variable is under the influence by the independent variable. Intervening variables collaborate, with the independent variable to have an influence on the dependent variable. The figure below gives an illustration of the conceptual framework

Figure 1.9 Conceptual framework



The above model shows two pathways through which micro credit institutions are likely to influence the growth of SME's. The first pathway illustrates the intervening variables collaborating with the influences of micro credit institution to determine the growth of SME's. The 2nd pathway is where micro credit institutions might affect growth of SME's directly, which is indicated with the dotted line?

CHAPTER TWO:

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter focuses on some of the concepts of microfinance and the role they play in the development of SMEs. The concepts chosen are those that are in relation with the area of this proposal. The chapter opens with an overview of microfinance. The next centre of attention is SME growth and development. This gives an idea on how firms are considered by financial institutions before they are offered their services.

2.1 Theoretical review

It is clear that little study has been done on the SME's development to the entrepreneurs, but at the same time it has provided fund for the potential entrepreneurs to change their income level.

It is true that quite a number of writers wrote about small and medium scale enterprises. Several people gave several definitions of SME's making it hard to conclude what SME's is.

2.2 review of related literature

2.2.1 Contributions of MFI' to SME'S

In Kenya, the government is showing signs of supporting micro –enterprises among the growing population. This is in line with baker's assertion that micro-financial institutions need to play a key role in stimulating the growth of micro-enterprises through more supportive policies and regulatory framework. It is therefore that micro-financing institutions support the small scale enterprises. Specifically this can be done by encouraging the growth of financial sub –sectors in Kenya; the government provides incentives and infrastructures to accelerate sustainable development of these sectors so as to curb the high rate of unemployment.

It has been argued that micro –financing institutions directly or indirectly influences the performance of small scale businesses to a higher degree. It is therefore vital that their services be geared towards promoting these small scale investments. Such services may include; making available cheap micro-loans, offering low interest deposits requirements for new accounts, financial and investment advice.

According to Navajos et al, (2000) the main objective of microcredit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Formal financial services sectors in the Caribbean showed little interest in taking on what it has perceived to be high risk loans for small projects with high administrative costs usually operated by persons with little or no experience in business. A number of banking agencies have emerged to assist the potential micro-enterprises in Kisumu. In this light there; there is evidence of several designed programs having had positive impact on the poor, attaining acceptable level of financial viability. Judith (1997)

(Hiedhues, 1995) argues that accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production.

2.2.2 Challenges faced by SME's to access to micro financing

Bhalla (1992) argues that incentives and micro-economic policy and environment are perceived to promote the growth of small scale businesses and innovative capacities among small scale producers. Growth of small scale enterprises through access of SME's is often hindered by several factors, notably lack of adequate finance, low level of marketing and technical knowledge and skills, inadequate technology and product quality and limited size of market. Appropriate information and incentives are necessary to help the enterprises to

overcome constraints and adjust to rapid technological progress. He also argues that small scale enterprises are relatively capital shortage and have to borrow for technological improvement and production expansion. It is not easy for these enterprises to obtain loans. This is particularly for the enterprises which are not profitable and therefore do not have good reputation. Even for the ones which do obtain credit, the problem of debt repayment imposes a heavy burden.

On the other hand, the borrowers may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc (Bhatt and Shui-Yan, 1998). The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across (Stiglitz, 1990)

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

Minsky (1982) argues that credit is not available due to the tight monetary policy and the unwillingness of financial institution to provide funds to finance fragile firms because the financial institutions are afraid that the firms may not fulfill their obligations to repay the debts. Hence an investment failure occur not because of the increasing reliance on non financial corporate sector on debt practices but as a result of inability of the business sector to borrow money in credit markets to re-finance these economic activities. These are considered evidence that access to saving services and micro-loans can raise and establish the income of the poor. Many low income earners especially women benefit from such loans because of their involvement of self employment and group activities. In some cases, it is not only access to credit that is problem but also training in basic skills such as accounting and financial management.

2.2.3 Possible solutions to challenges faced SME's

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998).

In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999).

According to Bennett (1994) and Ledgerwood (1999) MFIs can offer their clients who are mostly the men and women who could be below or slightly above the poverty line a variety of products and services. The most prominent their services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterate. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral (farms) due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory. Microfinance triangle comprise of financial sustainability, outreach to the poor, and institutional impact. There are costs to be incurred when reaching out to the poor and most especially with small loans (Christabell, 2009)

2.2.4 Micro-credit institutions and small scale businesses

There are different providers of microfinance (MF) services and some of them are; nongovernmental organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

2.2.5 Self-help groups (SHG):

This is common among women in the rural areas who are involved in SME, s (Ajai 2005). Making credit available to women through SHGs is a means to their development in rural area and also bridge the gap of financial limitations or acquisition from other MFI, s. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives. SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc. It has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

2.2.6 Village Banking:

This is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions (Mk Nelly and Stock, 1998). Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financial sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions (Nelson et al; 1996). Hatch and Hatch (1998) Village banking loan and savings growth rate increases as the bank continue to exist

CHAPTER THREE

RESEARCH METHODOLOGY:

3.0 Introduction

This chapter presents the methods and procedure that will be adopted in conducting the study. The study design, study area, population, sampling techniques, methods and instruments used to collect data, and data analysis techniques, limitations of the study, and validity.

3.1 Research Design

The study used a case study design where views of Finance Trust and micro finance employees were thought about from respondents using questionnaires.

The two main types of research approaches which were used are both quantitative and qualitative research approaches. I.e. Quantitative method was based on already decided and well-structured questions, whereby all the respondents were asked the same questions.

Through qualitative research approach, the researcher collected data and developed theory from data analysis. The researcher laid emphasis on the qualitative research method.

3.2 The target population:

The target population (about 132 for both men and women) of my study was on small scale investors from agricultural and Juakali sectors in Kibuye market in Kisumu. This was because this group or class of investors were in large number in this region and were willing to contribute towards the research work.

This research study also involved the employees of KWFT microfinance especially finance section, and its managers. They were systematically selected because they were deemed to have reliable data for the subject under exploration

3.3 Sampling procedure:

This study applied stratified sampling, simple random sampling and purposive sampling techniques to select the key respondents. The sampling techniques were selected because they would enable the researcher to systematically collect reliable, timely and a valid data for the study.

Respondents were identified depending on their willingness and availability during the study exercise. To achieve the objective of this study, the researcher identified a population of hundred and thirty two (132) from small-scale men and women entrepreneurs. Out of this population, hundred (100) respondents were conveniently chosen as sample for the study.

Through purposive sampling, the researcher interviewed five micro-finance officers working in the area. The researcher also divided the population into sub-groups or strata according to the type of business enterprises. The stratum with the highest variance was given higher chance of selection.

3.4 The sample size

The research study involved a target population size of 132 both men and women entrepreneurs where 5 managers were purposively selected and 95 employees' selected using simple random sampling. The sampling technique was selected because they would enable the researcher to systematically collect reliable, timely and a valid data for the study.

Sample size was calculated based on Sloven's formula.

$$n = N / [1 + N(c)^2]$$

Where

n = sample size

N = target population

C = margin of error at 5% standard value

Sample size

$$n = \frac{132}{[1 + 132(.05)^2]} = 100 \text{ respondents}$$

3.5 Data collection instruments:

The researcher used questionnaires, interview schedules and observation

3.5.1 Questionnaires

Structured questions were constructed in open-ended form. These were given to respondents with an opportunity to provide data important for the study. Moreover, questionnaires were convenient for respondents to give data that may be difficult to give face to face.

In order for the researcher to collect up to date and reliable data, the researcher requested the respondents to show their membership card before they were given the questionnaire to fill. This was intended to ensure that it was the members that are in contact with.

3.5.2 Interviews:

An interview is a purposeful discussion between two or more people and so the method of interviewing helped the researcher to get reliable and valid data which were relevant to the research questions. This method of collecting information for the case study was very essential.

The researcher used an interviewer administered questionnaires based on a predetermined and standardized identical set of questions as structured interview was used to get a quantifiable results.

3.5.3 Observation:

During the research, the researcher conducted personal analysis (through observation) of the existing situations where he collected data and at the same time compared the already collected data from questionnaires with the existing situation at hand.

3.5.4 Documentary sources

This was obtained through the use of self administered questionnaires, interviews and observation. These were used to supplement the primary data. Secondary data sources such as journals, internet, magazines, and newspapers, published and unpublished books were used to guide the researcher to get data on internal controls and performance of microfinance institutions

3.6 Data Analysis

After the stage of data collection, data was organized, edited and interpreted for processing. The qualitative data was analyzed using the qualitative technique of data analysis. The quantitative or numeric data was also organized and analyzed using simple statistical methods such as frequency tables, percentages and charts.

3.7 Validity and Reliability of the Instrument

The validity of the research work was achieved through subjecting the research questionnaires on available financial and material resources utilization for expert judgments which validated the findings.

The test-retest technique was used to determine the reliability accuracy of the research instruments. In this test- retest technique, the questionnaires were administered twice to the same subjects. If the test was reliable and the characteristics being measured was consistent, then the results were concluded to be consistent and essentially the same in both times.

3.8 Limitations of the study

To cover all the target entrepreneurs in Kibuye market in Kisumu was hard because of the limited time frame and amount of pages required for this research. For this reason the researcher allocated a considerable amount of time and materials for this research study. To this effect, the researcher also anticipated financial limitation to effectively administer this research study. Being a study that encompassed different entrepreneurs, funds were not enough and this hindered the data collection.

The researcher anticipated respondent's refusal in giving crucial data for fear of the motives of the study. The researcher therefore explained the importance of the study to the respondents and assured them how their opinions were strictly for academic purposes.

The researcher faced bureaucratic constraints that delayed the study. Going through all the procedures took time and this hindered the study. The researcher however kept himself humble and appealed to the managers in order to collect for data and any relevant information.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DATA ANALYSIS

4.0 Introduction

This chapter presented the findings in relation to the research questions and research objectives established earlier. The chapter presents the findings by considering the research purpose which was to establish the impact of micro credit institutions on the growth of SME's.

The data collected from the field was quantitatively and qualitatively analyzed. The qualitative approach used in analysis provided more clarification and explanations on quantitative data. Quantitative information summarized by using tables and percentages to show the responses of the respondents.

4.1 Background information

Table 4.1 Gender of respondent

Gender	Frequency (n=100)	Percentage (%)
Male	40	40
Female	60	60
Total	100	100

Source: primary data

Majority of the respondents were females as shown by 60% and the males were 40%. This showed that both men and women participated in the study. This finding also shows that women have benefited more from the services of MFI's as compared to their male counterparts.

Figure 4.1.1 gender of respondents

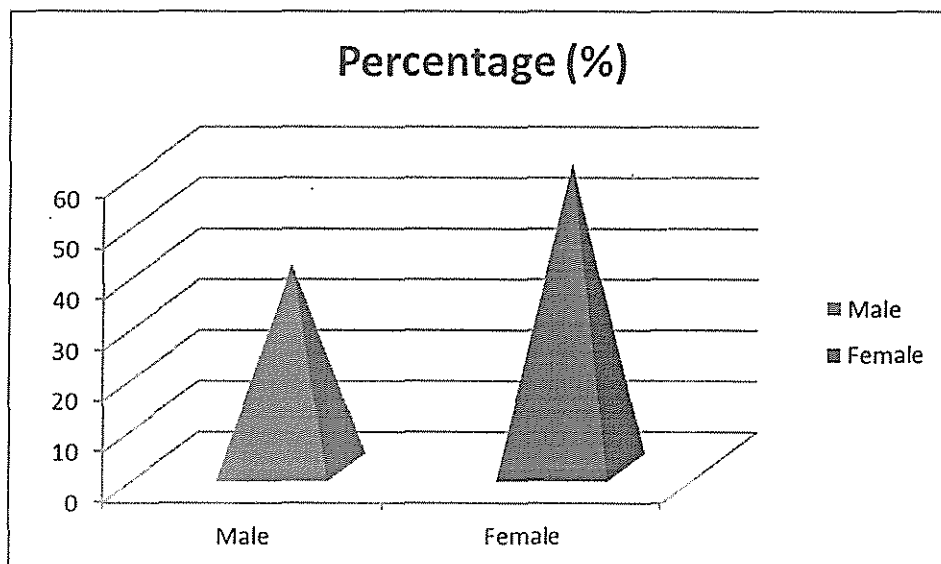


Table 4.2 Age of respondent

Age group	Frequency (n=100)	Percentage (%)
18-25	15	15
26-29	25	25
30-35	30	30
36-60	20	20
Above 60	10	10
Total	100	100

Source: primary data

A greater part of the respondents (30%) were aged between 30-35 years, followed by those aged between 26-29 as shown by 25% whereas 20% were aged 36-60 years, and 15% were in the age bracket of 18-25 years and only 10% were aged above 60 years. This implies that the majority of entrepreneurs are the youth benefiting from SME's services, who are also hardworking.

Figure 4.3.1 level of education of respondents

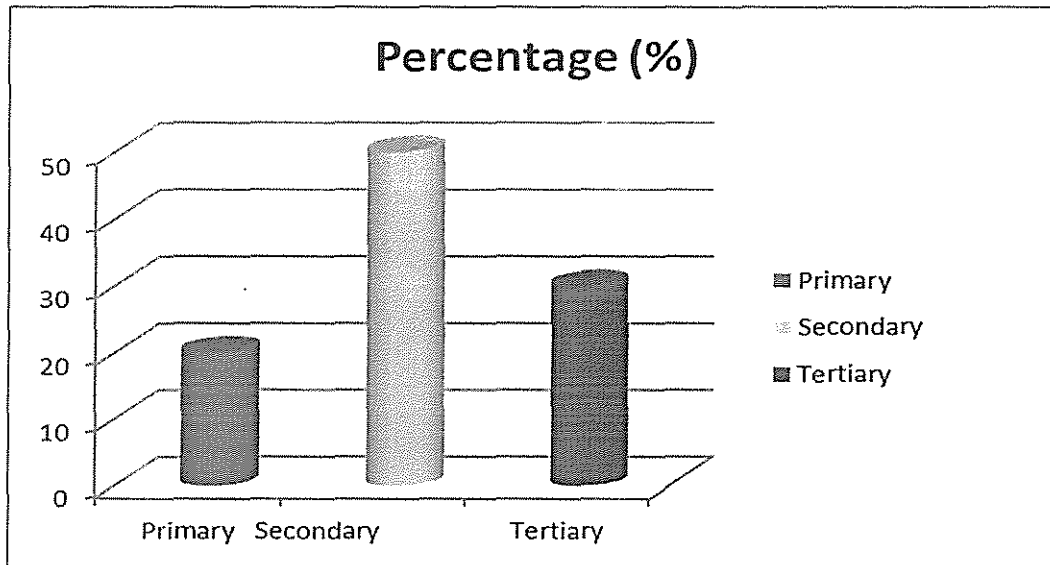


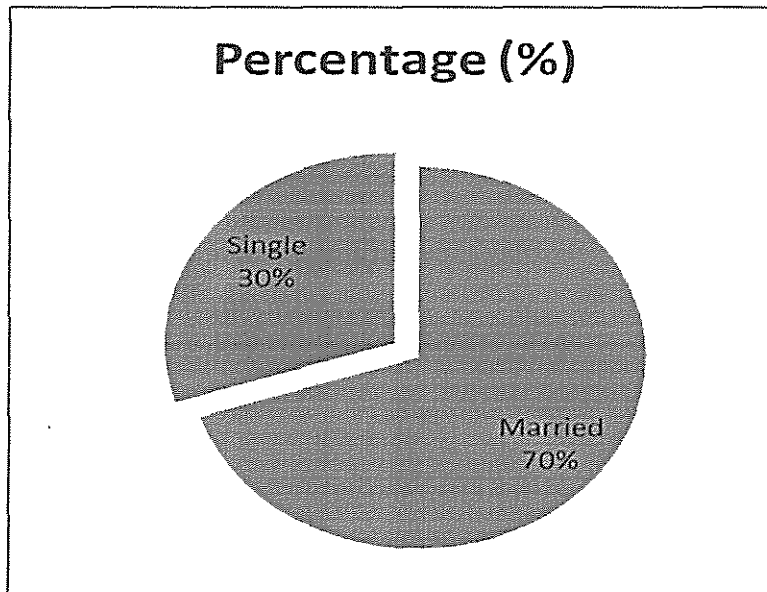
Table 4.4 Marital status of respondent

Marital status	Frequency (n=100)	Percentage (%)
Married	70	70
Single	30	30
Total	100	100

Source: primary data

Majority of the business people were married as revealed by 70% of the respondents whereas 30% were still single or not married. The fact that most of the respondents were married, we can state that they benefited more than those who were not married. Besides, the married were stable in terms of loan repayment. They also had collateral security to get loans.

Figure 4.4.1 marital status of respondents



4.2 Business details

4.2.1 enterprneurship skills

Among the interviewees, 30% responded that they had received entrepreneurship skills through various seminars, trainings and workshops offered by some microfinance institutions and intergroup meeting. The various skills most acquired includes, book-keeping, credit management, inventory management and logistic management. However majority of most entrepreneurs had not acquired any basic business training hrnce had no skills constituting 70% operating their businesses through trial and error. This according to their response was caused by lack of finance/ fees and ignorance on the benefits of such trainings.

The most important information from those who had the skills attributed their success to the support of micro-credit services offered to the like loan which they spent as capital and part of it were spent as training fees.

4.2.2 types of business

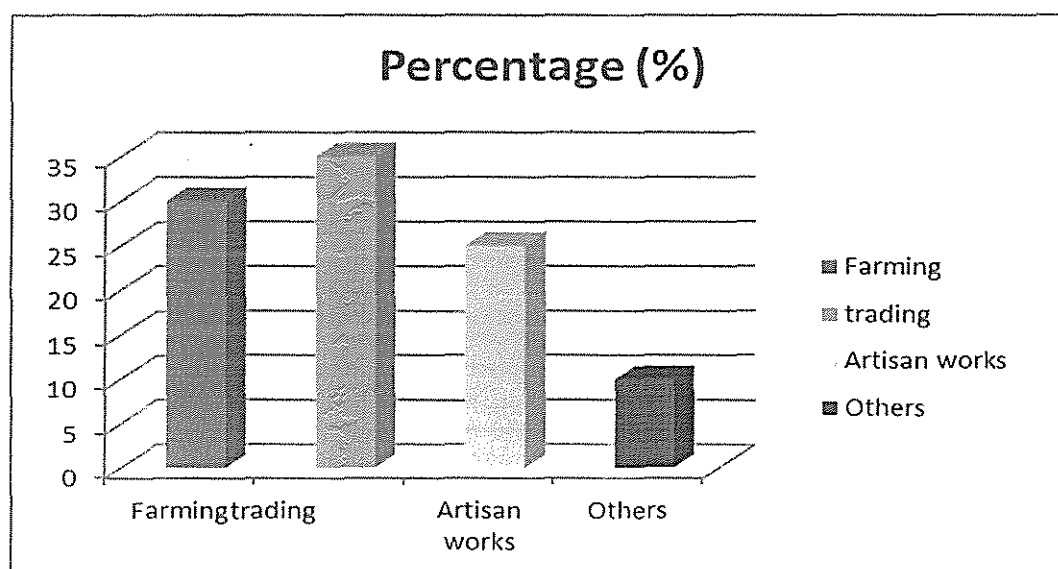
Most of the entrepreneurs interviewed were engaged in trading activities involving selling fast moving goods, maintenance, repairs and materials e.g spare parts, accessories and building items which constituted up to 35%. 30% of them were involved in farming activities, 25% were engaged in artisan works while 10% were involved in the transportation activities as illustrated below;

Table 4.5 type of business

Type of business	Frequency (n=100)	Percentage (%)
Farming	30	30
trading	35	35
Artisan works	25	25
Others	10	10
Total	100	100

Source: respondents

Figure 4.5.1 type of business



4.2.3 Business description

According to the interviews with the entrepreneurs, it was established from their responses that most of businesses are either young though with established production and customers especially in the farming business or mature businesses but needs renewal and expansion constituting 25% each. on the other hand both the newly started and already existing and growing businesses constituted 20% of the total businesses each of which much of their success are attributed to services of micro-credit institutions eg loans. However the well established businesses with steady production and customers were only 10% of the total businesses. This findings established that the young and growing entrepreneurs are facing stiff competitions from the mature and the well established businesses since they have collateral for loans and already known by the creditors. As illustrated below;

Table 4.6 business description

Business description	Frequency (n=100)	Percentage (%)
Newly started	20	20
Young, but with established production and customers	25	25
Growing	20	20
Well established, with steady production and customers	10	10
Mature, but in need of renewal	25	25
Total	100	100

Source: respondents

4.2.4 Length time in business operation

The interview established that 55% of businesses had been in operation for over 5years while only 45% had been in operation between 1-5years and so it was deduced that business mortality rate is high within the first few years of operations due to lack of managerial and entrepreneurship skills.

Table 4.7 years of business operation

Years of operation	Frequency (n=100)	Percentage (%)
0-1	20	20
1-5	25	25
5-10	25	25
Above 10	30	30
Total	100	100

Source: respondents

4.3 Loan details

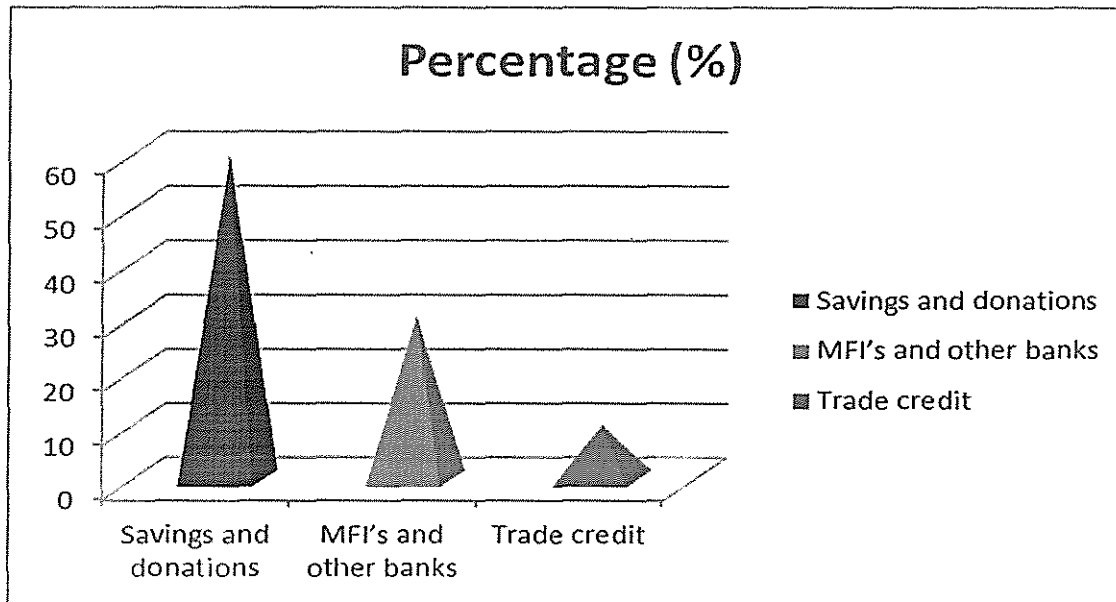
4.3.1 Loan acquisition

Among the interviewees responded that it is hard/ not easy for them to get the loans applied for since it takes time and at the same time one cannot get the right amount of loan applied for. Also the fact that collateral is needed is a major factor hindering most entrepreneurs from getting loans. Microfinance institutions in Kenya lack cohesion; they operate under different mission statements as well as target different market niches hence disintegrating other businesses.

4.3.2 Loan repayment

Most of the loans sourced by entrepreneurs were required to be repaid as quickly as one –two weeks, after one month i.e. a time which is so short for the entrepreneurs to benefit from the loans hence posed a big problems to most growing and new businesses.

Figure 4.8.1 start-up capital



4.3.5 some of the benefits derived from MFI's services(loans)

The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Majority of the SMEs also acknowledge positive contributions of MFIs loans towards promoting their market share, able to afford some training, product innovation achieving market excellence and the overall economic growth and competitive advantages.

4.3.6 Collateral required by MFI's and other banks

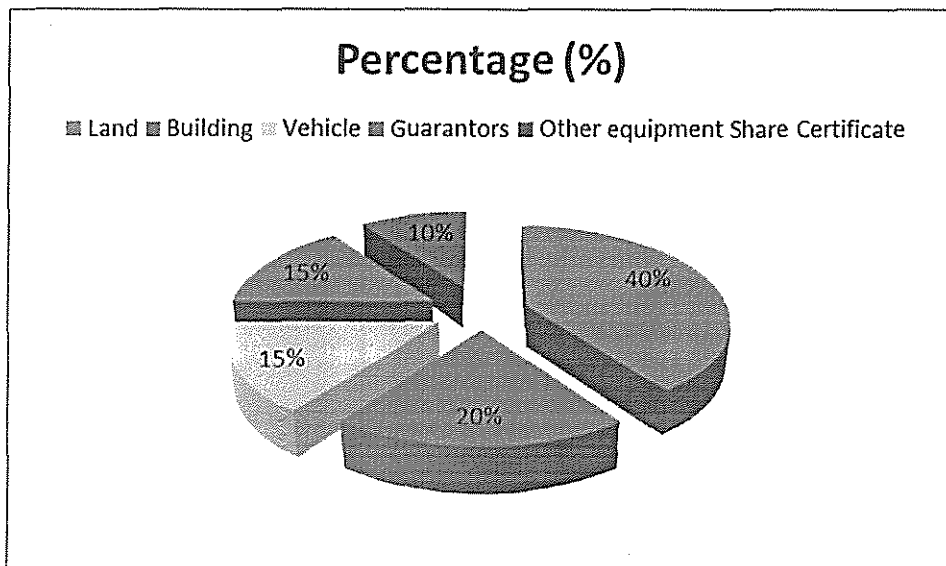
Table 4.9 collateral required

Collateral pledged	Frequency (n=100)	Percentage (%)
Land	40	40
Building	20	20
Vehicle	15	15
Guarantors	15	15
Other equipment,ShareCertificate	10	10
Total	100	100

Source: respondents

Approximately 70 percent of respondents utilizing commercial banks overdraft facilities with lower interest rates were required to pledge collateral in form of Land (48%), Building (31%), fixed asset, such as machinery (35%) and other assets (8%). Collateral Requirement Formal and Informal Fixed Asset:

Figure 4.9.1 collateral required by MFI's and other banks



CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary, conclusion and recommendations of findings of the study thus establishing percentage growth of small scale businesses as a result of accessing financial services from MFI's, services and products rendered to small scale businesses after accessing micro credit services, practices that are employed in paying back the loans and interest and tangible achievements arising from accessing financial services.

The analysis, evaluation and interpretation of the data and information found in the field were correctly performed; therefore, the conclusion and recommendation given below were precisely derived from the chapter and areas mentioned above.

5.1 Summary of findings

5.1.1 The main focuses of our investigation were:

To establish how KWFT tries to help its members in developing their small or medium size businesses.

To find out whether KWFT members feel they have reasonable and fair access to micro financing

5.1.2 KWFT, its members and the development of their businesses

KWFT in its mission statement has as priority to improve the welfare of its members by promoting them to become financially strong. This microfinance institution is a semi formal financial institution providing banking services to the poor. The criteria set up are difficult for the poorest to meet and hence they cannot be a member and cannot benefit from KWFT intermediation services. They give out loans to boost the economic sector and also train members how to judiciously use the money granted to them so as to repay back without any difficulty.

5.1.3 Determining if gender or size of operation play a role in granting of a loan

The level or stage of development of a business is seen to have a positive effect in getting a loan. KWFT sees these developing businesses as promising since they are growing and less probability of not succeeding. When this is realized and confirmed by the MFI, they try to help them by providing them with financial and social services. The business will experience an increase in profit and this is independent of gender.

5.1.4 The effect of business size in securing financing for growth

Securing finance in the form of loans by SMEs is determined not only by the size of business operation but also of the type of business and the worth of it. KWFT does not only grant these aspiring businesses loans but also provide them with some training. These trainings are meant to feed the entrepreneur with the necessary business skills to better run the venture.

Early stage businesses are not easily granted with loans. They cannot secure the necessary resources and has a possibility to die in this early stage. The granting of loans is much easier to large firms than small ones.

MFIs consider client's ability to repay debt and assess the minimal sum they can contribute as equity before offering a loan. Existing firms are considered to have a history that can be judge by the MFIs before granting a loan.

5.2 Conclusions

Regarding the findings of the study, there is an increase in the growth of small scale businesses as a result of accessing financial services from MFI's. This is shown by the increased profitability and tangible achievements arising from accessing financial services.

Regarding the services and products, respondents showed that they offered quality products to clients as well as offered credit facilities but most important of all is that they also offer social intermediation and social support.

The use of security for loan recovery and savings were shown as the major ways to pay back loans and interest but also used weekly payments and insurance schemes to pay back the loans coupled with monthly payments.

On the issue of tangible achievements, there was higher profit margin after using credit facilities and respondents were able to pay school fees and improve their standards of living after accessing credit facilities and also provided household essentials for their family and increase in business stock and savings.

5.3 Recommendations

The membership fee for new applicants should be reduced so as to incorporate the very poor into the system. This will enable them get access to the products and services that those just below or just above the poverty line can enjoy.

The mode of repayment should be revised so that the poorest can borrow without collateral. This should be done in a way that will increase the frequency of repayments and this is known to reduce the risk of non payments. It is evident that MFIs with high repayment rates have low moral hazard problems.

Group-based lending should be encouraged. This will serve as a means to increase its depth since some poor men and women cannot have access to these products and services. But with the formation of a group, members of that group may apply for the services and members in the group act as guarantors for the others.

For MFI, s to succeed in the global sector, it should loosen their terms and conditions for SME, s to easily access loans and also create awareness to the people through civic education on the services offered by them.

It is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions to support SMEs in all parts of the country for SME's benefit.

There is need to reduce on the interest rates in all microfinance institutions that offer financial services to small businesses such that it can benefit the business community in terms of low burden in paying back the loan and this further lead to growth of more businesses.

There is need for the government to give more funding to microfinance institutions since they are involved more in financing small scale businesses and they are more in contact than the government.

Better training on loan management and use needs to be given to the small scale business owners on how to manage their loans and how to effectively manage in order to have some profits after investing in their businesses to enable paying back the loan.

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APPENDIX 1
RESEARCH INSTRUMENTS

i) QUESTIONNAIRE:

To members who own small businesses

Personal data

(Tick where necessary)

1) What is your gender?

Male..... Female.....

2) Your age is between

18-25 ☐

26-29 ☐

30-35 ☐

36-60 ☐

Above 60 ☐

3) Level of education

Primary ☐ Secondary ☐ Tertiary ☐

4) Marital status

Married ☐ Single ☐ Other (s) specify.....

Yes..... No..... If yes where? MFI..... Bank.....
others.....

If you have applied for a loan for your business, please answer the following questions, 8-12.

10) Was it easy to be given a loan?

.....
.....

11) What criteria does the Micro Finance Institutions (KWFT) use to offer
loans?.....

.....
.....

12) Are the criteria easy to be met?

Yes.....

No.....

13a) if you have had problems in paying back the loan, what has happened to resolve them?

Yes.....

No.....

13b) if yes how did you finally pay it?

.....
.....

13c) Do you or can you conclude that KWFT has helped you in developing your business?

Explain why

.....
.....

14) Apart from financial services offered under the umbrella of KWFT, have they provided other services that have helped develop your business?

.....
.....
.....
.....

15) Would you like to obtain another loan if need be and why?

.....
.....
.....

16) Give your personal thoughts?

.....
.....

APPENDIX 2

THE TIME PLAN OF THE STUDY

ACTIVITY	FEB	MARCH	APRIL	MAY
Identification of research topic				
writing of proposal				
presentation for approval				
Collecting research data				
Report writing and submission of dissertation				