AN INVESTIGATION INTO THE IMPACT OF MICROFINANCE LOANS ON PERFORMANCE OF SMALL BUSINESSES: A CASE STUDY OF MERU-SOUTH DISTRICT

By

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A PROJECT REPORT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF KENYATTA UNIVERSITY
DECLARATION

This project report is my original work and has not been presented for a degree in any other university.

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DEDICATION

To my family members especially my parents for their love, support and encouragement and for making sure that I understood all that I was taught.
ACKNOWLEDGEMENTS

I am greatly indebted to my supervisor Mr. R. Maganjo for his guidance, dedicated support, patience, understanding and above all constructive criticism during the course of this project. Without his support this project would not have been reality.

I wish to express my deep appreciation and sincere gratitude to the individuals who have immensely contributed to make this project to take this shape by giving me important information I needed.

I highly appreciate the typing services of all those who helped in typing this project to enable me to meet the deadline. Mr. A.D. Bojana deserves special gratitude for editing the final work.

I cannot forget all who assisted me in my research, members of staff of Moi Library Kenyatta University.

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May God bless you all.
Access to financial services by self-employed persons in small business enterprises is one of the limiting factors that inhibit growth and development of these small businesses. The problem of accessibility is created by lending institutions through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restricting credit for specific purposes. For small business enterprises, reliable access to short-term credit and small amounts of credit is more valuable and appropriate in credit programmes aimed at such enterprises.

The funds to buy goods and operate are inadequate because of the high interest rates that are charged on loans by the money lenders, thus small businesses are unable to borrow as they wish and if they do, they are unable to pay the loans thus creating more problems for the business enterprise. Hence, there is a need to look for better ways to provide financial services to these small businesses whose collateral base is limited.

In this study, microfinance loan (microcredit) is seen as a way to facilitate economic activities through creation of a financial market for small businesses. Provision of financial services to the small businesses will enable them to start economic activities, creation of goods and services and growth of these businesses. Microfinance will help bridge the gap created between small businesses limited collateral base and provision of financial services by the mainstream commercial banks.

The objective of this study was to derive the correlation between provision of microfinance loans to small businesses and their performance in relation to their sales so as to establish the relationship between women empowerment and microfinance loans. The researcher used both primary and secondary data for this study. Primary data will be collected using a questionnaire. The questionnaire was administered by the researcher and if necessary use research assistants. Both open-ended and closed-ended questions will be used. Secondary data were sought from the available library search and other documented sources kept by microfinance institutions.

Descriptive and inferential statistics were used. Descriptive statistics was used to summarize the basic features of the data in the study, whereas the inferential statistics were used to infer the sample results to the population. Descriptive statistics such as frequency distributions, percentages, means, ranges, variations and measures of central tendency were used. Data were analysed using Statistical Package for Social Sciences (SPSS).
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CHAPTER ONE

INTRODUCTION

1.1. Background to the Study

The world's poor have little access to the financial products and services that help those in the developed world bridge the gap during rough times. Just as the earnings of the poor are constrained, so is the access to financial services by low-income households and small businesses. Without access to loans or credits, shop-owners cannot buy products in bulk and farmers cannot buy machinery or even seeds after a natural disaster or a poor yield. Without access to savings accounts, money is subjected to the risk of being stolen or destroyed by fire. According to a study conducted in Kenya in 2006, about 6.5 million out of the 17.4 million adult Kenyans are unserved by financial system, while Microfinance Institutions (MFIs) and SACCOs take care of some 1.3 million people. There is a growing interest in the microfinance business, for example, Faulu Kenya which was started in Mathare in 1992 has turned around the financial lives of people and ignited small businesses through small loans that come without tough conditions of security.

In many cases, mainstream commercial banks are the main available sources of capital. They provide loans to smooth incomes during rough times or help individuals improve their small businesses. But they do so at exorbitant interest rates. In the struggle to reduce global poverty, donor agencies are orienting their programming around the attainment of Millennium Development Goals (MDGs). The MDGs include the following: eradicate extreme poverty and hunger, achieve
universal education, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other infectious diseases, ensure environmental sustainability and develop a global partnership for development. Work in these specific areas by agencies seeking to alleviate poverty will be a large part of their development strategy. Decadal experience has shown that the progress in these areas is powerfully affected by other factors in the broader context such as, functioning government, physical security, economic growth and basic infrastructure (for example, transportation). All these are good indicators of the level of poverty that impedes the growth of small businesses. The availability of adequate financial services for small businesses (microfinance loans) is an important factor with strong impact on the achievement of poverty reduction goals.

Poverty may be defined as a state of deprivation and inequality. Most definitions associate it with lack, deficiency or inability to attain certain necessities required for human survival and welfare. More generally, poverty is analyzed in terms of income and consumption. More often, it is understood to constitute inability to purchase a minimum set of needs (Wratten, 1995).

According to Chambers (1997), poverty is based on income and consumption which uses a variety of social indicators to classify poor groups. These include poverty as: lack of income, vulnerability and powerlessness. Poverty line is in essence a welfare threshold. The threshold is usually arranged to be a bundle of commodities that would satisfy the basic minimum needs including, nutrition housing, clothing,
education and health.

Policy-makers throughout the world have tried to improve financial markets in poor regions with disappointing results. For example in Kenya, state-owned development banks were initiated but they mismanaged resources availed to them for onlending to the poor did not make profits and are moribund. At the same time, high interest rates have prevented banks from operating viably in poverty areas. In many developing countries, poor rural households face severe constraints when they seek credit from formal lending institutions. Formal financial services such as those offered by banks are often not available to those below poverty line because of the requirements that loans must be backed by collateral.

The banks do not welcome the small amounts the poor want to save. As a result, the poor usually turn to informal sources such as friends, relatives and money lenders who lend small amounts of money for short periods or to informal indigenous institutions such as saving clubs and lending networks to borrow enough to purchase food and other basic necessities. The lack of adequate credit facilities in Kenya’s rural areas is a significant obstacle to building rural financial market. The Kenya Government has since the early 1990s shown an interest in the development of small business enterprises. It has been aided by donors such as the World Bank, UNDP, USAID, the European Union, Ford Foundation and CIDA. Furthermore, the Kenyan commercial banking sector has started focusing on micro-enterprises and major banks, the Kenya Commercial Bank, Co-operative Bank and Barclays Bank have
developed credit schemes in this regard. There is a general consensus among clients especially the smaller business enterprises that credit from K-rep has resulted in improved incomes, increased output and growth in their businesses.

Microfinance is an economic development approach that involves providing financial services to low income clients. The target in microfinance is the poor people. The range of products provided by microfinance institutions include; credit and saving services. Other microfinance institutions provide social intermediation services such as training and education in line with their development objectives. The poor use the credit obtained not only for business investment in their micro-enterprises but also in health, education, to manage household emergencies and to meet the wide variety of other financial needs that they encounter.

To start a new business or run existing businesses requires financing. According to Paulson and Townsend (2004), even with entrepreneurial ability, poorer households are less likely to start new businesses. This is because of the financial constraints they face from money lenders particularly the high interest rates they charge. They argue that there should be a way forward. They identify money lenders as being exploitative, but worry that squeezing them out will make matters worse for rural folks. They propose setting up microfinance institutions as a way to fill the gap between money lenders and the poor.

One of the most important facts is that raising the interest rate charged on loans does
not always improve business for banks working in poor communities. It can be an impediment to a commercial bank trying to expand access to its services. The bank’s profitability can also be undermined if interest rates are raised because fewer loans are taken and of those taken, repayment problems are higher. Commercial banks avoid places where collateral is scarce and operating costs are high. Even without microfinance, poor household lack of collateral does not mean a complete lack of access to financial services, on the contrary, poor households typically have multiple credit sources in village economies, as well as an informal way to save. In a survey carried out in rural Indonesia, Mosley (1996) reports that as many as 70% of the households interviewed borrowed from informal lenders. These informal alternatives exist in such forms as family loans, savings clubs, money lenders, and merry-go-round. They are usually limited by amount, rigidly administered or available only at exorbitant interest rates. Access to financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps or events such as floods or death in the family events that can push a poor family into destitution.

In some forums, the microfinance business is also called micro credit. The difference is no more than a mere terminology. The microfinance industry promotes the dual objective of sustainability of services and outreach to the very poor. When deciding to fund a specific Microfinance Institution (MFI), donors and other social investors in the sector consider both objectives but the relative importance varies among founders. Furthermore, many practitioners, donors and experts perceive a tradeoff between financial sustainability and outreach to the very poor. The microfinance
industry emerged in the 1970s as social innovators began to offer financial services to the working poor who were previously considered ‘un-bankable’ because of their lack of collateral. Given the opportunity, not only did the clients of MFI s expand their business and increase their incomes, but their high repayment rates demonstrated that the poor are capable of transforming their own lives given the chance. Gender issues also affect the extent of success of microfinance administration. The extent to which microfinance empowers women is controversial and people view it differently.

Those promoting microfinance for women see it as initiating a virtuous upward spiral of economic, social and political empowerment. While those who do not promote microfinance for women argue that some programmes may be disempowering. Therefore, they subject women to unpaid debt collectors for development agencies and increasing tension within the family Goets and Gupta (1996). Others argue that microfinance programme divert resources and or the attention of women themselves from other effective strategies for empowerment (Ebdon, 1995). Microfinance programmes have generally targeted women as clients. Women have proved to be more financially responsible. After taking loans, they have better repayments performance than men. The expansion of credit programme for women in Africa dates back to the mid-1980s but increased dramatically in the late 1990s and into the 21st century. By 1980s, gender lobbies within some governments and aid agencies were attempting to increase woman’s access to credit and savings within this wider context of poverty-targeted microfinance. The 1980s also saw a mushrooming of
government and NGOs sponsored income-generating programme for women particularly in the wake of Nairobi International Women Conference 1985.

Also, it has been shown that women are more likely than men to invest increased income in the household and family wellbeing. Perhaps most importantly, access to financial services can empower women to become more confident, more assertive, more likely to participate in family and community decision-making and better able to confront systematic gender inequities, but such empowerment is by no means automatic, as gender related issues are complex. Appropriate programme design can have a strong, positive effect on women's empowerment resulting in women owning more assets, having a more active role in family decisions and increasing investment in family welfare.

1.2 Statement of Problem

Financial services are not adequately available in Kenya (Kimotho, 2007). This is more particularly true in Meru South District. Non-availability is further compounded by the interest rates charged on loans by the main stream commercial banks. Second, the poor who need financial services more usually have no collateral which is a necessity to borrow loans from the mainstream banks. The result is inadequate financial services for small businesses in Meru South District and insufficient credit facilities that are important for economic development.

Inadequate availability of credit facilities from financial institutions inhibits growth
and expansion of small businesses. This is because means of financing small businesses in the rural areas are limited thus leaving small businesses with inadequate access of finance to expand or grow their businesses. Microfinance loans may be a way to bridge this gap by providing finances to the small businesses in the rural areas. When small businesses access microcredit from MFI is not clear they benefit from such loans. More particularly whether they expand their businesses or divert the loans for other uses.

The aim of this study was to investigate the impact of microfinance loans on the performance of small businesses. The study was to find out if they improve their sales and create more assets that will enable them to borrow more in future to expand their businesses.

1.3 Objective of the Study

The purpose of this study is to derive any correlation between provision of microfinance loans to small businesses and their performance in Meru South District.

1.3.1 Specific Objectives

i. Establish the nature of correlation between sales and MFI loans.

ii. To compute the correlation coefficient between sales and MFI.

iii Establish the amount of variance in sales explained by MFI loans.
1.4 Research Questions

i. What is the nature of correlation between sales and amount of MFI loans?

ii. What is the correlation coefficient between MFI loans and sales?

iii. What percentage of sales variance is explained by MFI loans?

1.5 Significance of the Study

This study will assist various stakeholders, in policy formulation and implementation in financial framework for provision of credit facilities to small businesses. These include; microfinance institutions, government in financial framework to provide credit facilities and other money lending institutions concerning the need to adopt and put emphasis to small lending on small businesses for economic development. This will enable such institutions to understand the impact of microcredit on small businesses so has to create a better asset base in order to have more borrowing ability in future. It will also provide important information to scholars and researchers as well as a foundation for further research.

1.6 Limitations

i. Microfinance is not very well-developed and thus the respondents are scattered. This may make it impossible to reach some respondents

ii. There may be some refusal by some respondents to give information concerning their businesses and income and this may bias the sample in a way that is not readily evident.

iii. Illiteracy level may affect the quality of data collected as some respondents may
1.7 Scope

The scope of this study will be small businesses that have acquired loans from K-rep, a microfinance institution that is currently in operation in Meru South District. This was chosen due to convenience of the researcher so as to save on finances and time. K-Rep is a microfinance institution in the district offering microfinance loans to small businesses.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

According to Sebta and Gregory (1996), microfinance is a small-scale financial service to clients that are economically active in various urban and rural areas. According to them, microfinance has been proven to be effective in fighting poverty by providing entrepreneurial activities and financing small businesses in both urban and rural areas. Microfinance activities are also associated with initiatives that result in a positive impact on social and human development, for example, studies have found they lead to positive changes in micro-enterprise output, assets, employment and income. In addition to these effects on the entrepreneurial activity of the poor, microfinance is being attributed to positive effects on issues such as household income, savings, children’s education, health and nutrition and women’s empowerment (Sebsta & Gregory, 1996).

By providing sustainable access to financial services for the working poor, a group which has been previously excluded from affordable source of credit and savings facilities that are secure convenient and liquid, microfinance programme demonstrates that the poor are credit worthy, a lesson for banks and development agencies alike.

Women feature prominently among the working poor. Microfinance is especially beneficial to them by:
(i) Leading to higher income that will help women to perform their reproductive role as brokers of health, nutrition and education of the household members.

(ii) Increasing women’s employment in micro-enterprises and improving the productivity of women’s income-generating activities and

(iii) Enhancing their self-confidence and status within the family as independent producers and providers of valuable cash resource to the household economy.

While microfinance is not a panacea to eradicate poverty, Juan Somavia, Chile’s Permanent Representative to the United Nations stated at the micro-credit summit in February 1997, that it is “a new and already tested tool for discovering new solution to an old and intractable problem”. He adds that:

What I like most about micro-credit is that it builds on age-old human instincts; the need to believe in ourselves and use our imagination to dare take risk all in pursuit of the most worthwhile of all causes- the advancement of yourself and community.

In many developing countries, poor rural households who are owners of small businesses face severe constraints when they seek credit from formal financial services such as those offered by banks. These services are often not available to those below the poverty line because of the bank requirement that loans be backed by collateral. Small businesses have limited or no collateral that is required by commercial banks to get loans for the businesses.

The banks also do not welcome the small amounts the poor want to save. As a result, the poor usually turn first to informal sources such as friends, relatives or
moneylenders, who loan them small amounts for short periods or to informal, indigenous institutions such as savings clubs and lending networks to borrow enough to purchase food and other basic necessities. These informal networks are frequently successful in assisting the poor household and small businesses to build up savings for investment that can help expand their businesses and lift them out of poverty. According to a survey carried out in Asia, Zeller and Sharma (1998), there are lessons that can be learnt from studying the relationship between the informal lenders and their poor clients. These include the following: First, a credible long-term relationship is key to enforcing loan repayment. The borrower will repay the loan if he or she expects to be able to borrow again in the future.

Second, financial services should be tailored to the demand pattern of the borrowers, for example farm loans that can only be used for seeds or fertilizer reduce the flexibility of household to make the use of loan, for example a farmer needs working capital to plant the seeds. More so decision making on loans granted should be made at the local level and institutions ought to have clear plans for loan recovery before lending begins. Lastly, saving services should be provided and incentives for managers of rural financial programme should be built into the programmes.

2.2 Innovations key to Financial Services for the Poor and Small Businesses

Recently, microfinance institution designed to serve the poor, such as the Grameen Bank in Bangladesh, have received wide attention, but these institutions depend on subsidies from national governments and international donors. Zeller & Sharma
(1998) argue that these subsidies represent good investments of public funds on two accounts; they enable services to be offered that the market place is not willing to provide on its own and they have been proven in the growth of small businesses and alleviate poverty.

Although excessive government interference and rigid regulations have suppressed innovation in financial services, liberalization of financial markets alone has not been able to trigger the kind of innovation that reduces transaction costs for the poor. Rural financial markets in developing countries have inherent problems that make investment risky and costly, clients are too scattered, rural clients all want to borrow at the same time (in the pre-harvest season) and to save immediately after the harvest and the poor own few assets to secure loans. Private sector financial institutions are reluctant to take on these risks. In the long run, however, innovation that improves the usefulness of these institutions to the rural poor will also, improve the efficiency and sustainability of rural financial programmes.

2.3 Microfinance Loans and Women’s Empowerment

The expansion of credit programmes for women in Africa dates back to the mid-1980s but increased dramatically in the late 1990s and into the years after 2000. From 1950s poverty - targeted credit become an established part of many large - scale agricultural programme. In Zimbabwe, Cameroon and elsewhere saving clubs and credit unions were set up for women and men by missionaries’ (Mayoux 1998). By 1980s, gender lobbies within some governments and aid agencies were
attempting to increase women’s access to credit and savings within this wider context of poverty – targeted microfinance to start and expand small businesses.

Microfinance is seen as contributing to building ‘social capital’ through developing and strengthening women’s networks. This building of ‘social capital’ is then seen as potentially leading to women’s collective empowerment. It is further assumed that support for female entrepreneurs will increase women’s employment more generally tapping underutilized resources for economic development. Downing (1991). These mutually reinforcing spirals of empowerment are assured to result from access to microfinance *per se* without explicit strategies to address other dimensions of poverty or gender subordination.

The promotion of microfinance programs for women has become increasingly controversial and therefore there arise a number of underlying different models of microfinance provision. These include the following:

- *The poverty alleviation model* – this model is espoused by many NGOs and sees microfinance as part of an integrated development programme where the main aim is poverty alleviation and institutionally sustained community development. The concern here is not so much with micro-enterprise and individual income but with decreased household vulnerability to fluctuations of income and to crisis. Microfinance programmes are also seen as an entry point or complement community development programmes like literacy, health
and family planning. Although gender subordination is recognized as an issue, the focus is on assistance to households on the assumption that the household is a locus of mutually synergistic interests.

- **The feminist empowerment model** – this model is promoted by gender lobbies within some donor agencies and NGOs take inspiration from international women’s movement and sees women’s empowerment is an end in itself. Gender subordination is seen as a complex, multidimensional and all pervasive process, affecting all aspects of women’s lives and embedded at many different mutually reinforcing levels, individual consciousness, the household, work, legislation, state structures and international economic and political systems.

- **The financial self-sustainability model** – this model emphasis in increasing women’s access to financially self-sustainable microfinance provision.

Microfinance loans together with appropriate complementary services like business training and training in new skills is seen as leading to economic empowerment defined largely in terms of women control over income, changes in gender roles in production and increased control of productive resources. Although access to microfinance from Kenya rural enterprise programme (K-rep) and Care Kenya, for women has been made possible through different programmes, evidence indicates there are still continuing widespread barriers to women’s access in many programme. This is partly because of regulations in many mixed-sex programme e.g. collateral
requirements or targeting of services to particular activities where men predominate or have an advantage and/or opposition of female programme members ACORD (1996). Even in women only or women targeted programme women were being prevented from participating because of opposition from husbands and/or requirements for husband’s signature in loan application (Kamaragi, 1997).

2.4 The Relationship Within the Household in Income Contribution

Microfinance loans and programs have contributed to some changes in gender roles. When women who previously had no access to income set up economic activities, which include small and microenterprises, particularly where they are involved in marketing, it leads to significant changes in women’s mobility and knowledge of the world outside the household.

Participation in savings and credit grouping may also bring together women who did not previously know each other and a forum for discussion of business management and new opportunities. The degree to which microfinance programme increase networks cannot be assumed and ways in which networks can be enhanced must be strategically planned. The contribution to networks is likely to be extremely limited where group sizes are reduced and limited to women who already know each other in order to maximize repayment pressures, unless there are explicit strategies to develop networking, for example in K-Rep primary loan groups largely replicate existing networks and sharing of knowledge and skills mainly take place at secondary levels for group representatives where women are under-represented (Buckley, 1996).
2.5 The Millennium Development Goals (MGDs)

Seven years ago, leaders from 189 countries agreed on a vision for the future. They agreed to create a world in which developed and developing countries work in partnership for the betterment of all. This vision took the shape of eight millennium development goals which are providing countries around the world a framework for development and time bound targets by which progress can be measured. The millennium development goals are eight goals to be achieved by 2015 that respond to the world’s main development challenges. The MDGs are drawn from the action and target contained in millennium declaration that was adopted by 189 nations and signed by 147 heads of state and governments during the UN millennium summit in September 2000. The eight MDGs include eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS malaria and other diseases, ensure environmental sustainability and develop global partnership for development.

Annual report (2007) from Department for International Development indicates that progress towards the MDGs has been significant since the year 2000 but unequal across the world. It indicates that China for example has made huge strides in many of the goals although child mortality and combating HIV and other diseases remain a challenge. This report indicates that there is a general progress in some goals but lagging in majority of the goals. Sub-Saharan Africa is particularly off track to meet
any of the targets by 2015.

Majority of the poor are women due to unequal status in all societies. Lack of access to resources, employment opportunities and women empowerment are key factors contributing to their poverty. There is increased recognition that progress is lagging in those MDGs which depend most closely on improvement in status and rights of women. Therefore, gender equality and women empowerment are essential to achievement of the MDGs.

2.6 Conceptual Framework

Microfinance loans to small businesses increase the capital for the business. This will give the business more cash flow which enables them to buy in bulk, that is in large quantities thus able to get quantity and cash discounts. These discounts that are offered to the business are extended to the consumers by giving them lower price which lead to more sales for the business. More sales for the business lead to increase in sales turnover and thus more profit for the business. Increased profits will lead to business expansion.
Figure 2.1 Micro-finance loans increase capital for small businesses.

Microfinance loans (financial services from MFI given to small businesses not exceeding ksh 100,000).

Sales performance, the nature of sale after the loan will be used to measure the performance of the loan to small businesses.

Independent Variable  

Dependent variable

Source: Researcher (2008)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

The research design for this proposal was descriptive. The descriptive research design has the capability of investigating the casual relationship between variables and give additional information concerning variables of interest. In this respect, descriptive statistics, mainly measure of central tendency, frequencies, proportions and standard deviations were used.

3.2 The Target Population

The population of the study consisted of all small businesses who had acquired loan from Kenya Rural Enterprising Programme (K-Rep) in Meru South District. This is a microfinance institution that is active in Meru South District as at the year 2008. A list of these small businesses who have borrowed money will be availed by the microfinance institution (K-Rep). The total number of small businesses who had borrowed loans as at the year 2008 was 220. This constituted the target population for this study.

3.3 Sampling Techniques

Systematic random sampling method was used. The systematic random sampling involved selecting the fifth name of the business successively from a list of names of the businesses under study. This was done until a number of forty respondents are attained. The list of the names of these businesses in the sampling frame was
3.4 Sample Size

According to Mugenda and Mugenda quoting Gay (1982), for a descriptive studies, ten percent of accessible population is enough. Therefore, in this case a sample size of 40 small businesses who had borrowed microfinance loans was considered.

3.5 Research Instruments

The research instrument used in the study were structured open and closed-ended questionnaire. According to Koul (1984: 140), a questionnaire is a device comprising a series of questions dealing with some psychological social, educational topics sent or given to an individual or group of individuals with a purpose of obtaining data with regard to the problem under investigation. Also, a questionnaire provides cheap means of collecting data from a large number of study population.

3.6 Pilot Study

The research instrument was pretested to establish their validity and reliability. The researcher sought expert advice from the supervisor. Any ambiguities detected in the questionnaire were corrected before actual administration to the sampled respondents.

3.6.1 Validity

Orodho (2004:184) defines validity as the degree to which a test measures what it
purports to measure. Mugenda and Mugenda (1999:99) quoting Gay (1982) define validity as the degree to which results obtained from data analysis actually represent the phenomenon under study.

3.6.2 Reliability

Mugenda and Mugenda (1999:95) posit that reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of the research instrument was assessed using the split half method whereby the test was divided into two equivalent halves and scores of one half correlated with those of the other half (Koul, 1984)

3.7 Data Collection

Primary data were collected using a questionnaire. The questionnaire was administered by the researcher with the help of research assistants. Both open-ended and closed-ended questionnaires were used so as to capture a wide variety of information from respondents. Secondary data was sought from the available research reports and other documented sources kept by microfinance institutions.

3.8 Data Analysis

Descriptive and inferential statistics were used. These were used to describe and summarize the basic features of the data in the study, whereas the inferential statistics were used to infer the sample results to the population. The Statistical Package for Social Sciences (SPSS) and Microsoft Excel were used to analyze the data to obtain
frequency tables, percentage frequencies, mean, range, pie charts and bar graphs. Open-ended questions were coded by grouping responses according to recurring themes.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.0 Introduction

This study probed the impact of microfinance loans on the performance of small businesses in Meru South District.

4.1 Sample Characteristics of Respondents

A total of forty one respondents participated in this study (n = 41). Twenty (48.8%) of the respondents were male while 21 (51.2%) were female (Fig. 4.1).

Fig. 4.1: Gender
More than half of the respondents 22 (53.7%) had attained secondary of education, 4 (9.8%) above secondary, 14 (34.1%) primary and 1 (2.4%) non-formal education. Mean level of education = 2.71, Range = 3, Median = 3.00, SD = 0.680 (Fig. 4.2).

Fig. 4.2: Educational Level

The respondents operated diverse types of businesses ranging from grocery 8 (19.5%), hotel/kiosk 6 (14.6%), hardware 1 (2.4%), butchery 2 (4.9%), farming 6 (14.6%), shop 6 (14.6%), saloon 3 (7.3%), shoe maker 1 (2.4%), jua kali 2 (4.9%), mechanics 2 (4.9%), photography 1 (2.4%), boutique 1 (2.4%), transport 1 (2.4%) and bar/restaurant 1 (2.4%) (Table 4.1).
Table 4.1: Type of Business

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>8</td>
<td>19.5</td>
</tr>
<tr>
<td>Hotel/Kiosk</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Hardware</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Butchery</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Farming</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Shop</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Saloon</td>
<td>3</td>
<td>7.3</td>
</tr>
<tr>
<td>Shoe maker</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Jua Kali</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Mechanics</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Photography</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Boutique</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Transport</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Bar/restaurant</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Nearly half of the businesses 20 (48.8%) had operated for 3-5 years while the rest 6 (14.6%) 1.2 years, 3 (7.3%) 6-8 years, 11 (26.8%) very old and 1 (2.4%) did not comment (Fig. 4.3).

Fig. 4.3 Age of Business
4.2 The Nature of Correlation Between Sales and MFI Loans

More than fifty percent of the respondents 23 (56.1%) indicated that they had borrowed between 50,000-100,000 from MFIs, 9 (22%) borrowed between 10,000-25,000, 7 (17.1%) borrowed between 30,000-45,000 while only 2 (4.9%) had borrowed between 150,000-300,000 (Table 4.2).

Table 4.2: Borrowed Money

<table>
<thead>
<tr>
<th>Borrowed money</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000-25,000</td>
<td>9</td>
<td>22.0</td>
</tr>
<tr>
<td>30,000-45,000</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td>50,000-100,000</td>
<td>23</td>
<td>56.1</td>
</tr>
<tr>
<td>150,000-300,000</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Most of the respondents 29 (70.7%) indicated that they used borrowed funds from MFIs primarily on regular and constant part of personal/business financing, 5 (12.2%) spent it on cyclical personal/business financing, 5 (12.2%) spent on seasonal personal/business financing while the rest 2 (4.9%) used it on non-spontaneous needs (Table 4.3).
Table 4.3: Primary Use of Funds

<table>
<thead>
<tr>
<th>Primary use for funds</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular personal/business</td>
<td>29</td>
<td>70.7</td>
</tr>
<tr>
<td>financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyclical personal/business</td>
<td>5</td>
<td>12.2</td>
</tr>
<tr>
<td>financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seasonal personal/business</td>
<td>5</td>
<td>12.2</td>
</tr>
<tr>
<td>financing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-spontaneous needs</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Nearly all the respondents 40 (97.6%) indicated that the best overall description of the loans that they obtain from MFI is simple interest loans while 1 (2.4%) said others (Fig. 4.4).

Fig. 4.4: Overall Loans from MFI
Majority of the respondents indicated that the loans they obtain from MFIs always required collateral, 2 (4.9%) said occasional collateral, 7 (17.1%) non-collateral loans and 1 (2.4%) did not comment (Table 4.5).

Table 4.5: Collateral Loans

<table>
<thead>
<tr>
<th>Collateral loans</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-collateral loans</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td>Occasional collateral loans</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Always required collateral loans</td>
<td>31</td>
<td>75.6</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Most of the respondents 39 (95.1%) estimated their annual interest rate on loans obtained from MFIs at between 10%-19.9% while the rest 2 (4.9%) said it was between 20%-29.9%) (Table 4.6).

Table 4.6: Estimated annual Interest Rate

<table>
<thead>
<tr>
<th>Estimated Annual Interest Rate</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 10%-19%</td>
<td>39</td>
<td>95.1</td>
</tr>
<tr>
<td>Between 20%-29.9%</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100</td>
</tr>
</tbody>
</table>

Fifteen (36.6%) of the respondents indicated that what they liked most about MFI financing is efficient service delivery, 3 (7.3%) said weekly payments/short period, 8
(19.5%) lower savings/low interest, 2 (4.9%) simple interest rates, 2 (4.9%) loan poor people, 2 (2.9%) high interest rate and 9 (22%) easy access than banks (Table 4.6).

Table 4.7: Liked Things About MFI Financing

<table>
<thead>
<tr>
<th>Liked things about MFI financing</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly payments/short period</td>
<td>3</td>
<td>7.3</td>
</tr>
<tr>
<td>Lower savings/low interest</td>
<td>8</td>
<td>19.5</td>
</tr>
<tr>
<td>Efficient service delivery</td>
<td>15</td>
<td>36.6</td>
</tr>
<tr>
<td>Simple interest rates</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Loan poor people</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>High interest rate</td>
<td>2</td>
<td>4.9</td>
</tr>
<tr>
<td>Easy access than banks</td>
<td>9</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Twelve respondents indicated that what they dislike most about MFI financing was weekly meetings and payments, 9 (22%) high interest, 4 (9.8%) no individual loan, 4 (9.8%) group guaranteeing/forfeiture, 3 (97.3%) delay of cheque processing, 2 (4.95) lower grace period/lower savings while 4 (9.85) had nothing to complain about MFIs.

4.3 The Amount of Variance in Sales Explained by MFI Loans

More than half of the respondents 22 (53.7%) indicated that sales revenue of their business increased after MFI loan, 16 (39%) strongly agree while 3 (7.3%) strongly disagree (Fig. 4.5).
Increased revenue after MFI loan

- Strongly agree: 39.0%
- Strongly disagree: 7.3%
- Agree: 53.7%

Fig. 4.5: Increased Revenue After MFI Loan
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary, conclusions and recommendations on the impact of microfinance loans on the performance of small businesses in Meru South District.

5.1 Summary

This study examined the impact of microfinance loans on the performance of small businesses in Meru South District using descriptive study design. Data was collected from both primary and secondary sources. Primary data were collected using self-administered questionnaires. Secondary sources included libraries and other documented sources kept by microfinance institutions. Data were analysed using Statistical Package for Social Sciences (SPSS) to obtain frequency tables, percentage frequencies, mean, range, bar graphs and pie charts.

A sample of forty one respondents operating diverse types of businesses participated in the study. The study established that more than fifty percent of the respondents had borrowed between Kshs. 50,000-100,000 from MFIs. It emerged that most of the respondents used borrowed funds from MFIs primarily on regular and constant part of personal/business financing. Majority of the respondents indicated that the loans they obtain from MFIs always required collateral and attracted an annual interest rate at between 10%-19.9%. MFI financing is liked because of efficient service delivery, weekly payments/short period, lower savings/low interest, simple interest rates, loans
to poor people and easily accessed compared to banks. Some respondents dislike MFI financing because of weekly meetings and payments, high interest, no individual loan, group guaranteeing/forfeiture, delay of cheque processing and lower grace period/lower savings. Overall, more than half of the respondents indicated that sales revenue of their business increased after MFI loan.

5.2 Conclusions

Access to capital for startup and expansion is extremely important for small businesses in Meru South District. Micro-Finance Institutions (MFIs) have emerged valuable sources of capital especially for those segments of the society that are locked out by mainstream banks on claims of being uncreditworth. Indeed, those small businesses that were able to obtain MFI loans reported increased sales revenue. Therefore, more efforts are required to enable more people to access MFIs credit facility in Meru South District.

5.3 Recommendations

Based on the findings the following recommendations can be made:

1. There is need to bolster the coverage of MFIs in Meru South District.
2. The interest rates charged by MFIs should be reduced to encourage more people in Meru South District to obtain MFI loans.
3. Collateral should be discouraged as a basis for awarding MFI loans.
4. The public should be sensitized on the availability of MFI loans.
References


APPENDIX 1

INTRODUCTION LETTER

I am a postgraduate student at Kenyatta University pursuing a Master’s degree in Business Administration. I am carrying out a research on “An investigation into the impact of microfinance loans on performance of small businesses”. A Case study of Meru- South District. The questionnaire is to elicit information which will be useful in the above mentioned research as part of Master of Business Administration degree requirements. You have been selected as one of the respondents in this study. The information supplied will be used strictly on academic purpose only and will be treated with utmost confidentiality.

Your co-operation will be highly appreciated.

Thank you,

Kenneth Mutuiri Nthuni
APPENDIX 11

Questionnaire for Small Business Enterprises

Please provide the answers in the space provided by ticking where necessary and where others is provided please specify.

1. Name ...............................................................................................................

2. Gender
   Male [ ]
   Female [ ]

3. What is your education level?
   No formal education [ ]
   Primary level [ ]
   Secondary level [ ]
   Above secondary level [ ]

4. What type of business do you operate? .........................................................

5. How old is the business? ..............................................................................

6. How much money have you borrowed from MFI? Kshs..............................

7. With respect to the loans from MFI what is your primary use for these funds?
   a) Regular and constant part of total personal/business financing [ ]
   b) Cyclical part of personal/business financing [ ]
   c) Seasonal part of personal/business financing [ ]
   d) Nonspontaneous need as it arises [ ]
   e) other (please specify)..................................................................................

8. Which of the following best describes overall the loans which you obtain from
MFI?

a) Simple interest loans [ ]
b) Discounted loans [ ]
c) Loans with compensating balances [ ]
d) Others (please specify) ........................................

9. To what extent is collateral a part of your loans?

a) Loans never require collateral [ ]
b) Loans occasionally require collateral [ ]
c) Loans always require collateral [ ]

10. What do you estimate to be the annual interest rate on loans obtained from MFI?
choose one

a) Less than 10 % [ ]
b) 10 % - 19.9 % [ ]
c) 20 % - 29.9 % [ ]
d) Greater than 30 % [ ]

11. What things do you like most about MFI financing? ..........................................................

12. What things do you dislike most about MFI financing ..........................

13. To what extent do you agree with the following: The sales revenue of my business increased after MFI loan? 1 2 3 4.
Circle only one, where 1=strongly disagree  2=disagree  3=agree  4=strongly agree