The effects of the microfinance institutions on small scale business growth: a survey of Uasin-Gishu County, Kenya

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ABSTRACT

Kenya’s economic growth and development agenda depends on donor funding. The recent world wide recession and the stringent measures of awarding credit by the major banks to the low-income earners need not to over emphasize the importance and crucial role of micro-finance institutions in Kenya to the growth of small business enterprises. The reduction of the donor funding to MFI’s has drastically affected its operations and expansions and thus it’s continuous involvement with small business enterprise operations and activities in Uasin-Gishu County. The study sought to evaluate the effects of MFI’s as a microfinance institution on small scale enterprise’s growth in Uasin-Gishu County. The study adopted a survey research design and targeted a population of 285, while simple random sampling was used to select 50 respondents. Questionnaires were administered by the researcher to the selected client groups while an interview schedule was used to collect information from the MFI’s management. The data collected was analyzed using descriptive and inferential statistics. The study findings showed that MFI’s plays a very crucial role in the growth of small business enterprise in the division and to further ascertain this claim a modified Evans Growth Model was conducted to examine the effects of MFI’s on small business growth. Level of education, training, gender, monitoring and evaluation, meeting with client groups were found to significantly influence small business enterprises growth. The result has implications for the role microfinance institutions in economics development, small business growth and poverty alleviation in Kenya.

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been given a lot of emphasis since the ILO’s (1972) “discovery” of Kenya Informal sector, numerous studies and assistance programmes have emerged. The small enterprise is vital to African development because of their potential in both employment and productivity. Also small enterprises are more efficient in total resources use than larger ones most notably in sectors where the predominant (Young, 1994).

Small-scale enterprises account for over 20 percent of Africa’s GDP, while providing 60 – 70 percent of employment. To the African countries small enterprises are important contributors of GDP as a source of jobs, Income and social services. Besides, they provide a training ground for human development. All these factors combine to make the informal services. Besides, they provide training ground for human development. All these factors combine to make the informal sector an important tool for poverty alleviation (Liedham, 1990).

Small-scale enterprises will have a major role in creating employment for the expanding labour force from approximately 11 million potential workers in potential workers in 1992 to 18 million workers by the year 2002. Even under the most favorable conditions this task will take extraordinary efforts. Given the current status and potential capacity of the sector, more private sector involvement is needed if the above mentioned employment goals are to be realized (Onyango, 1993) Atieno (2000) on factors affecting the performance of small scale enterprises growth, a variation of the Evans Growth Model (Evans 1987) was used as shown below in the equation.

\[ G_A = f(X_1, X_2, X_3) \]

Where \( G_A \) represents growth in assets, \( X_1 \), represent entrepreneurs characteristics \( X_2 \), represent enterprise characteristics and \( X_3 \) represent interventions services offered by the microfinance institution. The intervention services are training, monitoring and evaluation of credit usage, Bookkeeping counseling and recording and meeting with the client groups. Small business’s average growth rate was computed as the change in value of business assets between 2006 and 2010.

An ordinary least square of the form was fitted:

\[ Y = \beta_0 + a_1 x_1 + a_2 x_2 + a_3 x_3 + a_4 x_4 + e \]

Where :

- \( Y \) = Enterprise growth
- \( \beta_0 \) = Beta, is the \( Y \) intercept
- \( a_1, a_2, a_3, a_4 \) = They represent net changes in each independent unit.
- \( X_1, X_2, X_3, X_4 \) = Represents training, meeting with clients, bookkeeping counseling, Monitoring skills.
- \( e \) = Error term

Assets were determined to be a better indicator for growth than stock, income or employees since most of the businesses did not record any significant increase in the number of employees, and accounting for small businesses income and stock may not be standardized across the sector.

**Results**

To test the research hypothesis, multiple regression analysis was done. The results of regressing the four independent variables against growth (change in assets value) can be seen in the output in table 1 and 2.

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.803(a)</td>
<td>.644</td>
<td>.546</td>
<td>.58</td>
</tr>
</tbody>
</table>

The results of the four independent (Intervening services) variables entered into the regression model shown R(.803) as the correlation of the four independent variables with dependent variable, after all the intercorrelations among the four independent variables were taken into account. In the model summary table, the R square (.644), which is the explain variance is actually the square of the multiple R (.803). The ANOVA table shows that the F value of 6.555 is significant at .0001 level.

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**Table 2: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Std. Error of the Coefficient</th>
<th>Beta</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.285</td>
<td>.699</td>
<td>1.408</td>
<td>.86</td>
</tr>
<tr>
<td></td>
<td>training on pre-loan and post-loan</td>
<td>3.386</td>
<td>1.59</td>
<td>3.45</td>
<td>2.431</td>
</tr>
<tr>
<td></td>
<td>book keeping counseling and recording</td>
<td>3.36</td>
<td>1.13</td>
<td>3.99</td>
<td>2.977</td>
</tr>
<tr>
<td></td>
<td>meetings with clients groups</td>
<td>2.97</td>
<td>1.08</td>
<td>3.65</td>
<td>2.759</td>
</tr>
<tr>
<td></td>
<td>SMEP monitor utilization of loans</td>
<td>2.94</td>
<td>1.98</td>
<td>1.98</td>
<td>3.489</td>
</tr>
</tbody>
</table>

A Dependent Variable: Changes made on the value of assets

From the significance tailed \( p=0.000 \) which is \( < 0.05 \) and lower than 0.1, where level of significance ( \( \alpha = 0.05 \) ), it shows that there is a direct association between intervention services and growth of small and micro enterprises in Uasin-Gishu County. The \( R=0.803 \) and \( R^2=.644 \) this implies that for every percentage increase in the intervention services it explains 64.4% improvement in growth of small scale enterprises.

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The ANOVA table shows that the F value of 6.555 is significant at .0001 level. In the df (degree of freedom) on the same table, the first number represents the number of independent variables (4), the second number (37) represents the total number of complete responses. What the results mean is that 64.4% of the variance (R square) in the enterprise growth has been significantly explained by the four independent variables (Intervention services).Thus the research hypothesis is sustained. The next table title coefficient helps one to see which among the four independent variables influences most the enterprise growth. In the column Beta under standardized coefficients, the highest number in the beta is -.399 for bookkeeping counseling and recording which is also significant. The negative beta weight indicates that if growth of the enterprises is to be enhanced, it is necessary to reduce bookkeeping and recording exercises with the small business entrepreneurs. Under the same column of standardized coefficients in the beta, positive .345 for training on pre and post loan which was also significant at .0001 has the greatest effect to the enterprise growth, and hence to achieve the highest growth training should be undertaken regularly.

Conclusion

Descriptive results show that most of owners are male, are fairly young, are married, and have a relatively high education. Most of these businesses are in the micro category with between one and four employees, with dominant mode of ownership being sole proprietorship. On average these enterprises recorded significant growth under the period they received funds from the MFI’s.

Majority of the businesses in Uasin-Gishu County under MFI’s are service oriented businesses and most of them joined the main stream MFI in the year 2009, it was also revealed that since the year 2006 there has been a steady increase in enrollment level of small businesses to MFI. Their reasons for joining MFI’s were because it encourages savings to its members and avails loan/credit to them. MFI’s has influenced small business because there has been increase in number of employees and stock level. According to study findings the small businesses feel that system of awarding loans and credit may not be the most efficient way to develop competent membership and the system of evaluating client’s creditworthiness with MFI’s should be made more practical.

Since the small businesses joined MFI’s they have experienced increase in stock level an indication that they have grown with most of them terming MFI’s programme as very effective. Most of the small business enterprises applied loan in the year 2008 and it took them a period of two weeks to get the loan with majority of them taking loan category of 20,000-40,000 but most of them feel that interest charged on this loan was too high.

Majority of small business in kesses division are survival small enterprises. Business development services are needed to transform those with potential into dynamic growth-oriented enterprise. Hence, enterprise development policies should encourage the progressive expansion of enterprises; the support services for entrepreneurship development should be enhanced. Support services should be better focused on training needs, market identification and product development, financing options, possibilities for networking, locally and generally providing comprehensive services that recognize the different capacities and needs of different sized enterprises.

Location of the business according to the study findings does not affect MFI’s loan accessibility and location of business does not affect their accessibility. The MFI’s agreed that they should be a member of a registered group to access loan and it takes up to a year to repay the loan. The MFI’s monitors’ funds utilization and it gives its members loan under loan programme.

Some of the challenges faced by businesses in accessing loan from MFI’s were the time taken in loans being long and also the amount of paperwork involved in loan application process being too much. According to hypothesis testing the findings revealed that there indeed an association between intervention services by MFI’s and growth of small and micro enterprises as well as in employees development. Monitoring and evaluation of intervention services with MFI’s suggests that such programs alone are not sufficient placing emphasis on key reforms and deregulations to eliminate the bias in existing policies may not be sufficient. The effectiveness of interventions-oriented approaches to small businesses promotion is strongly influenced by government policies.

The way forward

Due to the modern changing environment in terms of technology, economics factors and politics MFI’s should provide flexible loan product which would be adoptable with changing economics conditions. Enhance the need for the SME’s to register themselves into a recognized body with the government. The body could be the source of support to the SME’s in terms of protecting their interest, providing finances and delivering the much needed training and information needs for its members.

Small business entrepreneurs should be trained in skills that add value to their ability to run the business more efficiently. This should be done by the relevant MFI’s client’s officers or business development officers. For meaningful training to be achieved training assessment be carried out to know in exactly which area an entrepreneur require further skills.

The MFI’s should design its loan products in a manner that would enhance the overall business operations of the small business enterprises for greater economic impact.

The government should intervene and resolve the underlying problems that inhibit activities of small businesses as they have a higher capacity to provide employment in the country. It should consider marketing strategies for Jua Kali manufactured goods in order to activate growth as the sector is currently reporting low growth rate. The study showed a very low percentage of manufacturing business enterprises; MFI’s should therefore give more fund s to the sector for its capable to create a high level of employment more than any other sectors. The study further recommendation based on the conclusion that, there is need for individual or client groups to consider the type of credit programs offered by the MFI’s and conditions attached to credit for maximum benefit. Therefore, there is need for the borrowing individual and the groups to consider their ability to repay the loan in determining the amount of credit that they can access from the MFI’s.

The study further recommends that MFI’s should be more aggressive if it wants to reach a larger population in the study area rather than concentrating on the established client groups.

The stakeholders need to be organized and committed to a common vision that supports the growth and development of Small businesses in Uasin-Gishu County. The Kenyan’s government development vision 2030 has placed pointers to
Small Businesses growth and development which would be conclusion to carrying along the majority of the people guided by the human development objective and poverty eradication in particular, promotes, democratic human, material and financial resources and promotes diversification of the economy consistent with the need to raise the level of productivity and competitiveness.

There is need to accelerate the process of preparing small businesses growth and development policies. In these new policies the government must focus on motivating private sector associations, chambers and local development institutions to pursue Small businesses growth and development efforts. These efforts will need to be grounded on a strong public-private sector partnership and a growing partnership among all the stakeholders in Small businesses undertaking.

There is need to create a more effective enabling business environment for the small businesses growth and development to enable all the actors to operate in the framework of a co-coordinated plan of action.

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