



## Finance Management

*Elixir Fin. Mgmt.* 56 (2013) 13402-13406

*Elixir*  
ISSN: 2229-712X

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

Kimutai Stephen Chelogoi\* and Akuku Caleb Nyagar  
Moi University, Kenya.

### ARTICLE INFO

#### Article history:

Received: 15 December 2012;

Received in revised form:

5 March 2013;

Accepted: 7 March 2013;

#### Keywords

Enterprise growth,  
Poverty alleviation,  
Microfinance.

### 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.

© 2013 Elixir All rights reserved.

### Introduction

Credit unions vary in their provision of savings and loans services to its clients who are usually low –income small and micro enterprises. There are also persistent differences between rural and urban areas and between the poor and the rich worldwide. In Kenya, rapid population growth and urbanization has contributed to negative economic growth, rampant unemployment and inflation. With fewer opportunities and lower remuneration to employees, Kenyans are increasingly turning to various economics ventures to earn a living. Lack of capital, inequitable distributions of wealth, job insecurity, limited access to profitable markets, low real wages, lack of knowledge and skills are some of the problems facing Small and Micro Enterprises(SME's). Kenya's economic' development agenda largely remains that of pursuing a sustainable way of improving the main sectors of rural economy, small holders' agriculture, Manufacturing and SME's.

In the recent past Micro- finance lending institutions have been established in a number of countries as a means of mitigating the key constraints of sustainable access to financial resources by low income earners. Sabana (2004) said that in the late 1980's there was a shift of donor orientation and emphasis was placed on target group. This required that projects development should be designed and implemented in such manner that they would directly benefit the poor segment of the society. The success of some of the micro finance working with the poor, particularly in South East Asia has put micro- lending high on the agenda of many development agencies. Micro-credit or small loans to potential enterprises have received

widespread international attention in the recent past. Credit and savings services are therefore viewed by many as vehicle towards poverty eradication (Evans 1996). Onyuma (2000) viewed micro credit as a cost effective way of building on entrepreneurs' culture, enhancing domestic economic capacity, reducing poverty and unemployment.

The development of entrepreneurial mindset include the process of opportunity recognition, cognitive sources of business ideas, business idea maturation and factors that influence entrepreneur's frame of mindset concerning a business idea (Pech and Cameron 2006). Korir and Kibas (2007) argued that entrepreneurial behaviour can essentially be viewed as a three stage process beginning from development of entrepreneurial mindset and culminates in post start – up orientations.

While there is a rush towards the development of small enterprises as a panacea to poverty and unemployment in sub Sahara Africa (World Bank, 2000) and (Lundstorm, 2001). little effort has been made to understand the core dimensions of entrepreneurial success that include motivation, skill resources and opportunities structures Understanding the entrepreneur and their reasons to start up a business in the first place, are important inputs in the work of promoting entrepreneurship.

### Small Scale Enterprises in Economic Development

Most Governments in developing countries recognize the vital role played by the small scale enterprise sector in economic development and have implemented various policy and assistance programmes (ILO, 1972). Informal sector has been in existence for a long time. This is exhibited in terms of Job creation and alleviation of Poverty (GOK, 1992). In Kenya it has

Tele:

E-mail addresses: [stevechelo94@yahoo.com](mailto:stevechelo94@yahoo.com)

© 2013 Elixir All rights reserved

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 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 extra ordinary 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 business indicated that once a business is established, expansion is hampered by lack of funds and credit. Bank credit is simply not available for small scale operation because they usually don't have securities and administration cost of small loans is prohibitive.

**Method and Analysis**

Data was analyzed by the used of both descriptive and inferential statistics. Other statistical measures included variance analysis, standard deviation and simple regression correlation analysis, frequency distribution, percentage formed additional basis for techniques employed. To determine the role of SMEP on the 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:

$$Y (\text{Growth}) = \beta_0 + a_1X_1 + a_2X_2 + a_3X_3 + a_4X_4 + e$$

Where :

Y = Enterprise growth

$\beta_0$  = Beta, is the Y intercept

$a_{1...n}$  = They represents net changes in each independent unit.

$X_{1...n}$  = 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**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.803(a)	.644	.546		.58

a Predictors: (Constant), MFI's monitor utilization of loans, gender, credit program, book keeping counseling and recording, meetings with clients groups, collateral/security, level of education, training on pre-loan and post-loan

**Anova**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.558	8	2.195	6.558	.000
	Residual	9.705	29	.335		
	Total	27.263	37			

a Predictors: (Constant), MFI's monitoring utilization of loans, gender, credit program, book keeping counseling and recording, meetings with clients groups, collateral/security, level of education, training on pre-loan and post-loan

b Dependent Variable: Changes made on the value of assets

**Table 2: Coefficients**

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	-.285	.699		-.408	.686
	training on pre-loan and post-loan	.386	.159	.345	2.431	.021
	book keeping counseling and recording	-.336	.113	-.399	-2.977	.006
	meetings with clients groups	-.297	.108	-.365	-2.759	.010
	SMEP monitor utilization of loans	.294	.198	.198	1.489	.147

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.

The results of the four independent (Intervening services) variables that were 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.

The results of the four independent (Intervening services) variables that were 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.

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 efficiency. 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 funds 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 promoters 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-ordinated plan of action.

#### Reference

- Abuodha, C and King, K (1991) *The building of an industrial society: change and development in Kenya informal sector*. IDS Discussion paper No 292 University of Nairobi, Kenya.
- Awasthi, N, and Murali, B.P. (1990) *Entrepreneurship Development and New Enterprise Creation, experience of the Entrepreneurship Development Institute of India*, ILO- Geneva
- Birks, S. (1989) "Education and Training for Skills and income in the urban Informal sector in sub-Saharan Africa" – The case of Ibadan, Nigeria, Durban; Mt. Joy Research Centre.
- Cheptoo, E.K. (2005) "The impact of Informal Credit on the Performance of the small and medium scale Enterprise in Eldoret Town", Unpublished MBA project, Moi University, Eldoret.
- Central Bank of Kenya (2000) "Annual Report", CBK, Nairobi.
- Churchill, N.C and Lewis, V.L. (1983) The Five Stages of Small Business Growth. Harvard Business Review, May-June: 30-49
- Chuta, M.D (1979) "Dynamics of Micro and Small Enterprises Research Issues and Approaches", GEMINI Working Paper No 12.Maryland, Gemini
- Cohen, L and Marion, L (1980) *Research methods*, London Routledge
- Dondo, A.C. (1994) *Credit to the informal sector*, Approaches and program occasional paper N0 27 Nairobi, Kenya.
- Dondo, A.C. and Mutua K. (1990) "Informal Financial Markets in Kenya", K-REP Research Papers, KREP, Nairobi
- Dondo, A. C. (2000) "Microfinance in Kenya. An Overview", Kenya Rural Enterprises Programme, Nairobi
- Douglas R. S. and Terry, F. B (2001) "Development and the role of Micro credit", Policy studies Journal 29(2) s96-307. <http://www.blackwell-synergy.com> (accessed 24.06.09)
- Engelmann, R. (1993), "Jua Kali Development Project Management Training", Nairobi, KIM.
- Evans, D.S (1987) "Test of Alternative theories of Firm Growth" Journal of political Economy 95(4):657-674
- Evans, J (1996) "Bridging Australia's Capita Gap with Micro Credit", Available online at [www.gdrc.Org/icm/micro-credit](http://www.gdrc.Org/icm/micro-credit). Html (23.06.09)
- Felsestein, D, F, Muraya, A. and Schwartz, D. (1996), "Small scale Enterprises in Rural Kenya: Constraints and Perspectives"
- Gibbm A.A. (1991) *Defining Success in Entrepreneurship Development Programme*, A Guide to a model Approach, ILO, and Geneva.
- Harper, M. (1983) *Selection and Training for Entrepreneurship Development*. ILO, Geneva
- Hashemi, S (2004) "Microfinance and MDGS", [www.1d21.org/insights\(02.07.09\)](http://www.1d21.org/insights(02.07.09))
- Herbert, R. F and Link, A.N (1989) "In Search of the Meaning of Entrepreneurship" small Business Economics; Pp 39-49, Geneva ILO.
- Ikiara, G. K. and Killick, T (1981) "The Performance of Kenya's Economy Since Independence", Papers on the Kenya Economy .Heinemann Publishers, Nairobi Kenya
- International Labour Organization (1972) "Employment Income And Equality A Strategy For Increasing Productive Employment In Kenya" Geneva International Labour Office.
- Kaber, N and Mosley (2004) "The wider impacts of micro finance", [www.1d21.org/insights\(02:07:09\)](http://www.1d21.org/insights(02:07:09))
- Khamadi, S.I.D. (1993) "Using the Library and Writing Research Proposal Reports and Papers", Moi University: Eldoret.
- KIE (1990) Viwanda – Kenya Industrial Estates, Newsletter Issue III and IV, Pg 23, 28
- Kinyanyui, M. N (2001) "Employees in Small enterprises in Nairobi", Job search and career patters in Alila, East African Micro Enterprises, Asmara, Africa World Press: Inc
- Kinyanyui, M.N; McCormick, D and, Ongile. G (1997) "Growth in Barriers among Nairobi's Small and Medium Sized Garment Products", World Development 25(7):95-110
- K-REP (1995), *Employment and income in micro and small Enterprises in Kenya Results of a1995 survey* Research paper No 26
- Korir, K.M and Kibas, P.K. (2007) *Understanding Entrepreneurship and entrepreneurial behavior towards a three-stage process model*. African journal of business Economics, Eldoret Vo. 2, No. 1, pgs 1-5
- Lindsay, D. (1986). *Entrepreneurship Development in Kenya*. USAID – Nairobi.
- Mutesasira, L. (1999) "Use and Impact of Saving Services among the Poor in Uganda", Mimeo Prepared for micro save-Africa.
- McCormick, D. (1988) *Women in Small – Scale Manufacturing; The Case of Nairobi* Paper Presented at the conference held in Chicago on April, 7-9, 1988
- Ngethe, N.N and Wahome, A.J (1987) *The rural informal sector in Kenya*, Report of Survey Nyeri, Meru, Uasin-Gishu and Siaya Districts, IDS U.O.N consultancy Report No 5
- Nelson, R.E. and Ngiru, R.G (1987) "Training for Entrepreneurship", ILO Management Development Working Paper, Geneva ILO
- Nzomo, N.D. (1986) *Entrepreneurship development policy in national development planning: the Kenya case*, article-eastern African, economic review, vol, 2 No. PG 99.
- Oketch, H.O, (1991) "Credit and finance", in Mullei, Andrew and Bokea, crispin (eds) Micro and small Enterprises in Kenya: Agenda for improving the policy Environment, ICEG, and Nairobi Kenya for the ODA. Research project on education and training for the informal sector Nairobi Kenya
- Onyango, I.A (1983) "Contribution of the Sector", .London; RUNTLDGE
- Otero, M. and Rhyne, E (1994). The new world of Microfinance London, IT publications United Nations, (1997). *Kenya poverty Assessment*. World Bank Report No.13152-KE
- Page, J and Steel, W (1984) *Small Enterprise development Economic issues from African Experience*, World Bank Technical paper No 26 Washington D.C

- Parker, J. and Aleke – Dondo, C (1991) “Kibera’s small Enterprises sector: Baseline Survey Report: Kenya Rural Enterprise Programme K-REP research paper No.1 K-REP, Nairobi
- Parker, J.C and Torres, T.R (1993) “Micro and Small Enterprises in Kenya; Results of the 1993 National Baseline Survey” Kenya Rural Enterprises Programme: Nairobi
- Rashmi Dyal – Chand (2005) *Pitfalls of Micro-Lending* <http://www.boston.com>. (29:07:09)
- Republic of Kenya. (1989) “Strategy for small enterprises development in Kenya towards the year 2000.  
..... (1994) *Uasin Gishu Development Plan* (1994/1996), Nairobi; Government printers  
..... (1992) “Small Enterprises and Jua Kali Enterprises in Kenya; Sessional paper No.2 on small enterprise and Jua Kali development in Kenya, Nairobi; Government printers  
..... (1999) “Micro and Small Enterprise Policy Statement”, Ministry of Trade and Industry, Government Printer, Nairobi: Kenya  
..... (2001) “Poverty Reduction Strategy Paper-PRSR”, Government Printer, Nairobi: Kenya
- Tarus D.K. Tarno E. M and Lagat C.K (2006) *The role of micro-finance institutions in the growth and development in SME's: survey of Eldoret Town Kenya*. African journal of business Economics, Eldoret Vol 1 No.1, pgs 18-24
- Samuel, O., Thomas, K. C and Agatha, N.O (2007) “Debt a Tool for Monitoring and controlling Firms in Emerging Economics: The Kenyan Experience; A Publication of the School of Business and Economics Moi University, Eldoret: Kenya Vol 2, No 1,2007
- Von Pische, J.D. (1992) *The Exit Problem In Credit Project, Small Enterprise Development*. Vol 3, No 4
- Von Pische J.D, Adams D.W and Donald G. (1993) “Financial market in Developing Countries”, Baltimore, John Hopkins University Press for the Economics Institute of the World Bank
- World Bank (1978) *Appraisal of Small scale industrial project*, Kenya Washington, DC.
- World Bank (2001) “Engendering Development through Gender Equality in a Rights Resources and Voices”, World Bank Policy Research Report, Washington DC: Oxford University Press.
- World Bank (2004) *A Better investment climate for everyone*, World Development Report 2005
- Yunus, M, (1998) Micro-credit:<http://www.grameen.info.org> (06:07:09)