THE INFLUENCE OF MICROFINANCE INSTITUTIONS ON

PERFORMANCE OF SMALL AND MEDIUM SIZE ENERTPRISES: A CASE OF BOMET MUNICIPALITY-KENYA

BY

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DECLARATION

I hereby declare that this research project is my original work and that it has never been submitted to any learning institution for an award

Sign Date 27th October 2010

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Osore Moses Siring

The research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

This research project is dedicated to my dear parents Mr. & Mrs. Johnston Osore Siringi. Your love and sacrifice for education is beyond measure. Thank you very much and may the almighty God richly bless you.

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ABSTRACT

This paper is meant to examine the ways in which microfinance institutions contribute to the growth of small and medium size enterprises and hence poverty reduction. Specially, the paper draws on a case of Bomet municipality and the role of microfinance institutions in the development process and the access of small and medium size enterprises to formal finance, especially from the microfinance sector. A number of research priorities relating to the links among financial policy, small enterprise development and poverty reduction are identified for the immediate attention of researchers engaged in contributing to the achievement of the millennium development goal and eradicating global poverty by the year 2030.

The study used simple random sampling techniques in which a total of 150 small and medium size business enterprises responded to the structured and semi structured questionnaires and interview checklist. The data collected was analyzed and results presented in percentages, pie chart and bar graphs. The current capital value and interest income were used to determine the impact of microfinance institutions on performance of small and medium size enterprises before and after the acquisition of form of credit. The study confirmed that 87% of small and medium size enterprises accessed financial credit and 70% of them actually used them for business purposes. The study also confirmed that up to 72% had registered an increase in income even though 80% of them had not achieved their intended income growth. Faulu-Kenya Deposit taking Microfinance was the most accessible financing institution for small and medium size enterprises who sought financial support. The study confirmed that there was a relationship between financial credit and performance indicators of small and medium size enterprises.

It is recommended that micro financial institutions should be providing relevant training to SMEs on business management and also be following up on the performance of the SMEs performance that they do finance. The MFIs should also put in place mechanism to ensure that the loans given out are used for the intended business purposes. There should also be a book keeping training offered to the SME.

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CHAPTER ONE

INTRODUCTION

1.1 The background of the study

This chapter presents, the background of the study: statement of the problem: research objectives: research questions: significance of the study: assumptions of the study; scope of the study; limitations of the study and the conceptual framework.

In Kenya today we have over 15 microfinance institutions including other banks that offer micro lending services to small and medium size enterprises. Many of these institutions provide financial services to small and medium size enterprises all over the country.

In Bomet alone we have 8 microfinance services providers to small and medium size enterprises. Among these are five micro financial institutions which include Faulu Kenya, Kenya Women

Finance trust, Jamii Bora, Eclof, and Opportunity international. Also we have three major banks that provide micro lending and these are Kenya commercial bank, cooperative bank of Kenya and Equity Bank.

A close study at the visions and missions of all these financial providers is to provide financial solutions to small and medium size enterprises so as to help them grow and hence subsequently reducing poverty. However, in real life situations, you find so many small and medium size enterprises remaining in the same state or even collapsing and being unable to service the loans and consequently reducing growth and increasing poverty.

The main purpose of this study is to investigate the extend to which the micro finance institutions and lending services have influenced the growth of small and medium size enterprises and hence their role in poverty reduction.

In line with the purpose of this study, the main objective is to develop policies which micro financial services can employ in order to help small and medium size enterprises grow to their full potential from the loans that they give them in order to receive their expected income growth by all means. This may include proper policy implementation, to ensure that any loans disbursed to small and medium size investors are productive.

The main reason for this study is to help address the gap between the actual performance of small and medium size enterprises in comparison to the actual capacity that they can produce given the financial support that they receive. Once the gap is identified, the main causes for this gap will be investigated from the clients themselves so as to help MFIs come up with policies that can help their clients utilize their services very well and consequently benefit from them.

Two strands of recent literature in developing economies and finance are relevant. The first strand has generated a large body of impirical evidence which shows that financial sector development can make a significant contribution to economic growth (Levine & Demiurgic-Kunt, 2000; World Bank, 2001 a, Green et al, 2005). However, the exact nature of the relationships among financial sector development, economic growth and poverty reduction is less well understood (Green & Kirk Patrick 2002; DFID, 2004). The second strand has investigated the role of micro and small enterprise (MSEO) development in contributing to poverty reduction and the general achievement of the millennium development goals (MDGS)

1.2 Statement of the problem

Many SMEs do get financial help from many MFIs that exist within the county and even worldwide Bomet municipality not being an exemption. From a general point of view it is quite clear that many of these enterprises struggle during the repayment of their loans. The aim of financial support is to help in the growth of small scale enterprises. However, in real sense it appears as if very few among these enterprises grow to their targeted level of income. The exact impact of MFIs on the performance of SMEs is not yet quite clear and the main purpose of these study is to carry out an in-depth investigation to determine the exact effect of MFIs on the performance of SMEs growth and hence poverty reduction within Bomet municipality.

1.3 Research Objectives

The major objectives of this study were

1.0 To establish the major credit suppliers available to small and medium scale enterprises in Bomet municipality

2.0 To examine the influence of Pre-loan assessment and training on the performance of SMEs in Bomet

3.0 To determine the significant relationship between financial support on the performance of SMEs in terms of profit level, growth in capital base and the savings trend in general of SMEs in Bomet municipality

4.0 To examine the repayment culture of SMEs on loans awarded to them by MFIs within the municipality

1.4 Research questions

This study was guided by the following research question:

1. Who are the major credit suppliers available to SME in Bomet municipality
2. Do the SMEs that operate within Bomet municipality receive any pre-loan assessment and training

3. What is the significant relationship between financial support on the performance of SMEs in terms of profit levels, growth in capital base and the savings trends in general of the SME that operate within Bomet municipality
4. What is the repayment culture of SMEs on loans awarded to them by MFIs within Bomet municipality

1.5 Significance of the study

Given the international communities commitment of halving global poverty by the year 2015, it has been noted that today Kenya's informal sector contributes 98% of all business in the country. 98% of the businesses in the country are SME. These SMEs employ up to 50% of the workforce in the private sector. It is clear that growth of these SMEs contribute to even the growth of the economy at large.

The research findings from this study will help the MFIs to come up with policies that can ensure that in their lending decisions to their clients, they ensure the loans they give out are good loans that create the greatest impact on the performance of the SMEs and hence achieving the poverty reduction goals.

1.6 Assumptions of the study

1. SMEs that operate in Bomet municipality access their credit from established MFI's in Bomet district
2. SMEs in Bomet engage in legally recognized and acceptable activities
3. The sample of 150 SMEs is a representation of the whole population of 1500 registered SMEs under Bomet municipality

1.7 Scope of the Study

The study will be conducted in Bomet district and will be focused on the SMEs which have been in existence for at least ten years.

Since SMEs is very wide, this research will focus on SMEs such as tailors, milk vendors, retail shopkeepers, food kiosk owners, butchery owners, and Juakali mechanics. It is quite evidence that the impact of credit on SMEs performance on SMEs will be evident through interest income growth, increased capital base, increase in number of employees over time and the repayment culture of the loans given.

1.8 Limitations of the study

Difficulties in acquiring reliable data on income and expenditure will be evident especially where enterprises are not compelled by law to produce audited reports. Generally, entrepreneurs would normally tent to overestimate expenditure and underestimate their income for the fear of tax

1.9 Definition of terms

Microfinance Institution: These are the private sector lending organizations who offer credit facilities both long term and short term to small and medium scale enterprises

Small and medium scale sectors: These are businesses with at least one employee and utmost fifty employees

Capital base: This is the average stock value invested in small and medium scale enterprises

Interest Income: These include the profits received by the small and medium scale businesses

Interest income: These includes the profits received by the small and medium scale businesses

Savings: Includes the money left and put aside for future use after consumption and investment are subtracted from total income earned.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter basically reviews literature on the major credit suppliers available to small and medium scale enterprises, the influence of pre loan assessment and training on the performance of SMEs, the significant relationship between financial support and the performance of SEMs and the repayment culture of SMEs on loans awarded to them.

2.2 Major Credit Suppliers Available to Small and Medium Scale Sectors

Views about the way in which financial services should be provided to poor people have been changing in the last five years. Until recently, the dominant approach has been on the view that poor people lack the capital that will enable them to invest and engage in productive activity, in particular making use of their labor. In general, this view identifies capital constrains to growth as key cause of slow development. For about four decades since the early 1950's effort to provide credit schemes and NGO initiatives. Although initially such credit was usually targeted at the agricultural sector, often in the context of the introduction of new agricultural technologies, the approach started to take root in the informal enterprise sector in the mid-1970. at this time, research stared to demonstrate the importance of the informal sector as a source of employment and potential economic growth (Cook and Nixson, 2005). Subsequently, development interventions by donors and governments started to target credit to the informal sector. However, as shown by Murinde and Kariisa-Kasa (1997), the performance of the credit programs was generally found to be poor, in agriculture, state enterprise and NGO's.

The intellectual consensus after a world war 11, especially in the 1960's was that governments would intervene to provide direct credit to MSMEs. However, it was shown that government intervention in the financial sector led to financial repression and the attendant distortions in the credit markets (Murinde, 1996). The remedial policy, which came into force in the 1980's, was financial liberalization, which saw the lifting of the state intervention in the financial sector. Subsequently, the kiterature in the early 1990's started to examine the implications of financial liberalization for MSEs (Aryeetey, and Nissanke, 1998; Ryan, 2005). According to the mainstream finance theory, it was expected that financial liberalization would facilitate access to finance and thus reduce the transaction cost facing MSEs. However, the assumption that financial liberalization improves access to credit for MSEs does not stand up well to the experience of developing countries, while Dawson (1993) has found that formal sector credit was out of reach for smaller enterprises in Ghana and Tanzania. Moreover, Kariuki (1995) has shown that access to credit by Kenyan firms declined after liberalization due to higher nominal interest rates and increase in the other transaction costs. Further evidence shows that the small size of MSEs is serious impediment and enterprise have to grow in order to gain further access; in this context, Mejer and Pilgrim (1994) have found that in Bangladesh, Nepal, and Philippines only enterprises towards the upper end of the size distribution had viable access to formal sector finance.

2.3 Influence of Pre-Loan Assessment and Training on the Performance of SMEs

Recent cross country research on financial patterns has highlighted the differences across firms and countries in firms' access to external finance (Demirguc-Kunt and Maksimivik, 1999: Beck et, 2004). Better understanding on the impact that financial development can have on the access of firms of different sizes to external finance should help illuminate the important link between finance and poverty reduction. Preasad et al (2005) survey the relevant literature and conclude that financial policy, capita structure, and firm ownership are all strongly linked. The argument is that financial policy by firms requires managers to identify ways of funding new investment. The managers may exercise three main choices; use retained earnings, borrow through debt instruments, or issue new shares. Hence, standard capital structure of a firm includes retained earnings, debt and equity: these three components of capital structure reflect firm ownership structure in the sense that the first and third components reflect by shareholders while the second component represents ownership by debt holders. This is the patter found in the developing and developed countries a like (See La-porta et al., 1999).capital structure also affects corporate behavior (Hutton and Kenc, 1998). Thus, financial policy, capital structure, and firm ownership are strongly linked in explaining how households form and modify their asset- acquisition behavior through firms and capital markets and thereby influence their incomes and returns to asset holdings, whether in the forms of direct remuneration, capital gains or dividends.

In terms of SMEs, an attempt has been made to incorporate a number of non-traditional determinants of firm's capital structure decisions in study of some 2000 MSEs in Kenya, by Green et al. (2000). The determinants of the success rate of loan application are also investigated by considering a comprehensive range of nontraditional (heterodox) factors such as age of business, gender of owner, education of owner, skills of owner, ownership type (family or otherwise), ownership of land by entrepreneur, formality or non-formality of the business and record keeping and other practices of the business; factors which hitherto have not been used in the corporate finance literature but are important in understanding the special case of MSMEs in emerging markets such as Kenya. The results emphasize three major findings. First, MSEs in Kenya obtain debt from a wide variety of sources especially family and friends, but including also co-operatives, banks, ROSCAs, NGOs, and other financial institutions. Second, the debt equity and gearing decisions of MSEs and their success rates in loan applications can all understood by relatively simple models which include a mixture of conventional and heterodox variables that are linked to poverty reduction. Third, and in particular, measures of the tangibility of the owner's assets, and the owner's education and training have a significant positive impact on the probability of borrowing and of the gearing level. These findings have important policy implications for policy-markets and entrepreneurs of the SMEs in Kenya. As millunex and Murinde (2002) point out, good financial sector policies for enterprises development seem to promote growth in the household and business sectors. Moreover, as a King and Levine (1993 a, 1993 b) show, the growth of enterprises does strength the link between finance and growth, and directly encourages innovation and productivity-which are some of the basic elements of current poverty reduction strategies fourth, three is dome tentative evidence that the availability of credit for small businesses may have improved over time. Fifth and finally, the main key determinants of debt and loan screening decisions are a mixture of conventional and heterodox variables. Among the conventional variables, measures of the owner's assets and objective and subjective measures of income are particularly important, both in the debt and in the screening decisions. Among the more heterodox variables, the level of education and training of the owner have a significant positive impact on the probability of borrowing and of the resultant gearing level. These findings have important policy implications for policy markets and entrepreneurs of MSEs in Kenya; the socio economic (and non-traditional) variable which importantly determine the financial choices made by MSEs and linked to poverty reduction activities and could be further explored in that light. However, or the SMEs to shift from the informal to the formal sector and to gradually provide the foundation for a positive company sector, the presence of a capital market is necessary; specially, the stock market plays an important role in facilitating asset ownership by firms and households (See, Green et al 2002). Clearly, further research on these issues is necessary.

2.4 Significant relationships between financial support and the performance of SMEs

During the last 50years, considerable insight into the characteristics of small and medium size enterprises has been gained. Early literature, particularly Staley and Morse (1965), enhanced the conceptualization of the main characteristics of small and medium size enterprices and the pattern of growth of these enterprises. However, Anderson (1982) notes that there was lack of basic data on the management and characteristics of this enterprises. Industrial census tended to concentrate on large enterprises. Census of small and medium size entreprises were often non-existent or quite infrequent and published after a long delay. The lack of data hampered any attempts to undertake serious empirical work on measuring the characteristics of small and medium size and explaining the behavior of these enterprises (cook and Nixson, 2005).

However, during the 1980s, some efforts were made to collect baseline data on SMEs by, among other tasks, identifying universes, constructing samples and devising methods to deal with incomplete entries. However, due to poor book-keeping by SMEs, the data were often incomplete, unreliable and not repeated across samples. Hence, while the baseline data could be used for measuring the characteristics of SMEs, it was not adequate for testing theoretical about expected behavior off the SMEs.

Gradual improvements were achieved over the years such that by the early 1990s, some basic database were available for empirical studies aimed at identifying the constraints facing the growth and development countries (Levy, 1993). One of the main findings from these studies was that the growth and development of MSEs in developing countries were mainly inhibited by access to finance, poor managerial skills, lack of training opportunities, and high cost inputs (Cook and Nixson, 2005). Importantly, further studies especially those conducted in the last 1990s and thereafter suggest that finance is the most important constraint for the SMEs sector (Green et al ……2002).

The last 50years have witnessed important developments in the conceptualization of the main issues relating to the SMEs sector and subsequent theoretical work. The main theory, which goes back to the seminal work by Lewis (1955), is the labour surplus theory. It is argued that the driving force behind SMEs development is excess labour supply, which cannot be absorbed in the public sector or large private enterprises and is forced into SMEs in spite of poor and low productivity. Arguably, the SMEs sector develops in response to the growth in unemployment, functioning as a place of the last resort for people who are unable to find employement in the formal sector. MSEs are expected to grow in periods of economic crisis, when the formal sector contracts of grows too slowly to absorb the labour force. However, when the formal employment grows, the SMEs sector is assumed to contract again and thus develops an anti-cyclical relationship with the formal economy. Particular attention has been paid to the behavior of the SMEs sector before and after the introduction of the structural adjustment policies; examples include Daniels (1994) and brand et al. (1995) for Zimbabwe and Meagher and Yunusa (1996) for Nigeria.

However, there are some empirical problems with the unemployement theory of the growth and development of SMEs. First, there is lack of reliable and adequate data for researchers to test the hypothesis that SMEs absorb surplus labour from the public sector or large private enterprises and the hypothesis that increase in labour demand by SMEs has taken place before and after structural adjustment. Second for the SMEs sector to function as a place of last resort, it must be easily accessible. However many studies have shown that this is only the case for a handful of SMEs activities. It is also sometimes argued that SMEs concentrate on trade because this requires less capital and knowledge than production. While it may be true that production requires investment capital than trade, small scale trade is likely to require more working capital than small scale production in order to secure a certain income. This is partly because the value added is lower for the trader than for the producer, and partly because, in small scale production, the consumer will always be required to pay for the material in advance, while the small scale trader will have to give credit (probably more often than large formal retailers). Therefore, there are several limitations to the extent to which the SMEs sector can function as a place of the last resort during crises.

The second theory explaining the development of the SMEs sector in developing counties is the output-demand theory, the theory postulates that a prerequisite for the development of MSEs is that there is a market for their products and services. Therefore, the SMEs sector will tend to develop in competition with large entreprises in the formal sector and their development will be constrained by formal sector monopolies. Structural adjustments and other policies that limit such monopolies, and attempt to create more competition, will therefore be more advantageous to the SMEs, because this may allow capture market shares from the large enterprises. Proponents of structural adjustments and stabilization policies tend to base their argument on this theory. Empirical studies based on the output-demand theory tend to focus on the upper end of the SMEs sector, particularly the manufacturing enterprises and the larger, more resourceful and successful SMEs which have the potential to grow into the formal economy. These studies propose strengthening of the SMEs through networks or via the creation of forward linkages with the formal economy, for example franchising and sub-contracting. This approach has not had much success in Africa due to the problem of poor infrastructure and lack of trust between both parties. This creates an unstable environment and reduces the efficiency of the formal sector and access to factor markets for SMEs; see, for example Liedholm and Mead (1993) and Grierson and Mead (1995).

In addition, a modified strand of output-demand theory links MSEs and the long run development of the rural agrarian economy in an anti-cyclical relationship, to the detriment of agricultural production (see fot example Bryceson and Jamal, 1997). As a result of monetization, commercialization and urbanization, the rural population turns to non agricultural activities and the money economy. This creates a growing market for SMEs goods and services.

The third theory, known as the growth theory, contents that, as a result of industrialization and economic growth, SMEs are likely to disappear and be replacesd by modern large scale industry. This theory has however been shown to be inaccurate in the sense that SMEs do not normally compete directly with large enterprises; rather, they often they tend to remain micro and small, co-existing with large multinational companies which phenomenon the world bank (1989) has identified as the missing middle (Ryan, 2005). For example in the study of Botswana, Kenya, Swaziland and Zimbabwe, Mead (1994) found that most SMEs started with one to four employees and never expended; less than 1% grew to exceed 10 employees. In addition, the

SMEs tend to find niches in the factor and input markets where scale economies cannot be exploited by large entreprises. The most obvious activity where these niches exist is in distribution to areas or income groups where their costs will be prohibitively high for large enterprises. However in literature survey on macro analysis in developing countries, Liedholm and Mead (1993) came to the conclusion that macro-level empirical evidence indicates that, as aggregate per capita increases, there is a systematic pattern of evolution of SMEs towards larger firms based on larger localities, producing more modern products. Nevertheless critics of this view argue that analysis on SMEs development must take account of differences in their efficiency, the type of influence SMEs exercise in society, linkage between small and large enterprises, changing roles of women entrepreneur's differences in the level of education in the labour force and other social economic differences.

In all, each of the three theories has been modified into some variants; however, one of the important elements common to all theories and variants is the proposition that the growth of SMEs can contribute to poverty.

2.5 The repayment culture of SMEs on loans awarded to them by MFIs.

Since the late 1990s there has been a further shift in analysis and understanding of poor people's financial needs. Livelihoods approaches suggest that poor people use the resources they have to construct livelihood strategies in response to the risks and opportunities that they face (Johnson et all .. 2005). This perspective converges with growing insights into the operation of informal financial systems to offer a more holistic perspective on financial service requirements of poor people. The approach suggests the need to shift emphasis from the provision of credit for specific productive purposes to financing of their livelihood strategies.

In general small and medium size enterprises are an integral element of the informal sector in most developing countries. In the majority of cases, these enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies (Mkandawire, 1999; Cook and Nixson, 2005). Hence, the growth of these enterprises is part and parcel of the dynamic growth process in the corporate sector, as argued by Liedholm and Mead (1994) and Prasad et al (2005).

As noted by Cooks and Nixson (2005), although a number of measures have been used to identify and describe small and medium size enterprises, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. Ryan (2005) has pointed out that the term may be used to cover a wide range of economic activities for anindicative number of employees. In the poorest countries, on average almost two thirds of workers are employed in enterprise of less than five employees while the majority work for enterprises with less than 100 employees (cull et al ., 2004)

One important innovation in development research and policy has been the refocusing of the goals of development strategy from the exclusive concern with economic growth with poverty reduction. The prioritization of poverty reduction has also increaded interest in the contribution that financial development can make to poverty reduction. The prioritization of poverty reduction has also increased in the contribution that financial development can make to poverty reduction. For example, the profound argument made by Stiglitz (1998) is that market failure is a fundamental cause of poverty, and financial market failures, which mainly arise from market imperfections, asymmetric information and high fixed costs of small scale lending, limit the access of the poor to formal finance, thus pushing the poor to the informal financial sector or to the extreme case of financial exclusion. In addition, it is argued that financial sector improving the access of the poor to financial exclusion. In addition, it is argued that financial sector improving the access of the poor to financial services enables these agents to build up productive assets and enhance their productively and potential to sustainable livelihoods (see World Bank, 2001b). Hence the buttom line argument is that improving the supply of financial services to the poor can directly contribute to poverty reduction. It is in this context that researchers and policy analysts have shown a renewed interest in the contribution of finance to development and poverty reduction, in order to obtain empirical contribution of finance to development and poverty reduction, in order to obtain empirical grounds for formulating financial sector policies that can contribute to poverty reduction.

It has been argued that financial development can have an indirect effect on poverty outcomes through its direct impact on economic growth. Dollar and Kraay (2002) aurgue that growth has been beneficial to the poor, although it should be noted that economic growth has been beneficial to the poor, although it should be noted that economic growth can generate different poverty outcomes (McKay, 2002). Growth may reduce poverty through improving the position of some on the lower scale of the distribution; in some cases, growth may benefit the non-poor but may improve income distribution overall. Jalilian and Kirk Patrick (2002, 2005) model the interaction among financial development, economic growth and poverty reduction, where ‘financial development potentially has two second, direct through improved supply of, and access to, financial service to the poor” (Jalilian and Kirk Patrick, 2002, Pg102). The model was tested on panel data covering 26 countries including 18 development counties, allowing for various measures of financial development and poverty, including both income and headcount data for the poor as well as the Gini coefficient for inequality and the theil inequality index. One important finding of the study is that a unit change in financial development improves the growth prospects of income of the poor by almost 0.4%. Overall, the results are consistent with the argument that financial development does contribute to poverty reduction.

A crucial link between financial development and poverty reduction is through the growth of SMEs. Inadequate access to credit and other financial services from formal financial institutions has long been recognized as a constraints on the expansion of the MSE sector in developing countries. For example Beck et al. (2005) estimate that the World Bank Group has approved more than $10 billion in MSE support programmes in the last 5 years, of which some 80% involves direct financial assistance. In addition, a recent survey of funding soirces for businesses, conducted by the Investement climate survey in 2002-2003 in 40 developing countries in Europe, Asia, Africa and Latin America, has found that larger firms generally have more access to bank credit than small firms, whereas the latter rely heavily on internal fund and retained earnings (Cull et al., 2004) is that dependable on informal sources of funds decreases with size.

The microfinance revolution was introduced into development economics arena slightly more than two decades ago (see, for example Murdoch, 1999). However, the widespread adoption of the microfinance model did not occur until the early 1990s. Since the mid 1990s, microfinance programmes and institutions have become an increasingly important component of strategies to promote SMEs development in developing countries, and specially to reduce poverty.

Existing literature indicates that microfinance programmes and institutions have been subjected to rigorous statistical analyses based on sample survey (Hulme, 2005). In addition, and quite recently, microfinance activities have also been subjected to considerable impact assessment studies, focusing on multi-method impact assessments as well as participatory approaches. Specifically, almost all microfinance programmes assume that intervention will change human behavior and practices in ways that lead to the achievement desired outcomes; see Sebstad and Chen (1996). For example the provision of a microfinance package of technical assistance and a loan is intended to increase household income which in turn may lead to greater household economic security and thus lead to positive changes in the morbidity and mortality of household members, in educational and skills levels and in future ecomic and social opportunities.

In general, however, knowledge about the achievements of microfinance initiatives remains not only partial but also highly contested (Hulme, 2005). On the one hand, some studies argue that microfinance has very beneficial economic and social impacts; see, for exampleHolcombe (1995) and Hashemi and Schuler (1997). On the other hand, some studies which clearly point out the beneficial impacts but also argue that microfinance does not assist the poorest; see Hulme and Mosley (1996) and Mosley and Hulme (1998). Notwithstanding the application of these diverse methods and increased research activity in this area, it is still not very clear that microfinance is panacea for poverty (Wood and Sharrif, 1997). To shed light on these issues, the microfinance literature has recently focused on measuring the impact of credit on house hold welfare (Hulme, 2005). It is argued that credit contributes positively to household welfare through improving household production or smoothing consumption over time. Specifically it is shown that although most credit programmes may not serve the poorest of the poor, all categories of the poor maybe able to benefit through increased income and reduced vulnerability to ‘shock’, as noted in Khandker (1998), 2003.

The theorical literature on microfinance has been dominated by two strands. In the first strands, a generic theoretical model of microfinance activities tends to feature three sets of agents; households (potential borrowers), formal lenders and informal lenders (such as money lenders, relatives, friends and ROSCAs). These marked are characterized by high lending transaction costs and lack of collateral when farmers do not own their own land, as indicated in Meyer and Nigerians (20020. As a consequence, borrowers are charged high borrow from formal lenders, informal lenders or both in order to finance their economic activities. The demand for credit depends on household attributes and the village characteristics in which households live. As the interest rate is fixed, there is some rudimentary credit rationing, in which lenders screen the applications and decide to whom to offer loans receive smaller than they applied for. Hence, in this strand of determinants of credit rationing and determine the channels through which credit may contribute to household welfare.

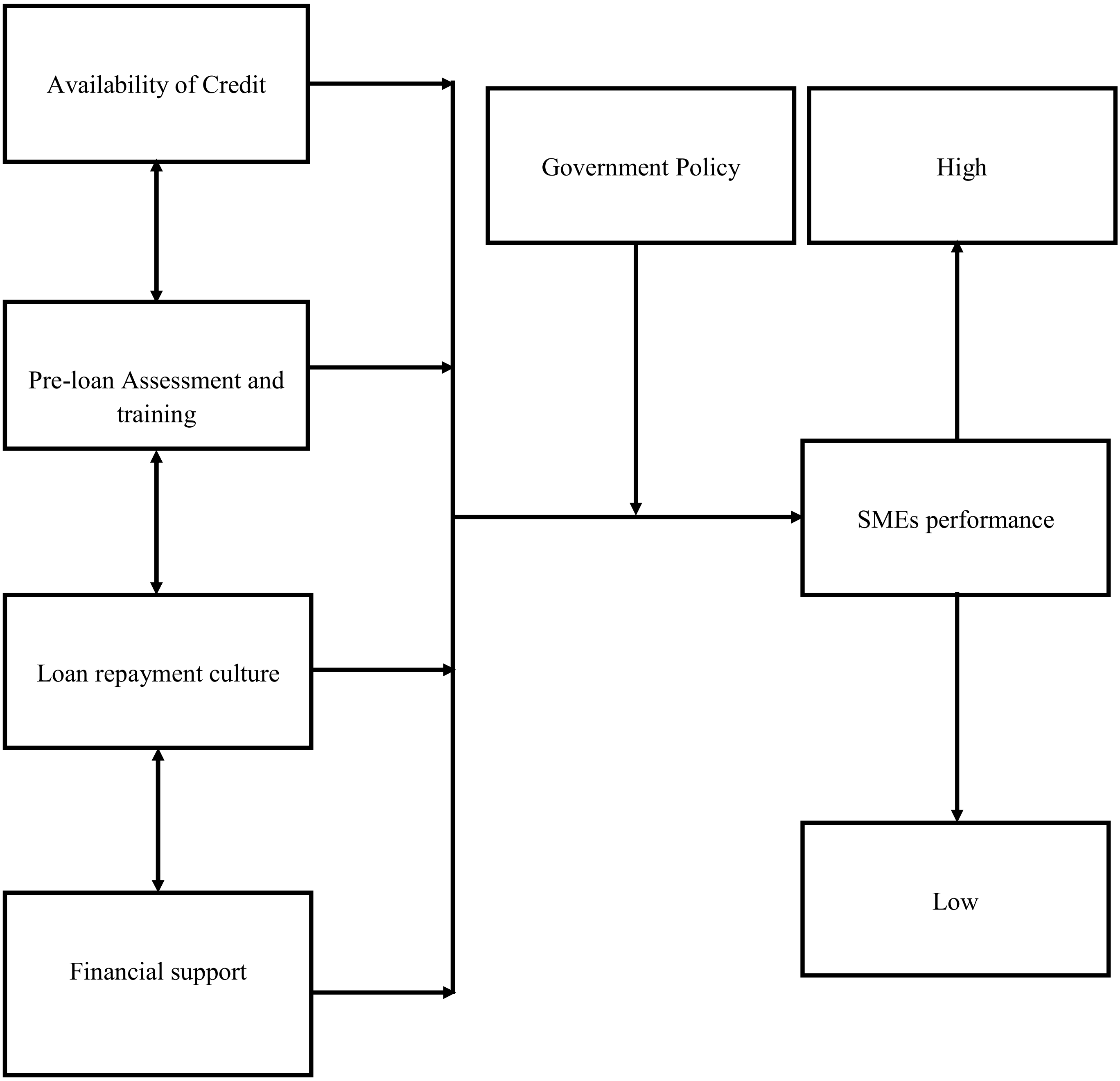
The second strand of the theoretical literature focuses on the unconventional methods that microfinance institutions use to improve borrowers payback behavior (see, for example Morduch, 1999). In particular, the literature deals with the implications of group lending practices with jointly liable borrowers, as suggested in GHATAK (2000). A joint liability contract specifics that the entire group is liable for loans that are given to individual group members. As well-known example is the Grameen Bank's group lending program. It has been emphasized that group lending with joint liability may lead to peer – monitoring or peer-pressure among group members whoch reduces problems of moral hazard and enforcement (Stiglitz, 1990; Besley and Coate, 1995). This may be because a high joint liability component in the debt contract provides incentives to borrowers to choose a safe investment project. In addition, some recent theoretical papers have noted that joint liability lending induces group members to self select each other (e.g. Ghatak, 2000). It is argued that the optimal outcome is one which all borrowers with the same probability of success match together (homogenous matching). It has also been argued that the optimality of homogenous matching only holds in the frictions due to imperfect information, the unavailability of patterns with the same risk characteristics, the inability to enforce contracts and inability to fully screened monitor group members.

Recent cross country research on financial patterns has highlighted the differences across firms and countries in firms's access to external finance (Demirguc-Kunt and Maksimovik, 1999: Beck et al,. 2004). Better understanding of the impact that financial development can have on the firms of different sizes to external finance should help illuminate the important link between finance and poverty reduction. Prasad et al (2005) survey the relevant literature and conclude that financial policy, capital structure and firm ownership are all strongly linked. The urgument is that financia policy by firms requires managers to identify ways of funding new investment. The managers may exercise three main choices; use retained earnings, borrow through debt instruments or issue new shares. Hence, standard capital structure of a firm includes retained earnings, debt and equity ; these three components of capital structure reflect firm ownership structure in the sense that the first and third components reflect by shareholders while the second component represents ownership by debt holders. This is shareholders whiie the second component represents ownership by debt holders. This is the pattern found in developing and developed countries alike (see La-porta et al., 1999). Capital structure also affects corporate behavior (Hutton and Kenc, 1998). Thus, financial policy, capital structure and firm ownership are strongly linked in explaining how households form and modify their asset-acquisition behavior through firms and capital markets, and thereby influence their incomes and returns asset holdings, whether in the forms of direct renumeration, capital gains or dividends.

In terms of SMEs, an attempt has been made to incorporate a number of non-traditiona determinants of firms' capital structure decisions in study of some 2000 MSEs in Kenya, by Green et al, (2002). The determinants of the success rate of loan application are also investigated by considering a comprehensive range of non-traditional (heterodox) factors such as age of business and working owner, gender of owner, gender of owner, education of owner, skills of owners, ownership type (family or otherwise), ownership of land by entrepreneur, formality or non-formality of the business and record keeping and other finance literature but are important in understanding the special case of MSEs in merging markets such as Kenya. The results emphasize three major findings. First, MSEs in Kenya obtain debt from a wide variety of sources especially family and friends, but including also co-operatives, banks. ROSCAs, NGOs and other financial institutions. Second, the debt-equity and gearing decisions of MSEs and their success rates in loan application can all be understood by relatively simple models which include a mixture of convectional and heterodox variables that are linked to poverty reduction. Third, and in particular, measures of the tangibility of the owner's assets, and the owner's education and training have significant positive impact on the probability of borrowing and of the gearing level. These findings have important policy implications for policy-markets and entreprenuers of MSEs in Kenya. As mullineux and Murinde (2002) point out, good financial sector policies for enterprises development seem to promote growth in the household and business sectors. Moreover, as a King and Levine (1993a, 1993b) show, the growth of entrepreneurship does strength the link between finance and growth, and directly encourage innovation and productively which are some of the some of the basic elements of current poverty reduction strategies fourth, three is dome tentative evidence that the availability of credit for small business may have improved over time. Fifth and finally, the main key determinants of debt and loan screening decision are a mixture of conventional and heterodox variables. Among the conventional variables, measures of the tangibility of the owner's assets, and objective and subjective measures income are particularly important, both in the debt and in the screening decisions. Among the more heterodox variables, the level of education and training of the owner have a significant positive impact on the probability of borrowing and of the resultant gearing level. These findings have important policy implications for olicy markets and entrepreneurs of MSEs in Kenya; the socio-economic (and non-traditionl) variable which importantly determine the financing choices made by MSEs are linked to poverty reduction activities and could be further explode in that light. However, or the MSEs to shift from the informal to the formal sector and to gradually provide the foundation for a positive company sector, the presence of a capital market is necessary; especially, the stock market plays an important role in facilitating asset ownership by firms and households (see, Green et al. (2000). Clearly, further research on these issues is necessary.

2.6 Conceptual Framework

Figure 2.1 Conceptual framework



From the conceptual point of view in this work, it is believed that the performance of SMEs in Bomet municipality is largely dependent on four major factors as explained below.

The first major variable that affects the performance of SMEs. Most of the SMEs that operate in Bomet municipality heavily rely on credit financing and this financing has great effect positive or negative depending on how the SMEs get access to these the available credit in the market and whether the credit is sufficient to all SMEs. The availability of this credit directly affects the profitability and hence the growth of SMEs in Bomet municipality.

The other major variable is the pre-loan assessment and training from the MFIs to their clients', because many of SMEs have not yet employed professionals, those who receive training and good assessment from their financial partners are believed to have a very different performance compared to those that don't receive any training and follow up.

The loan repayment culture by SMEs in terms of the number of loans defaulted is an indicator of the effect of loans awarded to the performance of SMEs in Bomet municipality. The main measure is that high rates of default means a negative effect of loans on SMEs and low on no default rates turn to a good effect of loaning on the performance of SMEs.

The final effect on performance of SMEs is the actual financial support they actually receive. It is this credit finances that are invested in the businesses in terms of capital and exact influence of these funds actually determine how far the SMEs grow.

Among all the four dependent variables, the influence on SMEs is measured in terms of the interest income, savings trends, capital base growth, and nature of loan repayment among other important measures.

The major intervening variable is the government policy because it regulates the activities of both MFIs through the MFI ACT and the SMEs who also operate within the regulations of the GOK written laws.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section provides information on the methodology used in this study. This section particularly covers research design, study area, target population, sampling procedures, data collection methods, data analysis, presentation and interpretation.

3.2. Research design

This study will basically employ descriptive survey design. The major purpose of the research design was to describe the state of affairs as it exactly appears on the ground. In this particular study, the researcher had no control of the variables.it was believed that the performances of SMEs in terms of interest income, capital base and savings pattern being independent variables, have been affected by he financial credit which is the independent variable.

3.3 Target population

The study targeted SMEs who have been in operation for atleast ten years and located within the precinct of Bomet District. The business samples were in categories of milk vendors, retail shops, food kiosks, tailors, bodaboda men, second hand cloths dealers, butchery men, hawkers , among others. The study actually targeted the 1,500 SMEs that operate within th Municipality of Bomet.

3.4 Sample and sampling procedures

The records from Bomet municipal council offices indicated that there were 1500 registered SMEs operating within the area. A total of 150 SMEs which reflects 10% of the target population were sampled for conclusion in the research process.

The sampling procedures adopted was stratified sampling where by a proportionate number of them were picked from the fifteen stratum, using simple random sampling. This technique was employed so as to ensure that each of the target population had equal and independent chances of being included in the sample. The strata size from each stratum was directly proportionate to the number of the SMEs operating within each stratum as shown in the table below.

Stratum	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
SMEs Sampled	57	18	9	2	6	5	9	3	9	6	3	4	7	10	2

3.5 Description of Data collection instruments

Questionnaires were used for the traders. The questionnaires included two sections for the demographic information of the respondents and the financial credit information of all the sampled SMEs operating within Bomet municipality. All the sections had both closed and open ended questions.

3.5.1 Validity

Validity is the accuracy and meaning fullness of interferences, which is based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Validity, therefore, has to do with how accurately the data obtained in the study represents the variables of the study.

If the data is a true reflection of the variables, the interferences based on such data will be accurate and meaningful. Research methods: Quantitative and Qualitative Approaches (1999) Olive M. Mugenda and Abel G. Mugenda.

Validity is largely determined by the presence or absence of systematic error in data.

While appreciating the fact that it is almost impossible to safeguard a research instrument against bias and random errors, the research nevertheless tried to avoid these problems by carefully planning.

3.5.2 Reliability

Reliability is the measure of the degree to which research instruments yields consistent results from data after repeated trials. Reliability in research in influenced by random error. As a random error increases, reliability decreases.

Random error is the deviation from true measure due to factors that have not effectively been addressed by the researchers. Errors may arise from inaccurate coding; ambiguous instructions to the subjects, interviewer's fatigue and interviewer's bias etec. Random error will always exist regardless of the procedure used in a study. Research Methods: Quantitative and Qualitative Approaches (1999) Olive M. Mugenda and Abel G. Mugenda.

The prescribed data tool was questionnaire. To test its reliability a pilot study was conducted on a number of respondents for relevance, appositeness and acceptability. The samples used in the pilot study were not included in the study.

All errors and shortenings emerging in the pilot study were corrected before the questionnaire were used.

3.6 Data Analysis

All the questionnaires were marked for identification purposes. The raw data from the field was cleaned, coded where necessary, key-punched into computer and carefully analyzed.

The study used both qualitative and quantitative methods to analyze the collected data. The quantitative phase helped the research to generate descriptive and inferential statistics necessary to make dedications on how formal financing affected performances of SMEs.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter describes data analysis, presentation, interpretation and discussion in the following themes demographic characteristics of the respondents, availability of credit to SMEs, pre-loan assessment and training, loan repayment culture and financial support given to SMEs.

4.2 Demographic Characteristics of the respondents

Table 4.1 shows information concerning the sex of the interview. It reveals that (N=97) of the respondents were males and (N=53) of the respondents were females. These results indicate that more men than women are receiving financial support for business yet in Kenya the population for women is more than that of men. So there should be a clear initiative by the government and private sector to incorporate the women more in business. This may also mean that more men than women are involved in business as the women remain doing household duties. It is a high time that women in Bomet rose to the occasion and got involved fully in SMEs activitie4s and not surrender them to their male counterparts alone.

Table 4.1 Sex of respondents

	Frequency	Percent
Male	97	64.7
Female	53	35.5
Total	150	1..

Table 4.2 Education Level of the respondents

Level of education	Frequency	Percent
None	11	7.4
Primary	45	30
Secondary	60	40
College	21	14
University	9	6
Missing	4	2.6
total	150	100

Table 4.2 shows that 7.3% (N=11) of SMEs had no education, 30% (N=45) had primary school education, 40% (N=60) had secondary school education, 14% (N=21) had college education, 6% (N=9) had university level of education while 2.6% (N=4) were not willing to reveal their level of education.

Now that it is quite evident that SMEs have not employed professionals in the SME, it's a high time that all financial providers got involved in training their clients by equipping them with relevant skills to ensure that they professionally run their businesses and hence gain from the finances given unto them. However, it's quite evident that given lack of professionals in SME, it drags the rate of growth of SMEs to a great extent.

Table 4.3 Types of Sampled SMEs

Type of enterprise	Frequency (N)	Percent %
Retail shops	65	43.3
Second hand clothes dealers	23	15.3
Saloons and barbers	8	5.3
Carpenters	4	2.7
Metal works	5	3.3
Tailors	9	6
Butcheries	3	2
Hotel	16	11
Milk vendors	16	11
Total	150	100

From the above table 4.3, its quite clear that retail shops are the biggest SMEs within Bomet municipality with 43.3% second hand clothes had 15.3, solon and barbers 5.3%, carpenters 2.7%, metal works 2.3%, tailors 6%, butcheries 2%, hotels 11%, and milk vendors at 11%. It comes out quite evidently that retail shops are the major SMEs operating within Bomet municipality.

4.3 Availability of credit to SMEs

This particular section covers the nature of formal financial credit available to SMEs in Bomet municipality in the forms of types of institutions providing financing to SMEs.

4.3.1 Types institutions providing financial credit to SMEs

Table 4.4 shows the types of financial institutions that SMEs had sought financial support. A total of 41% accessed credit from Faulu Kenya DTM, 29% from Jamii Bora, 4% fromEclof, 2% from opportunity international co-operative bank 2% and 8% from Equity banks.

The trend of borrowing pattern reveals that Faul Kenya DTM is the major financial partner within the region followed closely with Kenya Women Finance Trust

Table 4.4 types of institutions providing financial credit to SMEs

Financial provider	Frequency (N)	Percent
Faulu K DTM	61	41
K.W.F.T	43	29
Jamii Bora	14	9
Eclof	6	4
Opportunity International	3	2
Kenya Commercial Bank	8	5
Co-operative Bank	3	2
Equity Bank	12	8
Total	150	100

4.5 Pre-loan assessment and Training

Table 4.5 Financial business training received from the financial partners

	Frequency (N)	Percent (%)
Yes	57	38
No	93	62
total	150	100

From the research, only 38% received financial training from their financial partners. This could in part be affecting the performance of SMEs to a great extent and there is great need for the SMEs to receive business and financial training from their financial suppliers for effectiveness. This is basically important given the fact that an earlier result showed that SMEs have employed fewer professionals.

Table 4.6 Keeping of business records

	Frequency	Percent (%)
Yes	83	55
No	67	45
total	150	100

Only (N=83) 55% maintained business records while (N=67) 45% didn't maintain business records at all. This is a worrying statistic because business maintained without records is not good especially for purposes of management.

4.7 Loan repayment culture

Table 4.7 loan repayment culture

	Frequency (N)	Percent (%)
Never defaulted	15	10
Defaulted once in a while	105	70
Defaulted severally	30	20
Total	150	100

From a close analysis of loan repayment trends within Bomet municipality it comes out that only 10% of the loaned SMEs had never defaulted in servicing their loans. 70% defaulted once in a while and a total of 20% defaulted seriously. This is a serious and worrying trend on whether the loans help in the growth of SMEs and if so why are the default rate so high. MFIs have to seriously monitor why their loans are being paid poorly and whether they benefit their clients.

Table 4.8 the purpose of loan use

Loan amount invested	Frequency (N)	Percent (%)
Entire	60	40
Partly	45	30
None	45	30
Total	150	100

From the research, it is quite evident that (N=60) 40% of the SMEs invested the entire loan given to them for the exact business purpose that was intended. (N=45) 30% diverted part of the amounts into other purposes. (N=45) 30% diverted the entire loan amount to the other uses.

The reported clearly shows that 70% of the SMEs have defaulted once in a while during their loan repayments 20% have defaulted severally while only 105 of the SMEs had never defaulted.

4.9 Financial support received

Table 4.9 Loans amount received

No.	Loan amount	NO. of SMEs	Percent %
1	< 20000	87	58
2	200001> 50000	35	23
3	500001>100000	20	13
4	>100000	8	5
Total		150	100

From the table above, it is quite evident that the trend of loans awarded to SMEs is the same among all MFI's. 58% of loan awarder (N=87) are below 20000. 23% (N=35) of the loans are between 20001-50000, 13 % of the loans awarded (N=20) are between 50001-100000 while only 5% (N=8) are the loans above 100000. These trend is not the best because the results clearly indicate that most of the SMEs are still servicing very small amounts of less than 20000 yet some of them have been in operation for a very long time. It then means that SMEs may not be growing as such that's why they don't qualify and consequently cant service bigger loans. The main reasons for such a poor performance have to be explore keenly so as to come up with solutions that can turn around this situation.

Table 4.10 Average income trends after financial funding

Year	1	2	3	4	5	6	7	8	9	10
Income(M)	0.75	0.92	0.98	1.12	1.135	1.41	1.45	1.61	1.62	1.78

From the table 4.7 it shows that the income of SMEs increased over time but at a low pace i.e. year one increased by Y2 -0.17m, year three o.06m, year 4 by o.14m, year 5by 0.015m, year 6 by 0.275m, year 7 by o.04, year 8 by o.92 year 9 by o.01 and year 10 by 0.16m.

From the table above it clearly shows that the income levels have increased but at a moreless decreasing rate.

Table 4.11real income trends after credit award compared to expected income by SMEs

year	1	2	3	4	5	6	7	8	9	10
Real Y(kshs)	0.75	0.92	0.98	1.12	1.135	1.41	1.45	1.62	1.62	1.78
Expected Y(kshs)	1.1	1.5	1.72	1.90	2.18	2.34	2.53	2.8	3.5	3.98
deviation	0.35	0.58	0.74	0.78	1.045	0.93	0.88	1.18	1.88	2.2

From figure 4.8.1 it shows clearly that the difference between the real income earned by SMEs and the expected income keeps on growing year after year i.e Y1=0.35, Y2=0.58, Y3=0.74, Y4=0.78, Y5=1.014, Y6=0.93, Y7=1.18 Y9=1.88 Y10 = 2.2.

This sounds to be a very worrying trend now that the gap widens year after year

Table 4.12 yearly savings after award of credit

Year	1	2	3	4	5	6	7	8	9	10
S (Kshs)	0.76	0.091	0.097	0.113	0.139	0.143	0.147	0.162	0.164	0.178

The table 4.9 reflects a general trend of growth in the level of saving from 0.076m in year one all the way up to 0.178m in year ten. The savings rates are increasing year after year but the level of growth is a bit slow which shows that the growth of SMEs is low.

Table 4.13 Average capital bases over time after award of credit

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Value Kshs	11000	15000	21000	24000	27000	29000	32000	38000	39000	43000

From figure 5.0 above, the average capital base of the SMEs grew steadily after the funding from Kshs 11000 in year one all the way to 43000 in ears ten. The apital bases have been increasing over time but the rate of growth and also very low irrespective of the fact that they receive funding from the existing MFIs within Bomet municipality.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section covers the conclusion and recommendation for further research and policy makers.

5.2 Summary of findings

A majority of the SMEs in Bomet are run by the male gender (64.67%) whereas only 35.3 are operated by women. The research also revealed that (N=11) 7.3% had no education, (N=45) 30% had primary level of education, (N=9) 6% had university degrees while (N=4) were missing.

On the nature of MFIs that operate within Bomet district, Faulu Kenya DTM was the most popular with 41%. It was followed closely by K.W.F.T with 29%, Jamii Bora 9%, Eclof 4%, opportunity international 2%, Kenya commercial Bank 5%, cooperative bank 2% and the Equity bank 8%. These results are shown in the table 4.4

The amount of loans awarded to SMEs are concentrated at less than 20000with N=87 58%. 20,000-50,000 (N=35) 23 %, 50,000 – 100000 (N=20) 13% > 100000 (N=8) 5%.

Only (N=83) 55% maintained business records while (N=67) 45% dint have any records for their business. 35% of SMEs received financial training from their financial partners while a total of 62% didn't receive any financial advice from their credit suppliers.

Most of the SMEs registered an increase in interest income but none of them met their targeted income level.

10% of the SMEs had never defaulted as they repaid their loans, 70 % defaulted once in a while 20% defaulted severally.

On diversion of loan amount to other uses, (N=60) 40% used the entire loan for the intended purpose. (N=45) 30% diverted part of the amount to other uses while (N=45) 30% diverted the entire amount to other uses.

5.3 Conclusion

From the above results, there is clear evidence that there was a significant relationship between micro financial institutions credit and the growth of SMEs and poverty reduction. Particularly on the nature of financing available, interest income, capital base, trend in saving, loan repayment culture and amount of loan awarded.

The study revealed that SMEs heavily rely of MFIs as a source of financial credit.

Most of the loans are small loaning which was used to invest in the business and have little left for expansion and growth and hence minimal poverty reduction levels. These leads to a trend in which most of the SMES do experience an increase in income levels but not at the target level by the SME owners. The slow pace of expansion and growth in the sector is shown by low growth in saving trend, small increase in interest income year after year, the default rates experienced during loan repayment periods and an award of small loans even after a long period of funding.

5.4 Recommendation for policy action

From the discussion of the results the following recommendations are put forward.

First, the MFI sector should offer relevant and sufficient business and financial training in their curriculum to SMEs in order to make sure that they are well equipped in the market, so as to gain maximum profit from the business in order to expand and grow to their full potential. This kind of training comes in handy especially because the results reflected that SMEs has not incorporated professionals as such.

Secondly, there is need for proper assessment, close monitoring of the purpose of the loan use day to day advice on the progress of the business offered by MFIs to the SMEs so that they can make sure that they grow together with their clients. There needs to be a deliberate initiative to make sure that the MFIs have a reasonable positive impact on the growth of MSEs and poverty reduction as a whole.

In conclusion, MFIs should hire and equip their staff so that they can be in a position to carry out all the necessary activities that can help the owners of SMEs expend their business hence reducing poverty levels and hence achieving their goal.

5.5 Recommendations for further studies

Ability of the MFI staff to create a positive impact on the growth of SMEs and hence poverty reduction as a while

Effects of non-financial credit on the performance of small scale business in Kenya and hence poverty reduction

5.6 References

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5.7 Appendix 1

THE SURVEY QUESTIONNARE

The main objective of these questionnaires is to collect data that will explain the effect of financial credit from MFIs, on the performance of SMEs: a case of Bomet District.

It is meant for a post graduate diploma research at Nairobi University. Any information given during the course of study will be treated with confidence. You are therefore kindly requested to fill up the questionnaire and provide any additional data that may be relevant to the study.

QUASTIONARE NO:

PART A-DEMOGRAPHIC CHARACTARISTICS

1. Sex of the interviewee () male () female

2. Mode of ownership 1. Sole proprietor () 2. Partnership ()

3. What is your level of education

   None ()

Primary ()

Secondary ()

College ()

University ()

PART 2-FINANCIAL INFORMATION

1.Do you receive any credit support from the micro financial institutions that operate within Bomet town

1. Yes () 2. No ()

2. What year did you start getting financial assistance for your business in form of loaning from MFIs?

3.0 What was your capital base at the point of starting to get financial assistance for your business in Kshs

4. What is the face value of the loans you have received from MFIs

5. What was your average monthly income from your business at the point you started receiving loaning

6. What has been your average monthly income at this point in time

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

7. As per your expectation what was your average monthly income at this point in time

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

8. Have you met your expectation in terms of income growth from your business since the time you started receiving loaning?

Yes () No ()

9. Have you been saving at this point in time?

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

10. Have you ever defaulted in your loan repayment?

1. Never () 2. Once in a while () 3. Severally ()

11. Did you invest your loan for its intended purpose?

1. Entirely () 2. Partly () 3. Not at all ()

12. Does the financial officer follow up to know how you invested the funds and how the business if fairing on?

1. Yes () 2. No ()

13. Do you receive any business training from your financial partner?

1. Yes () 2. No. ()

14. How do you rate the influence of MFIs on your financial income growth?

1	2	3	4	5
Very poor	poor	average	good	very good

15. What are your views conserning MFIs funding in Kenya

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……

5.8 Appendix 2

BACKGROUND INFORMATION OF THE AREA OF STUDY

INCOME EARNING FOR BEMET MUNICIPALITY FOR THE YEAR 2009

REGION	AMOUNT EARNED
BOMET TOWN	**1.2 M**
CHEBALUNGU	**0.32M**
LONGISA	**0.45M**

SILIBWET	**0.56M**
MERIGE	**0.18M**