ASSESSMENT OF THE IMPACT OF MICROFINANCE INSTITUTIONS ON MICRO, SMALL AND MEDIUM ENTERPRISES IN KENYA

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DECLARATION

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

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D61/7004/2007

This Research project report has been submitted for examination with my approval as the University supervisor.

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To all I say thank you.

DEDICATION

I dedicate this work to my dear wife Ruth and son Tedd for their special part that they occupy in my life and whom 1 always get inspiration to keep working extra hard

ABSTRACT

The microfinance industry in Kenya has experienced major transformations over the past twenty years, growing from a fledgling concern dominated by a few donor and church-based NGOs to a vibrant industry increasingly driven by commercial viability and sustainability. The general objective of the study was to investigate the impact ot microfinance institutions' services in Kenya.

The researcher employed causal research design. The population of the study was from micro, small and medium businesses within Nairobi Eastland. The researcher used both primary and secondary sources to collect data. The researcher chose the self-administered questionnaire method for all correspondents as it was inexpensive and allowed the respondents to complete the questionnaire at a convenient time. The tabulated data was then analyzed by calculating various percentages where possible. Descriptive statistics especially, frequencies and cross tabulation were applied to help establish patterns, trends and relationships and to make it easier for the researcher to understand and interpret implications of the study. Presentation of data was in form of Tables, Pie-charts and Bar graphs only where provide successful interpretation of the findings. Descriptive data was provided in form of explanatory notes.

The study concludes that Microfinance institutions had a great impact on employment creation and poverty alleviation in the Micro, Small and Medium Enterprises Sector. The concern for job creation resonates increasingly in the microfinance industry itself. Major microfinance networks justify their work also with the expected impact on job creation. The study further concludes that Microfinance institutions had a positive impact on equitable distribution of income and wealth in the Micro, Small and Medium Enterprises sector. The study recommends that Microfinance institutions need to continuously provide finance and entrepreneurial knowledge to the poor in the society as this leads to creation ofjobs and reduced poverty levels in a country.

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ABBREVIATIONS

AMFI	Association of Microfinance Institutions
MFIs	Microfinance Institutions
ROSCAs	Rotating savings and Credit Associations
NGO	Non Governmental Organizations.
MSME	Micro, Small and Medium Enterprises
GDP	Gross Domestic Product
ROSCAs	Rotating Savings and Cooperative Associations
SHGs	Self Help Groups
SMEs	Small and Medium Enterprises
SACCOs	Saving and Credit Corporative Societies
FSA	Financial Services Associations

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance refers to small scale financial services such as cash loans, money transfers, direct deposits, savings, and insurance made accessible primarily to the poor. Over time microfinance has become a major tool of development, and is fast developing as an international industry, with its own trade associations, dedicated finance, training and other support organizations, research and journals. Microfinance seeks to provide practical, workable solutions to the deep-seated challenges of poverty. According to Rosenberg .R 2010, a microfinance institution (MF1) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. By delivering financial services at a scale, and by mechanisms appropriate to them, micro financing can reach poor people. Two prominent features of successful microfinance institution building are group lending and savings (Yaron, 1994).Group lending refers to the practice of issuing loans to individual members of small, homogeneous groups.

1.1.2 Evolution of Microfinance Institutions

Microfinance industry has evolved over the years beginning in the 1960's where credit was targeted to the agricultural sector in recognition to the vital role that this sector played in the economic development of the country. This time the concern of the poor group was not a major concern as development finance was to do with transfer of capital to developing countries in order to fill what was believed to be a structural gap in capital function (AMFI 2003). During this time much of the funding (multilateral and bi-lateral) was directed toward large industrial and infrastructure projects in the belief that there would be a 'trickle down' effect through which the poor would benefit.

However this approach fueled 'dualism' migration and poverty. To correct this there was need for a shift in donor orientation in the 1970's where emphasis was on the target group

which required that development effort be designed and implemented in such a manner that would directly benefit the poor segment of the society. This resulted into promotion of special development banks for small farmers and business people. During this period a lot of microfinance programs have emerged in many of the developing economy. For example, the Grameen Bank system of group lending established in 1976 by Mohammad Yunus a Bengal banker and economics in particular. This has been widely copied in other developing countries in October 2006. Mohammad Yunus was awarded a Nobel Prize in recognition of his contributions in development of microfinance. The Nobel committee recognizes that microfinance can help put off poverty. However, this did not bear the desired effects.

In 1980's there was anew approach which was geared towards setting up credit program targeting outside the banking sector as well as outside the government - this gave rise to many non governmental organizations (NGO's) as well as self help groups (SHG

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

The micro financing industry has sought to resolve the tensions between a focus on poverty and a commitment to sustainability.The formal financial sector may achieve financial sustainability, but has little outreach to poor clients. Traditional efforts by non-governmental organizations may reach poor clients, but are often unsustainable. Good micro-finance practice, on the other hand, combines both outreach and sustainability in achieving their objective of serving the poor people.

Both formal and informal sectors are addressed by microfinance policies initiated by both governments and private companies. The informal sector is the sector of the economy consisting of off the books small loans between neighbors, products made and consumed in villages where no records are kept, and many other unofficial economic activities.

According to the recently launched study on Access to Financial Services,(AMFI, 2003) as of June 2003, there were an estimated 3,460 legally constituted microfinance service providers in Kenya, including 3,397 savings and credit co-operatives and co-operative-like

community-based intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Excluded from this list were 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups and 1,342 primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide. There are approximately 3.8 million Kenyans depending entirely on financial NGOs, cooperatives, and the Kenya Post Office Savings Bank for financial service services.

The microfinance sector comprises a very large and diverse group of institutions providing a range of loans and savings products to their clients. It is estimated that there are 3.8 million Kenyans depending entirely on financial NGOs for financial services, while another estimated 1.1 million depend on informal associations and groups for similar services countrywide.

Lack of access to financial services, particularly that which can tap savings and provide credit and payment services, is a major constraint limiting the participation of low income households and micro and small enterprises, both in the rural and urban areas, in the country's economic activity. The study on access to financial services in Kenya further established that only 37% of Kenyans have access to formal financial services including from banks, SACCOs and MFIs. A further 35% has access to informal financial services ranging from merry-go-rounds, relatives and friends, to money-lenders. Overall, some 38% of Kenyans are financially excluded, that is, they do not have access to financial products and services. The 38% is a potential market to tap into.

Microfinance institutions are a critical component in the economic development of the country. They support micro, small and medium enterprises (MSME) through small loans which then create hundreds ofjobs in the sector and they are also instrumental in alleviating poverty by providing financial services to people traditionally excluded from financial markets. It is projected that the MSME sector contributes an estimated 30.5 per cent of the current GDP and 41 per cent of non-agricultural GDP to the economy (The banking survey Kenya 2008). The loan provision component of self-help groups is one part of the risk management and income generation feature that enable households to cope with the basic requirements and contingencies of life especially in the absence of social protection or insurance schemes. (Puhazhendi and Badatya 2002). Microfinance supports and promotes

MSME in job creation hence increases wage employment and higher incomes in the rural areas through rural entrepreneurship, leading to a more equitable distribution of income.

1.1.3 Profile of Small and Medium Enterprises Sector.

The micro, small and medium enterprises (MSEs) is businesses in both formal and informal sectors, defined according to their staff count. Micro, small, and medium-size enterprises are business that may be defined by the number of employees. There is no international standard definition of firm size; however, many institutions that collect information use the following size categories: micro enterprises have 0-9 employees, small enterprises have 10-49 employees, and medium-size enterprises have 50-249 employees. These enterprises cut across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction.

Micro, small- and medium-scale enterprises (MSMEs) are a very heterogeneous group. They include a wide variety of firms; village handicraft makers, small machine shops, restaurants, and computer software firms. These posses a wide range of sophistication and skills, and operate in very different markets and social environments. Their owners may or may not be poor. Some are dynamic, innovative, and growth-oriented; others are traditional "lifestyle" enterprises that are satisfied to remain small.

1.2 Statement of the Problem

The microfinance industry in Kenya has experienced major transformations over the past twenty years, growing from a fledgling concern dominated by a few donor and church-based NGOs to a vibrant industry increasingly driven by commercial viability and sustainability. And until today microfinance has established itself as an integral part of the financial sector policies of emerging developing countries. The core objective was to alleviate poverty through provision of small loans to the poor and most disadvantaged in the society.

By helping a poor family to increase their income, micro-enterprise development has an immediate and lasting impact on quality of life - the ability to afford food, shelter, education and healthcare. As business income increases, the business is able to expand, and the effect

spreads beyond the family into the local community, through employment and contribution to the local economy. Thus, the benefits of micro-enterprise development help grow not just businesses, but stronger communities as well.

In spite of the discussion that has taken place there is limited documented information on the how microfinance institutions have contributed to the Kenyan economy taking into consideration the fact that microfinance institutions clients are the usually in the micro, small and medium enterprises. This information is required to drive discussions and act as a basis of further research in this area. Therefore the purpose of this research is to investigate the impact of microfinance institutions' services on the Kenyan economy with specific reference to micro, small and medium enterprises sector.

Many studies have been carried out focusing on the microfinance as a tool for poverty eradication, the effects of group lending on loan repayment rate, the informal sector as a source of finance for small and micro enterprises, analysis of access to the microfinance institutions loans and their impacts in their businesses among others. In spite of these studies and theories there is limited documented information on the how microfinance institutions have contributed to the Kenyan economy taking into consideration the fact that microfinance institution's clients are usually in the micro, small and medium enterprises. Thus there exists a knowledge gap on the impact that these microfinance institutions have on the economy. This study will seek to explore and answer questions of whether these microfinance institutions have really contributed to the economic growth in Kenya with specific reference to the micro, small and medium enterprises sector. This information is required to drive discussions and act as a basis of further research in this area.

There is no empirical study indicating the potential role of improved lending facilities by both formal and informal microfinance institutions in alleviating problems of access to credit to small businesses and accelerating business growth through offering of financial training and instilling financial discipline amongst the poor. Knowledge in this area, especially a quantitative analysis of the effects of credit facilities on the small businesses and choice of credit sources by entrepreneurs, is lacking for the small business sector. Furthermore studies

of microfinance institutions have shown that credit markets are segmented and unable to satisfy the existing demand for credit in the small business sectors. A relevant issue for empirical investigation is therefore that of the factors behind the coexistence of formal and informal microfinance sources in the Kenyan market.

1.3 Objectives of the Study

The general objective of the study was to investigate the impact of microfinance institutions' services in Kenya.

On the other hand, the specific objectives were:

To examine the impact of Microfinance institutions on Employment Creation and poverty alleviation in the Micro, Small and Medium Enterprises Sector.

To analyze the impact of Microfinance institutions on equitable distribution of income and wealth in the Micro, Small and Medium Enterprises sector.

To investigate the impact of Microfinance institutions on the financial performance of Micro, Small and Medium Enterprises sector in Kenya.

1.4 Significance of the Study

The study will be significant to Microfinance institutions it will facilitate them to appreciate the impact of their services on the Kenyan Economy and seek to harness the positive aspects so as to enhance their contribution.

The study will also help management and staff to understand and appreciate the impact of their organization services on the Kenyan Economy and seek to strengthen their performance so as increase the their organization contribution to the Economy.

The study will be significant to Economic Planners because they will be able to understand the impact of Microfinance institution services on the Kenyan Economy and be able to recommend favorable regulations and policies to strengthen the sector

The study will provide the background information to research organizations and scholars who will want to carry out further research in this area. The study will facilitate individual researchers to identify gaps in the current research and carry out research in those areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to the impact of Microfinance Institutions on the Kenyan Economy with specific reference to Micro, Small and Medium Enterprises Sector. This chapter is divided into three parts i.e. review of past studies, critical review and summary and conclusion of the gaps to be filled.

2.2 Review of past Studies

Microfinance institutions in Kenya operate in various institutional forms and currently can operate under more than eight Acts of Parliament, namely the Banking Act, Societies Act, Cooperative Societies Act, Hire Purchase Act, Companies Act, Trust Act, and NGO Coordination Act. The key umbrella organizations namely: the Association of Microfinance Institutions (AMFI), K-REP Development Agency, 59 Financial Services Associations (FSAs) and 40 MFIs respectively by end of 2005, totaling 128 institutions. The main objective of MFI's is to alleviate poverty by providing these groups with credit facilities that are not available to them through conventional banking institutions (Dondo 1999)

Microfinance provides an effective, equitable way of creating the conditions for long-lasting development. Microfinance and its links with community-based education foster conditions for the poor to have long term access to health, education, improved living conditions, development of enterprise and a means for dealing with emergencies or old age. Schreiner (2003), small-scale enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country, accounting for 12-14% of GDP. With about 70% of such enterprises located in rural areas, the sector has a high potential for contributing to rural development. Yet the majority of entrepreneurs in this sector are

considered uncreditworthy by most formal credit institutions. Whereas a small number of NGOs finance an increasing number of micro enterprise activities, most formal institutions still deny these enterprises access to their services. As a matter of fact, the micro and small enterprise sector is a key component of Kenya's economy as it employs about 5.1 million people, accounting for 75 per cent of the total labour force. It contributes 20 per cent to Kenya's GDP.(Business daily Aug.2010)

2.2.1 Employment creation

Employment is key to the attainment of the Millennium Development Goals, without access to productive employment and decent work poverty will not be halved by 2015 this is according to International Labor Organization (ILO) 1998. Logically the question comes up: what can microfinance, the strategy for poverty reduction par excellence, can do to help job creation? The concern for job creation resonates increasingly in the microfinance industry itself. Major microfinance networks justify their work also with the expected impact on job creation.

It can be argued that the word "employment" may not actually mean full time, stable and remunerated jobs, but also largely unpaid family jobs. Indeed, the notion "employment" is elusive in an environment like the informal economy where most clients are own account workers with unpaid family workers. Moreover, employment in the informal economy is often sub-standard: unproductive and un-remunerated, not recognized or protected by law, lacking social protection and economic security. If access to finance should indeed be leading to the proliferation of substandard employment, then this may give MFIs something to think about.

There are different forms of employment. Anecdotal evidence suggests that micro-finance has an effect primarily on self employment and unpaid family labor, in other words on incomes of the direct client of the MFI, less on wage employment outside of the client's family. This is complicated by - largely hidden - shifts and substitution effects taking place within the "household-enterprise" between different forms of paid and unpaid employment:

in the beginning of a MFI-client relationship when the first loan has just become available, unpaid family labor is likely added to the work force, then - with repeat loans and a secured and continuous flow of credit -non-family labor may be brought in, usually at very low wages, until eventually workers may be recruited from outside the family, paid at market rates

These could be the idealized features of a growing MFI client, where improvements in the access to finance bring about an employment effect.

The shifts in demand for labor enhance work quality sometimes, but not automatically. If a loan allows parents to have sufficient additional income that they can afford to take a child out of work and back into school, then it has improved work quality for the entire household-enterprise. But one can easily imagine other scenarios where taking out a loan means those family members have to work much longer hours at no pay. In this scenario work quality would deteriorate. This is not an academic concern; it matters to the working poor. Some even attribute the preference of the poor for self-employment to the inferior quality of wage employment in the informal economy: exploitative informal jobs.

Access to finance is practically identified with access to credit. The assumption is that job creation hinges on investment, and that investment requires external finance. However, strictly speaking access to leased tools and equipment, or to guarantees, payment and transfer services, including the case where a family joins a credit union to be able to receive remittances from a migrant family member, all of these should be considered, as well, in addition to credit.

Credit and any other financial service do not directly and immediately lead to employment. It all depends on the use made of financial resources: the client's decision on use is often not readable for the MFI, it may diverge from the agreed purpose. Whether that happens and how effectively credit use translates into employment is determined by the client's mix of income, consumption and savings/investment.

Household-enterprises use money fairly flexibly for the occasional income generating activity, for social investments, children schooling and consumption. It could also be that the

person dealing with the MFI is not the person using the loan which can have all kinds of liability risks for the direct client. Household-enterprise are not incorporated, hence the blurred liability in case of repayment problems.

Being closer to the poverty line a household enterprise is more risk averse than a specialized enterprise with separate accounts and limited liability; risk aversion restrains the propensity to invest in new production technologies, which would boost employment. Hulme and Mosley (1996) find indeed limited technological innovation and increases in labor productivity as a result of micro loans.

Because of risk aversion household-enterprises also tend to hang on to their bundle of income generating activities. While understandable as a strategy of risk diversification and risk management it means that productive assets are spread too thin, not yielding any productivity improvements and thus wage increases. The ease of substitution between, say unpaid family labor and wage labor, varies from one sector of activity to another. Facing constrained substitution and limited choices between different labor inputs, the household-enterprise will tend to keep to sources of labor from within the family: children, apprentices from the enlarged family, unpaid family labor.

The owner of a micro enterprise and her family may also extend their working hours, regardless of the marginal returns to their labor input (a form of self exploitation), before they can bring themselves to pay for the services from outside the family. This is likely to be more pronounced in an environment with rigid hiring and firing rules in the formal labor market. As ease of substitution between different kinds of labor input matters a lot to operators in the informal economy, heavy labor regulations may act as a break on hiring workers from outside the family, reinforcing the use of own labor, child labor and unpaid family labor even in cases where the client could benefit from wage labor

Investment in fixed assets, i.e. a new tool or machine, is generally considered to be the precondition for a job created. Micro loans can also be used to enlarge the working capital of a micro enterprise or to remove a temporary liquidity bottleneck.

If there are already some paid non family workers - even if they are only on part time, then any additional loan is more likely to translate into paid employment for non family members. This argument could by extension signal that small enterprises might have the strongest "employment elasticity" compared to other size categories. Bolnick and Nelson (1990), for example, arrive at a positive conclusion about employment impact.

In addition, the employment effect obviously hinges on the sector of activity and its labor-intensity. The incremental impact on "employment" varies from 1.2 and 4.5 jobs per firm. In some sectors such as fishpond farming borrowers hired even fewer new workers than non-borrowers and in construction there was even a negative impact on employment - suggesting labor saving investment

As long as so little is known about the magnitude, direction and irreversibility of these shifts between different forms of labor, it may be unwise and premature to advise MFIs to be pro-active in their selection and appraisal of clients. It is therefore vital that this knowledge gap is closed soon. Having sound research findings at hand, it will be easier to take an informed position on the superiority or inferiority of different sorts of employment outcomes.

However other studies in Latin America showed this is not a necessary outcome, MFIs can accompany the growth of their clients without loosing sight of their mission. The argument for a more pro-active involvement of MFIs in employment promotion is closely related to the formalization debate: should MFI help their clients to become progressively more formalized, for their own, the MFI's and society's benefits?

Assuming that one can trace employment effects following improved access to finance, one needs to look more closely at the quality of employment. Has the ease in the access to credit led parents to withdraw their children from school so that they can help in the income generating activity that was started with the micro loan? Or has access to credit allowed parents to put a child to school because the surplus produced more than compensated the marginal product of the child "employed" This is still an open debate. A lot obviously depends on factors like the productivity of the child labor, proximity and accessibility of the

school, number and gender of children in the household, availability of alternative sources of credit etc.

In economic terms child labor creates a trade-off between current and future income. Putting children to work raises current income, but by interfering with children's human capital development, it reduces future income. However, the future income is realized by the children and not by the parents. If bequests are positive, parents can compensate themselves for foregone current income by reducing bequests. Instead, when parents do not leave bequests for their children (for example, if they are poor) or if financial market imperfections do not allow parents to trade off old-age income with current resources, parents will have their children supply too much labor. If households are credit constrained they might supply child labor as a consumption smoothing mechanism in case of income shocks.

2.2.2 Poverty alleviation

Microfinance offers promise for alleviating poverty by providing financial services to people traditionally excluded from financial markets. Small-scale loans can relieve capital constraints that might otherwise preclude cash-strapped entrepreneurs from investing in profitable businesses, while savings services can create opportunities to accumulate wealth in safe repositories and to manage risk through asset diversification.

After all, microfinance is attractive and in many cases superior to alternative anti-poverty strategies, for several reasons: it has rapid, massive and verifiable effects; it can be measured and evaluated; it can often be scaled up quickly; it can be targeted with precision at the poor and sometimes even the very poor; unlike grant or transfer-based programs in poverty reduction, microfinance recycles financial resources, they do not get lost but stay in the local economy. But above all: microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives.

Agricultural activities dominate the rural economies. A full package of resources that should be given to farmers so as to be empowered in their productive efforts include human Capital (knowledge, skills, labor); Natural Capital, land, Financial Capital (savings and credit); Social Capital (local organizations and alliances) and Physical Capital (rural infrastructure and equipment). Financial resources should also be availed to work, as a lubricant to

production. There is need for them to be financially liquid. Microfinance advocates for training the recipients of credit so that they know how to efficiently and effectively manage the resources.

Access to financial services is pivotal to all the other factors that may affect land holders as they help the poor expand their economic activities; incomes and assets and self-confidence. Some writers argue that microfinance worsens poverty by making borrowers poorer. Once a poor person borrows money, the chances of repaying are slim so he/she cannot leave the cycle of poverty .However; the advent of microfinance refutes this by introducing loans that are followed with a range of services (integrated approach) that help in empowering the poor and building confidence in them. They also assist them in wealth accumulation thereby promoting sustainability.

2.2.3 Distribution of Income or Wealth

SMEs are often said to contribute to a more equal distribution of income or wealth. To the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income. However, SME owners and workers are unlikely to be the poorest of the poor, so that SME promotion may not be the most effective poverty alleviation instrument. In addition, the strategy of promoting SMEs to achieve equity objectives may be less effective than more direct methods, e.g., income transfers.

On the other hand great stories on the benefits of microfinance have been told from around the globe and have gone a long way to turn microfinance from a few scattered programs in to a global movement. Consider the ever repeated stories of women and their families living at the verge of poverty and desperation, then eventually the lives of the household members take a turn for the better once these women are given the opportunity to access credit.

Regarding the argument that microfinance enables households to start income generating enterprises, development economists argue that if every informal self employment is to be

defined as entrepreneurship then lots of such entrepreneurship in a country does not necessarily mean economic growth or the reduction of poverty (Acs 2006). Acs continues to argue that, "If by entrepreneurship, one allows inclusion of any type of informal self-employment, then high levels of such entrepreneurships may actually mean either that there are substantial bureaucratic barriers to formally creating a new business, or simply that the economy is creating too few conventional wage-earning job opportunities.

Under these circumstances, we might reasonably hypothesize that high level of sole-proprietorship and informal entrepreneurship would correlate with slow economic growth and lagging development (Acs 2006). Logically, it can not be expected that microfinance is a "magic bullet" against poverty. In some contexts just like research has demonstrated microfinance could work well for the poor Khandker (2005), Morduch (1999) and in other contexts it may not work the same way,Kiiru and Mburu (2006), Kiriti (2007). Once researchers and policy makers agree that microfinance can not be a panacea against poverty then research would concentrate more on what works and the context in which it works.

Demand for joint liability microfinance loans decrease with household socioeconomic status in the sense that wealthier households are unlikely to join joint liability microfinance programs. The possibility of good welfare outcome after a microfinance intervention is also influenced by the pre-existing wealth of participating households. In other words there are three important points we are making from these results; the first is that microfinance is only an option for the relatively poor of the society, second even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance and thirdly the vulnerable poor have a greater risk to slide backwards in the course of stringent loan repayment procedure. Yet these results are not far fetched, theory as well as recent empirical work confirms that indeed microfinance is an option for the relatively poor in society (Rodman 2006,).

2.2.4 Financial Performance Measures

Performance measurement systems provide the foundation to develop strategic plans, assess an organisation's completion of objectives, and remunerate mangers (Alderfer, 2003).

Although assessment of performance in the marketing literature is still very important, it is also complicated (Andersen and Segars, 2003). While consensual measurement of performance promotes scholarly investigations and can clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged. Two approaches have been adopted in the literature to measure financial performance. Longer term performance has been chosen for two reasons: firstly because that is what the customers of "retail" products such as unit trusts might be expected to be looking at, particularly in view of the charging arrangements which make shorter term investment unwise. Secondly, one of the attractions of looking at "real" products rather than theoretical studies is the question of how administrative costs contribute to the results. In principle, such costs might appear in either front-end, or regular annual management charges. Using five-year offer-to-bid figures should capture such effects regardless of the choices of individual firms as to how to split costs between the two types of charges.

The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Barley, 2000). The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency (Bijker, 2007).

As with any method of analysis designed to measure business performance, there are limitations and imperfections associated with the use of financial ratios, particularly the use of very few ratios in isolation (Im and Workman, 2004). Hence this research endeavours to bring together several performance measures, financial ratios, and linear programming techniques and investigate the interplay between them rather than focusing on any individual measure in isolation.

Simply stated, much of the current business performance literature describes the objective of institutions as that of earning acceptable returns and minimizing the risks taken to earn this return (Lai, 2004). There is a generally accepted relationship between risk and return, that is, the higher the risk the higher the expected return. Therefore, traditional measures of bank performance have measured both risks and returns.

Liquiditymeasures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to the balance sheet (assets and liabilities) and operational liquidity refers to cash flow measures. On the other hand Quach, (2005) indicated that solvency measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the farm's ability to continue operating after a major financial adversity.

Zenios et al. (1999) indicated that three widely used financial ratios to measure solvency are the debt-to-asset ratio, the equity-to-asset ratio and the debt-to-equity ratio. These three solvency ratios provide equivalent information, so the best choice is strictly a matter of personal preference. Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business.

Four useful measures of firm profitability are the rate of return on firm assets (ROA), the rate of return on farm equity (ROE), operating profit margin and net firm income. The ROA measures the return to all firm assets and is often used as an overall index of profitability, and the higher the value, the more profitable the firm business. The ROE measures the rate of return on the owner's equity employed in the firm business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a profitable return on their borrowed money (Zenios et al. 1999).

2.3 Critical Review of previous Studies

Improving the availability of credit facilities to the Micro, small and medium enterprises sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy. Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed. According to Zeller, and Meyer (2002), the provision of credit facilities to small business activities reflects specific needs and constraints: small-scale enterprises need to purchase and process inputs, innovate, improve their productivity and modernize constantly.

They further argue that the demand of small-scale enterprises for microfinance services has extremely diverse characteristics, varying according to the ecological zone, the type of activity, the degree of diversity and intensity of production systems, the type of micro-client, and the degree of market integration. This implies that standardized microfinance products do not always fit their financial needs, and more targeted microfinance services is needed. Schreiner and Meak (2003) contends that the microfinance institutions in providing credit facilities facilitate institutional and human capacity building of small business, including training, the improvement of financial infrastructure and exposure to and promotion of best practices in expanding the range of products available, broadening clientele, and establishing operations in more profitable areas. In order to become fully profitable and expand services small scale enterprises require financial support in the form of credit facilities from the microfinance institutions to operate, develop innovative products, and enhance delivery.

Strong microfinance institutions have the capacity to mobilize resources in the market, provide the microfinance services demanded by small businesses, despite the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy. Hence despite efforts to overcome the widespread lack of financial services, especially among small businesses, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986).

The lending policies for most microfinance institutions are more market friendly in terms of loan amounts, application procedures, credit duration, terms of payment, required security

and the provision of supplementary services (Schmidt and Kropp, 1987). For small-scale enterprises, reliable access to short- term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of small Businesses and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established.

2.4 Conclusion

Lack of saving and capital make it difficult for many poor people who want jobs in the formal and informal sectors to become self employed and to undertake productive employment generating activities, providing credit seems to be a way to generate self-employment opportunities for the poor.

All said and done, microfinance remains a powerful tool for development. It may be a drop in the ocean, but it has made people self sufficient. Evidence points to the several beneficial side-effects of microfinance, in particular, empowerment of vulnerable groups and the inculcation of financial training and discipline amongst the poor which will undoubtedly have long-term socioeconomic benefits. The principles of self-help thus hold the key to economic and socio-cultural freedom for millions of poor, opening the gates of a hitherto untapped reservoir of human enterprise. However, for sustainable development of the poor and rural economy, the focus should also be on spreading microfinance and bringing down the cost of capital and the operating costs, thus strengthening the bonding between microfinance and the beneficiaries.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter involves the methods the researcher used to collect the data for the study. These include research design, target population, sampling design, data collection instruments, data collection procedure and data analysis.

3.2 Research design

According to Kerlinger (1986) "research design is the plan and structure of investigation so conceived so as to obtain answers to research questions. The plan is the overall program of the research and includes an outline of what the investigator will do from writing of the hypothesis and their operational implications for the final analysis of data. Schindler and Cooper (2003) summarizes the essentials of research design as an activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity.

The researcher employed causal research design which is useful in investigating the cause and effect relationship between two or more variables. In this case the researcher is interested in measuring the extent of relationship between employment creation, poverty alleviation, equitable distribution of income and micro financing amongst the micro, small and medium scale sector. Precisely the researcher attempted to specify the extent to which micro finance institutions have helped micro, small and medium enterprises create employment, alleviate poverty and bring about equitable income distribution in Kenyan economy.

3.3 Population

The population of the study was from micro, small and medium businesses within Nairobi Eastland mainly dealing in the sale of motor vehicle spare parts. The region is expected to have a population of 200 business units operating. This group is considered to be easily accessible and therefore able to gather a lot of information. According to Taylor and Bogdan (1998), an ideal research setting is one where the observer has easy access, is able to

establish immediate rapport with participants, and can gather data that is directly related to the research interests. However, the target groups were business owners and their employees.

3.4 Sample Design

According to Trochim (2005), Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen.

According to Schindler and Cooper (2003) a sample size of more than 5% is acceptable. From the target population of 200, the sample size consisted of 60 respondents whom were selected using a random sampling technique. Noting that the entire population is homogeneous in the aspects of size, nature of business, business environment and their sources of financing, random sampling shall give a more representative sample. Random sampling was appropriate since it ensured that everyone in the population had an equal chance of being selected and the chances of biasness were minimized.

3.5 Data Collection

The researcher used both primary and secondary sources to collect data. The primary data was used due to its nearness to the truth and ease for control over errors (Schindler and Cooper, 2003). In this case the Primary data was collected using Questionnaires and interviews.

Kirakowski (1998) defines a questionnaire as a method for the elicitation, recording and collecting of information. The researcher chose the self-administered questionnaire method for all correspondents as it was inexpensive and allowed the respondents to complete the questionnaire at a convenient time. Questionnaires generated data in a very systematic and ordered fashion. The researcher administered questionnaires containing mainly closed ended questions to the sample respondents. Hence each respondent received the same set of questions in exactly the same way. An assumption taken by the researcher was that all respondents were literate and thus able to read and write. The questionnaires enabled the collection of data on the impacts of MFI and also on the financial performance of the SMEs.

A semi-structured interview refers to a context in which the interviewer has a series of questions that are in the general form of an interview schedule but where one is able to vary the sequence of questions. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies (Bryman, 2004: 113). This method is used to ensure the flow of interview so that they could be used for comparison during the data analysis process. This technique will be considered appropriate for this study because it will increase the likelihood that respondents in the sample would agree to respond by the interviewer explaining to them the importance of the interview and assuring them of its confidentiality. Face to face interviews were given to the interview a human face and allow the interviewer the opportunity to make questions easier.

Pre-testing of the data collection instruments was done. Pre-testing of the instrument enables the researcher to assess the clarity of the instrument and its ease of use. Pre-testing allows errors to be discovered as well as acting as a tool for training a research team before the actual collection of data begins. They further argue that effective revision is the result of determining participant interest, discovering if the questions have meaning for the participant, checking for participant modification of a question's intent, examining question continuity and flow, experimenting with question-sequencing patterns, collecting early warning data on item variability and fixing the length, and timing of the instrument.

Validity and reliability of the data collected is to ensure good quality research. According to Trochim (2005) Reliability has to do with the quality of measurement. In its everyday sense, reliability is the "consistency" or "repeatability" of your measures. Validity concerns that whether the concept really measures the aimed concept (Bryman, 2004).

Expert validity views and suggestions of the supervisor's were incorporated in the questionnaire which was aimed at capturing specific information from the respondents. Developed questionnaires were sent to some selected sample respondents and then the information acquired evaluated to assess their reliability.

During interview it was made clear in the introduction the purpose of the research. By clarifying the academic purpose and that they would not experience negative effects when contributing to the research.

Secondary data was also sourced to supplement the primary data. This was collected from the relevant sources which included reports, newsletter and unpublished data on microfinance and Micro, Small and medium Enterprises.

3.6 Data Analysis

The data collected by use of the various instruments was first thoroughly edited and checked for completeness and comprehensibility. The edited data was summarized and coded for easy classification in order to facilitate tabulation. The tabulated data was then analyzed by calculating various percentages where possible. Descriptive statistics especially, frequencies and cross tabulation were applied to help establish patterns, trends and relationships and to make it easier for the researcher to understand and interpret implications of the study. Presentation of data was in form of Tables, Pie-charts and Bar graphs only where provide successful interpretation of the findings. Descriptive data was provided in form of explanatory notes.

Once the data was edited and checked for correctness, the researcher analyzed it using SPSS Statistics program. This is a comprehensive easy to use set of data and predictive analytic tool. The program is useful since it speeds and simplifies the entire analytical process from data access and preparation to analysis, deployment of results and reporting. Again SPSS offers superior analysis capabilities; flexibility and usability.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likerts scale. The data has been presented in form of quantitative, qualitative followed by discussions of the data results. The chapter concludes with critical analysis of the findings.

4.1 Respondents' demographic characteristics.

4.1.1 Gender

The study in this section aimed at establishing the gender. Majority of the respondents were males comprising 87 percent while 13 percent were females.

Table 1. Gender

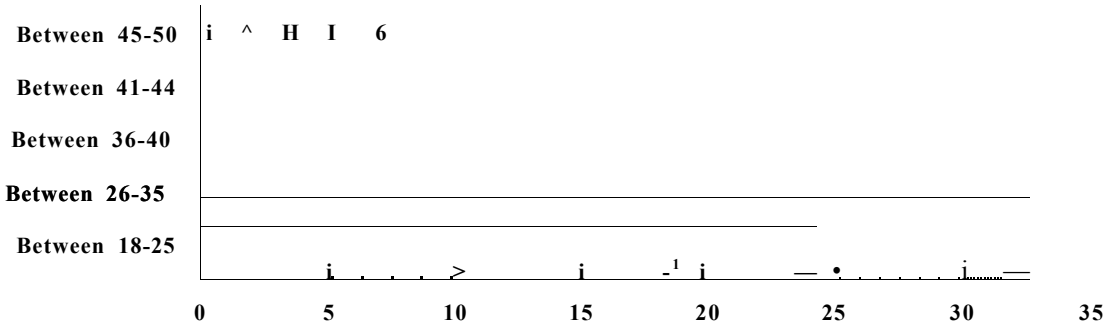
	Frequency	Percent
Male	47	87
Female	7	13
Total	55	100

Source: Research Data, 2010

4.1.2 Age bracket

This section aimed at establishing the age bracket of the respondents. Findings from figure 4.1 showed that a majority of the respondents were between ages 26 to 35 years comprising 32 percent while 28 percent were between ages 36 to 40. In addition, 18 percent of the respondents were between ages 18 to 25 years while 16 percent were between ages 18 to 25 years old.

Figure 1. Age bracket



4.1.3 Highest level of education

In this section, the aim was to establish the highest level of education of the respondents. Results depicted in table 4.2 revealed that a majority of the respondents had college level of education comprising 58 percent while 30 percent had university level of education. Only 12 percent had secondary level of education.

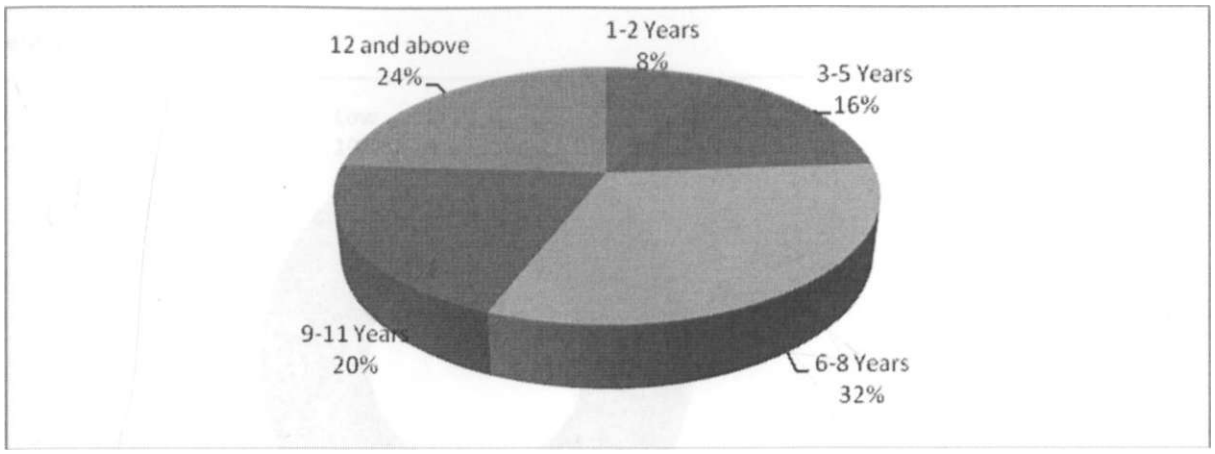
Table 2. Highest level of education

	Freq	Percent
Secondary	6	12
College	32	58
University	17	30
Total	55	100

4.1.4 Number of years working as a client of Micro, Small and Medium Enterprises sector

The study went further to establish the number of years the respondents had been working or as a client of Micro, Small and Medium Enterprises sector. Findings from the figure showed that majority of the respondents had worked for a period of 6 to 8 years comprising 32 percent while 24 percent had worked for a period of 12years and above.20 percent had worked for a period of 9 to 11 years.

Figure 2. Number of years working as a client of Micro, Small and Medium Enterprises



4.1.5 Major source of your financing

In this section, the study aimed at establishing the major source of funding of the respondents. Results depicted in table 4.3 shows that a majority of the respondent's source of funding was their own savings (58 percent) while 30 percent of the respondents sourced their funding from microfinance institutions or group borrowing. Only 12 percent had sourced their financing from commercial banks.

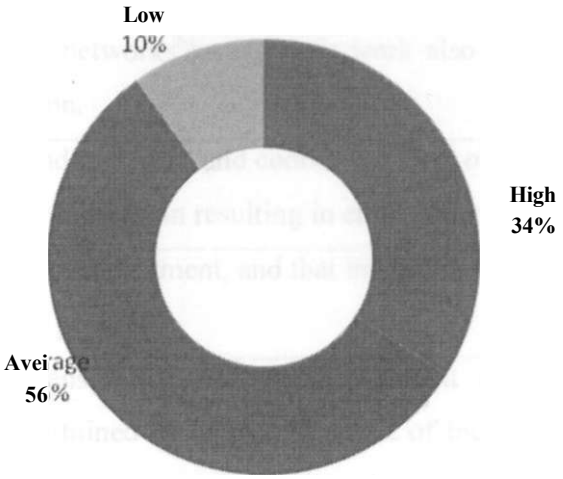
Table 3. Major source of your financing

	Frequency	Percentage
Own savings	32	58
Micro financing/Group borrowings	17	30
Commercial Banks	6	12
Total	55	100

4.2 Employment Creation

The study further inquired whether the services of micro financing impacted the level of employment. All respondents agreed that the services of micro financing impacted the level of employment. The study went further to establish the impact into which the services of micro financing impacted the level of employment. Findings from the study revealed that majority of the respondents agreed that the services of micro financing had an average impact on the level of employment as was shown by 56 percent while 34 percent cited that the services of micro financing had a high impact on the level of employment.

Figure 3. Impact into which the services of micro financing impacted the level of employment



4.2.2 How Employment creation affect Kenyan economy

In this section, the study aimed at establishing views on how employment creation affects Kenyan economy. The respondents cited that employment creation led to reduced gap between rich and poor, stable economy, sustainable development, improved infrastructure and services as a result of wealth creation in a country.

To the question on extent of agreement with various statements that relate to the effect of MFIs on employment creation, the study findings in the table 4 below show that majority of the respondents strongly agreed that major microfinance networks justify their work also with the expected impact on job creation as shown by a mean score of **1**.3609 while others were in agreement that with repeat loans and a secured and continuous flow of credit -non-family labor may be brought in resulting in employment shown by a mean score of 1.8478,

Table 4. Extent of agreement with various statements that relate to the effect of MFIs on employment creation

	Mean	Std Dev
Major microfinance networks justify their work also with the expected impact on job creation.	1.3609	1.03676
With repeat loans and a secured and continuous flow of credit -non-family labor may be brought in resulting in employment	1.8478	.72930
Job creation hinges on investment, and that investment requires external finance which MFIs provide	2.8043	.90969
Whether that happens and how effectively credit use translates into employment is determined by the client's mix of income, consumption and savings/investment	2.2826	1.00362
Risk aversion restrains the propensity to invest in new production technologies, which would boost employment	2.1087	.87504
Micro loans has resulted in limited technological innovation and increases in labor productivity	2.3913	1.10510
The employment effect of MFIs obviously hinges on the sector of activity and its labor-intensity	2.5000	1.00554
Improved access to finance from MFIs increases employment	3.1087	1.07968

risk aversion restrains the propensity to invest in new production technologies, which would boost employment shown by a mean score of 2.1087, whether that happens and how effectively credit use translates into employment is determined by the client's mix of income, consumption and savings/investment shown by a mean score of 2.2826 and micro loans has resulted in limited technological innovation and increases in labor productivity shown by a mean score of 2.3913. Majority of the respondents were also neutral on the fact that the employment effect of MFIs obviously hinges on the sector of activity and its labor-intensity shown by a mean score of 2.5000, job creation hinges on investment, and that

investment requires external finance which MFIs provide shown by a mean score of 2.8043 and improved access to finance from MFIs increases employment shown by a mean score of 3.1087.

4.3 Alleviation of Poverty

The study inquired from the respondents on whether micro financing of MSME helped in poverty alleviation in Kenya. All respondents agreed that micro financing of MSME helped in poverty alleviation in Kenya. The study further inquired on the various ways in which the businesses had an impact in poverty alleviation. The respondents cited that their businesses had employed people, taxes had led to improved infrastructure and services, improved technology and that more people had become independent on themselves.

The study sought to find out the level of agreement with various statements on the effect of MFIs on poverty alleviation. From the study findings, majority of the respondents strongly agreed that microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives shown by a mean score of 1.3043. The respondents were in agreement that microfinance enables households to start income generating enterprises shown by a mean score of 2.0217 and microfinance offers promise for alleviating poverty by providing financial services to people traditionally excluded from financial markets shown by a mean score of 2.2826 while others were neutral on the fact that MFIs help the poor in wealth accumulation thereby promoting their sustainability shown by a mean score of 2.6739 and that microfinance worsens poverty by making borrowers poorer shown by a mean score of 2.7000.

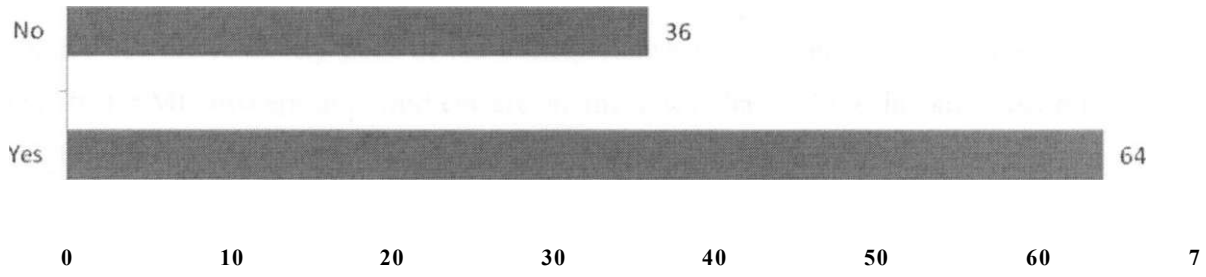
Table 5. Level of agreement with various statements on the effect of MFIs on poverty alleviation

	Mean	Std Dev
Microfinance offers promise for alleviating poverty by providing financial services to people traditionally excluded from financial markets	2.2826	1.10881
Microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives	1.3043	.93973
Microfinance worsens poverty by making borrowers poorer	2.7000	1.02740
MFIs help the poor in wealth accumulation thereby promoting their sustainability	2.6739	1.05524
Microfinance enables households to start income generating enterprises	2.0217	.97728

4.4 Equitable distribution of income

The study further inquired whether equitable distribution of income affects Kenyan Economy. Findings from the study revealed that majority of the respondents agreed that equitable distribution of income affects Kenyan Economy as was shown by 64 percent while 36 percent disagreed.

Figure 3. Whether equitable distribution of income affects Kenyan Economy.



In addition, the study inquired on how equitable distribution of income affects Kenyan economy. The respondents cited that equitable distribution of income led to equitable and affordable services such as health, even distribution of resources such as infrastructural development and reduction of the gap between the rich and the poor in the society. In addition, it leads to development of marginalized areas and led to exploitation of new resources.

The respondents were further requested to indicate their extent of agreement Extent with various statements that relate to the effect of MFIs on equitable distribution of income.

Table 6. Extent of agreement with various statements that relate to the effect of MFIs on equitable distribution of income

	Mean	**Std Dev**
To the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income	2.2391	1.11922
Demand for joint liability microfinance loans decrease with household socioeconomic status	2.8478	.94204
Microfinance is only an option for the relatively poor of the society	2.1261	.99005
Even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance	2.4565	.83550

According to the study findings, the respondents were in agreement that microfinance is only an option for the relatively poor of the society shown by a mean score of 2.1261, to the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income shown by a mean score of 2.2391 and even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance shown by a mean score of 2.4565 while others were neutral of the fact that demand for joint liability

microfinance loans decrease with household socioeconomic status shown by a mean score of 2.8478.

4.5 Impact on the Financial Performance

The study went further to inquire whether the services of Microfinance institutions had an impact on the financial performance of the businesses. Majority of the respondents agreed thatthe services of Microfinance institutions had an impact on the financial performance of the businesses. The study further revealed that the services of Microfinance institutions had a positive impact on the financial performance of the businesses.

Table 7. Extent that MFIs enhance the various factors to improve financial performance

	Mean	**Std Dev**
The institution size	2.0652	1.08325
Its asset management	1.4435	1.04789
The operational efficiency	1.3534	1.11555
Minimizing the risks taken	2.4739	1.19358
Reducing liquidity	1.3739	.99564

The study further sought to establish the extent that MFIs enhance various factors to improve financial performance. From the study findings, majority of the respondents indicated that to improve financial performance, MFIs enhance the operational efficiency, reducing liquidity and its asset management to a very great extent as shown by a mean score of 1.3739, 1.3534 and 1.4435 respectively and also the institution size and minimizing the risks taken to a great extent as shown by a mean score of 2.0652 and 2.4739 respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Summary

The study revealed that a majority of the respondents were males comprising 87 percent while 13 percent were females. In addition, majority of the respondents were between ages 26 to 35 years comprising 32 percent while 28 percent were between ages 36 to 40. In addition, 18 percent of the respondents were between ages 18 to 25 years while 16 percent were between ages 18 to 25 years old.On level of education, majority of the respondents had college level of education comprising 58 percent while 30 percent had university level of education. Only 12 percent had secondary level of education. On the duration of work, majority of the respondents had worked for a period of 6 to 8 years comprising 32 percent while 24 percent had worked for a period of 12years and above.20 percent had worked for a period of 9 to 11 years.

On the topic of the major source of funding of the respondents, the study revealed that a majority of the respondent's source of funding was their own savings (58 percent) while 30 percent of the respondents sourced their funding from microfinance institutions or group borrowing. On employment Creation, the study established that the services of micro financing had an average impact on the level of employment as was shown by 56 percent while 34 percent cited that the services of micro Financing had a high impact on the level of employment.

On the topic of how employment creation affect Kenyan economy, the study revealed that employment creation led to reduced gap between rich and poor, stable economy, sustainable development, improved infrastructure and services as a result of wealth creation in a country. The study also established that major microfinance networks justify their work also with the expected impact on job creation, with repeat loans and a secured and continuous flow of credit -non-family labor may be brought in resulting in employment, risk aversion restrains the propensity to invest in new production technologies, which would boost employment, whether that happens and how effectively credit use translates into employment is

determined by the client's mix of income, consumption and savings/investment and micro loans has resulted in limited technological innovation and increases in labor productivity.

On the issue of alleviation of poverty, the study revealed that micro financing of MSME helped in poverty alleviation in Kenya. The study also found that that microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives, microfinance enables households to start income generating enterprises and microfinance offers promise for alleviating poverty by providing financial services to people traditionally excluded from financial markets.

The study further established that through equitable distribution of income affects Kenyan economy. On how equitable distribution of income affects Kenyan economy, the study revealed that equitable distribution of income led to equitable and affordable services such as health, even distribution of resources such as infrastructural development and reduction of the gap between the rich and the poor in the society. In addition, it led to development of marginalized areas and led to exploitation of new resources. It was also clear from the study that that microfinance is only an option for the relatively poor of the society, to the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income and even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance.

On the topic of whether the services of Microfinance institutions had an impact on the financial performance of the businesses, the study revealed that the services of Microfinance institutions had an impact on the financial performance of the businesses. The study further revealed that the services of Microfinance institutions had a positive impact on the financial performance of the businesses. To improve financial performance, MFIs enhance the operational efficiency, reducing liquidity and its asset management.

S.2 Conclusion

The study concludes that Microfinance institutions had a great impact on employment creation and poverty alleviation in the Micro, Small and Medium Enterprises Sector. The concern for job creation resonates increasingly in the microfinance industry itself. Major

microfinance networks justify their work also with the expected impact on job creation. The study revealed that major microfinance networks justify their work also with the expected impact on job creation, with repeat loans and a secured and continuous flow of credit -non-family labor may be brought in resulting in employment. Microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives and also enables households to start income generating enterprises.

The study further concludes that Microfinance institutions had a positive impact on equitable distribution of income and wealth in the Micro, Small and Medium Enterprises sector. Through Microfinance institutions, people were able to start their own entrepreneurial activities. It was clear that microfinance is only an option for the relatively poor of the society. In addition, the study concludes that the services of Microfinance institutions had a positive impact on the financial performance of the businesses. To improve financial performance, MFIs enhance the operational efficiency, reducing liquidity and its asset management.

5.3 Recommendations

The study recommends that Microfinance institutions need to continuously provide finance and entrepreneurial knowledge to the poor in the society as this leads to creation of jobs and reduced poverty levels in a country. By helping a poor family to increase their income, micro-enterprise development has an immediate and lasting impact on quality of life - the ability to afford food, shelter, education and healthcare.

5.4 Area of Further Study

This study focused on assessing the impact of microfinance institutions on Micro, Small and Medium Enterprises in Kenya. More research needs to be carried out on other financial institutions such as banks and SACCO's to bring out their impact on Micro, Small and Medium Enterprises in Kenya and the role they are playing in poverty alleviation.

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APPENDIX: A

INTRODUCTION LETTER

Dear Respondent,

RE: IMPACT OF MICROFINANCE INSTITUTIONS' SERVICES ON THE KENYAN ECONOMY

I'm a student at the University of Nairobi, school of business and currently pursuing a Masters degree in business administration. For the fulfillment for the award of Master's degree, a research project is a requirement.

I hereby request for your assistance in filling the attached questionnaire that will facilitate me to prepare and complete the research project.

I assure you that all the information provided herein shall be treated in strict confidence.

Thank you in advance

Yours sincerely,

Peter M Mutuku

APPENDIX: B

RESEARCH QUESTIONNAIRE

BACKGROUND- Personal Information

1. Name.....Optional

2. What is your Gender?

Male [ ] Female [ ]

3. What is your age?

Between 18-25 [ ] Between 26-35 [ ] Between 36-40 [ ]

Between 41-44 [ ] Between 45-50 [ ] 50 and above [ ]

4. What is your highest level of education?

Secondary [ ] College [ ] University [ ]

Others [ ] specify

M

5. How long have you been working/ a client of Micro, Small and Medium Enterprises sector?

1-2 Years [ ] 3-5 Years [ ] 6-8 Years [ ] 9-11 Years [ ]

12 and above [ ]

6. In which respondent category are you?

Business owner [ ] employee [ ] Clients/Customer [ ]

7. What is the major source of your financing?

Own savings [ ] Microfinancing/Group borrowings [ ] Commercial Banks [ ]

8. For how long have you used the financing above?

1-2 Years [ ] 3-5 Years [ ] 6-8 Years [ ] 9-11 Years [ ]

12 and above [ ]

PART 1- Employment Creation

7. Has the services of micro financing impacted the level of employment?

Yes [ ] No [ ]

8. If yes, what is the level of impact?

High [ ] Average [ ] Low [ ]

9. How does employment creation affect Kenyan economy?

+

10. To what extent do you agree with the following statements that relate to the effect of MFIs on employment creation? Use a scale of 1-5 where 1= strongly agree and 5= strongly disagree.

	1	2	3	4	5
Major microfinance networks justify their work also with the expected impact on job creation.					
With repeat loans and a secured and continuous flow of					

credit -non-family labor may be brought in resulting in employment					
Job creation hinges on investment, and that investment requires external finance which MFIs provide					
Whether that happens and how effectively credit use translates into employment is determined by the client's mix of income, consumption and savings/investment					
Risk aversion restrains the propensity to invest in new production technologies, which would boost employment					
Micro loans has resulted in limited technological innovation and increases in labor productivity					
The employment effect of MFIs obviously hinges on the sector of activity and its labor-intensity					
Improved access to finance from MFIs increases employment					

PART 2-Alleviation of Poverty

11. Does micro financing of MSME help in poverty alleviation in Kenya?

Yes [ ] No [ ]

12. If Yes how has your business impacted in poverty alleviation?

13. What is your level of agreement with the following statements on the effect of MFIs on poverty alleviation?

	1	2	3	4	5
Microfinance offers promise for alleviating poverty by providing financial services to people traditionally excluded from financial markets					
Microfinance treats the poor as autonomous individuals who are expectant and want to take charge of their lives					
Microfinance worsens poverty by making borrowers poorer					
MFIs help the poor in wealth accumulation thereby promoting their sustainability					
Microfinance enables households to start income generating enterprises					

PART3-Equitable distribution of income

14. Does equitable distribution of income affect Kenyan Economy?

Yes ( ) No ( )

15. How does equitable distribution of income affect Kenyan economy?

16. To wPfct extent do you agree with the following statements that relate to the effect of MFIs on equitable distribution of income?

	1	2	3	4	5
To the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income					
Demand for joint liability microfinance loans decrease with household socioeconomic status					
Microfinance is only an option for the relatively poor of the society					
Even among the participating poor there are the better "off poor" or the active poor who are likely to get positive impact from microfinance					

PART 4 - Impact on the Financial Performance

17. Does services of Microfinance institutions impact on the financial performance of your business?

Yes [ ] No [ ]

18. If yes, has the impact been positive and into what extend?

19. To what extent do MFIs enhance the following factors to improve financial performance? Use a scale of 1-5 where 1= very great extent and 5= not at all

	1	2	3	4	5 *
The institution size					
Its asset management					
The operational efficiency					
Minimizing the risks taken					
Reducing liquidity					

20. Financial Performance Data

PERFORMANCE MEASURE	**YEAR 2009**	**YEAR 2008**	**YEAR 2007**	**YEAR 2006**	**YEAR 2005**
TURNOVER OR DISBURSEMENT					
SURPLUS OR NET PROFIT					
MARKET SHARE PRICE					
PORTFOLIO AT RISK RATIO					

Thank you for your co-operation