INFLUENCE OF SERVICES OFFERED BY MICROFINANCE INSTITUTIONS ON THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES: A CASE OF BUNGOMA SOUTH DISTRICT, KENYA

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DECLARATION

This research report is my original work and has not been presented for the award of any degree or any other award in any university.

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DEDICATION

This research project is dedicated to my family – my husband Chrispin and daughters Rita, Purity and Masha and my dad and mum for the great inspiration and encouragement they gave me during the study of this course.

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TABLE OF CONTENTS

Title **Page**

DECLARATION……………………………………………………………….……...…..….ii

DEDICATION……….………………………………………………….……..……..…..…iii

ACKNOWLEDGEMENT……….………………….…………………………..…...…. iv

TABLE OF CONTENTS……….……………………..…………………..……………..v

LIST OF TABLES……………………..……………….…………………….………......viii

TABLE OF FIGURES……….………….…………………………………………………ix

ABBREVIATIONS AND ACRONYMS………………………………..…………..….....x

ABSTRACT……………………………………………………………..………… ………xi

CHAPTERN ONE: **INTRODUCTION**

1.1 Background of the study…………………………………………….….……..…. 1

1.2 Statement of the problem…………………………………………...…..…..……. 5

1.3 Purpose of the study……………………………………………….………..……..6

1.4 Objective of the study…………………………………………….………….……6

1.5 Research questions……………………………………………….……………….6

1.6 Significance of the study………………………………………….…….….…...7

1.7 Basic assumptions of the study…………………………………...…………….…...7

1.8 Limitations of the study………………………………………………….…...…...7

1.9 Delimitations of the study……………………………………………….………..…..8

1.10 Definition of significant terms used in the study………..……………………….…....…..8

1.11 Organization of study……………………………………………..........……......9

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction……………………………………………………………………..….…….10

2.2. Past studies on microfinance institutions…………………….…………..…....……..10

2.3. Services offered by Microfinance Institutions………………………...…. ……...12

2.4. Theoretical Literature………………………………..………………..… ….…….18

2.5. Conceptual Framework…………………………...…….……….....……….…...20

2.5.1. Discussion on the conceptual framework……………….………….….……..….21

2.6. Knowledge gap…………………………………………….……………. ………,….21

2.7. Summary of the Literature Review………………………………….…...……..….22

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction…………………………………………..………..….……….......…23

3.2. Research Design……………………………………………….…...….……………..…...23

3.3. Target Population……………………………………..…..…….………..…….23

3.4. Sample size and sampling procedure…………………………..…….….….……..24

3.5. Data collection instruments…..…………………...…...…………..………….….….…....25

3.6. Data analysis techniques…………..…………….….....……………....….…………..…28

3.7. Operational definition of variables…………………..…………………….…......…….29

3.8. Ethical considerations…………………………..……….…………….…..………….31

CHAPTER FOUR: DAT ANALYSIS, PRESENTATION AND INTERPRETATION

4.1. Introduction……………………………………………………………….……….32

4.2. Questionnaire Return Rate…………………………………………………..…..32

4.3. Demographic Information……………………………………………….……...…33

4.4.1. Micro loans and the performance of micro and small enterprises……….………………..36

4.4.2 Micro insurance and the performance of micro and small enterprises……………………37

4.4.3 Micro savings and the performance of micro and small enterprises……………….………..38

4.4.4. Business training and the performance of micro and small enterprises…….………..…40

4.4.5. Loans officers and the performance of MSEs……………………….……….…...…40

4.7. Assessment by microfinance loans officers on the performance of MSEs……………….…..42

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction…………………………………………………………………….……..44

5.2. Summary of findings……………………………………………………………..……44

5.3. Discussions of the findings……………………………………………………..…...45

5.4. Conclusion…………………………………….…………………………………..…47

5.5. Recommendations……………………………………………………….……….….48

5.6.Suggestions for further study………………………………………………………..…..…49

REFERENCES……………………..………………….……..…………..……....…..……..….50

APPENDICES…………………………………………………………….…….....….….….55

APPENDICE A: Letter of introduction……………………………………………...….… 55

APPENDICE B: Questionnaires for MFI clients……………………………….…………….56

APPENDICE C: Questionnaires for loans officers……………………….……………….….61

APPENDICE D: Krejcie and Morgan table……………………………..………………....65

LIST OF TABLES

TABLE **Page**

3.1. Operationalization table……………………………………………………………….…….28

4.1. Questionnaire return rate…………………………………………………..….…..31

4.2. Distribution of respondents by age…………………………………………...…..33

4.3. Educational level of respondents…………………………… ………………..……..…..34

4.4. Distribution of respondents by gender…………………………………………………35

4.5. Categories of respondents by type of business…….…………………..………………...…35

4.6. Sources of working capital……………………………….…………………………..36

4.7. Influence of micro loans on business and stock of MSEs……………………..……….37

4.8. How micro and small entrepreneurs cater for their emergencies……………..…………..37

4.10.Where micro and small entrepreneurs keep their voluntary savings………..…………39

4.11.Influence of savings on business performance………………………………..…….40

4.12.Influence of training on the performance of enterprises………………………………….41

4.13.Performance of loans accessed my MSEs…………………………………..…………41

LIST OF FIGURES

Figure 1; Perceived Conceptual framework…………………………..………………...20

ABBREVIATIONS AND ACRONYMNS

AIMS : Assessing the impact of Microfinance Services.

CGAP : Consultative Group to Assist the Poor

DFID : Department for Institutional Development

K-REP : Kenya Rural Enterprise Program

KWFT : Kenya Women Financer Trust

MFIs : Micro Finance Institutions

MSEs : Micro and Small Enterprises

SEEP : Small Enterprise and Education Promotion Network

SMEP : United Nations Development Program

USAID : United States Agency for International Development

ABSTRACT

This study was about the influence of the services provided by microfinance institutions on the performance of micro and small enterprises. The study was guided by the following objectives. Assess how the provision of micro loans influences the performance of micro and small enterprises, Examine how the provision of micro insurance influence the performance of micro and small enterprises, Assess how the provision of micro savings influence the performance of micro and small enterprises and Examine how the provision of business training influence the performance of small and micro enterprises. The conceptual framework explains the relationship between the services provided by micro finance institutions and the performance of micro and small enterprises. The area of study was Bungoma South District, Bungoma county. The researcher concentrated on three large markets in the county; these are Bungoma town, Kanduyi and Bukembe markets. Clients from four microfinance institutions based in the area participated in the study; these institutions were Equity bank, Opportunity micro loans, Faulu Kenya and Kenya Women Finance Trust. The researcher employed descriptive research design. Stratified random sampling was used to sample out 302 respondents from the four microfinance institutions. Data was collected using questionnaires and interview schedules. The collected data was analyzed using both qualitative and quantitative approaches.The research found that the four categories of services provided by microfinance institutions, if well utilized, can lead to high performance by the micro and small enterprises. The findings of the study further revealed that good loan management, which can be enhanced by provision of business training can lead high performance. On the other hand, the study revealed, a lot more needs to be done to promote a savings culture among the micro and small enterprise. The area of insurance is also wanting; a lot of sensitization needs to be done to make the entrepreneurs embrace insurance as an important part of any business venture. The finding of the study will help in filling the identified knowledge gap. The findings are also expected to fulfill the wishes of most entrepreneurs through legislation that can improve this sector. The findings can also be used by the government through the department of planning to formulate policies that can lead to positive performance of micro and small enterprises.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Harper (1995) contended that credit is about money, and that money is about the only thing development interventions require. He also maintained that the provision of credit could itself be self sustaining enterprise. This provides the opportunity of linking micro enterprises. Kritz (1990) considered whether loans were large enough to finance investment in fixed capital since changing technology in the informal sector required large sums of money. Kritz (1990) also reported that micro enterprises had increased their employment since entering credit programs, and that there were significant changes in capital and equipment such as machines and tools, and improvement in the layout of businesses premises. He also discovered that there were improvements in the welfare of entrepreneurs such as improvements in the homes, purchase of other assets, defraying previous debts and health expenditure. All these were as a result of income derived from microfinance. Buvunic et al (1990) in evaluating programs in Quito found that there was significant increase in the income of micro enterprises. However, he realized that there was little evidence that micro credit had produced dramatic increase in employment, since employment had fallen in micro enterprises. He therefore concluded that 'projects extending credit to micro enterprises, contrary to what is expected, do not generate additional employment; but rather, preserve jobs and their success should not be measured by the generation of new jobs.'

Micro and Small enterprises play a pivotal role in creating dynamic market oriented economic growth, employing the growing workforce in developing countries, reducing poverty and promoting democratization, UNDP (1999). Micro and Small enterprise development measures are defined as actions taken to promote the contribution of micro enterprises to meeting specified development goals. Micro and Small enterprise development can be best achieved with sound, efficient and sufficient provision of financial services from micro Finance Institutions so as to boost their working capital requirements. Micro and Small Enterprises require reliable access to efficient financial services that will help them improve their businesses by injecting additional working capital. They also need sound savings schemes that ensure convenient access to their secured and liquid deposits and payment of reasonable returns on their savings (World Bank report, 1993)

Globally, microfinance is associated with Muhammed Yunus who was a professor in Bangladesh in the 1970s. In the midst of countrywide famine, he started making small loans to poor families in an effort to break their cycle of poverty. As his project expanded rapidly, he started the Grameen bank with some assistance from the government. This project was registering some impressive repayments, consistently at 98%. In less than a decade, the bank became autonomous, operating independently from the government (Cheston 2002).

Microfinance in Canada took shape through the development of credit unions. These credit unions provided financial services to the Canadians who could not get access to traditional financial means. Two separate branches of credit unions developed in Canada to serve the financially marginalized segment of the population. Establishments of savings and credit services were created in late 1900 to the Quebecois who did not have financial access. Approximately 30 years later Father Moses Coady introduced credit unions to Nova Scotia. These are the models of the modern institutions still present in Canada today (Adams, 1984).

In South Africa, high level of unemployment in the 1990's ushered in a period of growth in making finance available to microenterprises. The signing of an exemption to the Usury Act in 1992 removed price controls on small loans. Commercialization of micro lending in South Africa took off greatly, though the intended outcome was not realized. Instead of funds being channeled into microenterprises, consumer spending became main recipient (Porteus & Hazelhurst; 2004). A study in 1997 on the micro lending environment conducted by Professor PG du Plessis of the University of Stellenbosch showed that in 1997 an estimated 3500 formal micro lenders, 2000 semi-formal micro-lenders and 25000 informal micro lenders were in operation. Transactions which were common were in the cash loan (short-term) end of the market Provision of microfinance in the country is mainly focused on inhabitants in townships and rural areas. Coverage by MFIs is for the different provinces, with each province having unique characteristics and thus requirements (Du Plessis; 1998).

Uganda is generally seen as the country with the most vibrant and successful microfinance industry in Africa. Some MFIs have experienced strong growth and are now reaching a considerable number of clients, with three serving between 25.000 and 45.000 clients. A number of microfinance providers are close to financial sustainability or have already surpassed it, A series of impact studies conducted in Uganda in the past years have demonstrated that the provision of microfinance services contributes to reduced client vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, and enables clients to acquire valued skills (Barnes 1998).

The very poor are unusually susceptible to income shocks. Death, illness, natural disaster, or other catastrophes can have devastating effects on households existing at or just above a subsistence level. With no asset base on which to draw in the crisis, they may be forced to severely reduce their level of consumption, which can be dangerous if it means forgoing basic healthcare and nutrition. Additionally, they may sell off important, income producing assets, exacerbating their economic difficulties well into the future (Woods, 1998)

The benefits of MFIs are numerous. Financial services that allow poor people to save in times of prosperity and borrow or collect insurance when necessary allow them to maintain a consistent level of consumption without selling off income-producing assets. Microfinance can also provide an opportunity for expanding or pursuing new business opportunities that allow poor people to increase or diversify the sources of their income. It has also been argued that microfinance can also promote the development of a traditional financial sector. Most obviously, by alleviating poverty, microfinance can deepen the market for more traditional financial services. Such improvements could strengthen the financial sector as a whole, creating a feedback loop that could serve to lift even more families out of poverty (Rahman, 1999).

Microfinance can also generate important non economic benefits. For instance many MFI programs are aimed specifically at women. It has been suggested that access to financial services enhance women's power and influence in the household. The ability to make decisions over certain purchases and their new status as important household earners has been linked not only to increased bargaining power, but also to a decreased incidence of domestic violence. (Lower incidence of abuse could also be the result of third party scrutiny from loan officers and, in the case of group lending, fellow borrowers.) Furthermore, the opportunity to pursue business opportunities may make women more likely to use contraceptives and lower fertility rates. Some typical features of MFIs include several innovative contractual devices, including group lending, progressive lending, short-term contracts, and targeting of women, in efforts to overcome the obstacles that have traditionally discouraged lending to the poor. Group lending is the most important form of the microfinance innovations, and certainly the one for which it has received the most recognition, is lending to solidarity groups (Arnaldo 1995).

In Kenya a lot of concern has been put in promoting the growth of micro enterprises by developing structural adjustment programs and policy frameworks for enterprise development which focuses on creating enabling environment for growth and development of Micro and small enterprises. For the micro and Small enterprises to grow, they require a lot of financial support in terms of capital investment, unrestricted marketing opportunities and creation of business premises and government policies in regard to levies paid to the local authorities and competition from major players in the sector (GOK 2000).

The growth of Micro and Small Enterprise was the innovative process of starting growth oriented commercial undertaking which created a new satisfaction or new consumer demand. The national economic development prospects hinge on entrepreneurial energy of vibrant Micro and Small enterprises as big business concerns grow from these Micro and Small businesses to become big icons; besides they require considerably low capital outlay in initial set up that enables them to take off and tap the potential of low income customers. Most micro and Small enterprises offer viable outlets for technological advancements particularly in business with rudimentary technology requirements such as jua kali artisans which use indigenous waste material resources and convert them into useful products mostly sold at fair prices to low income earners (GOK 2000).

In Bungoma South District, there are nine microfinance institutions serving over five thousand micro and small enterprise owners. The leading MFIs in the region include Kenya Women Finance Trust (KWFT), Faulu Kenya, K-rep and Small, Micro enterprise development (SMEP) and Opportunity Micro credit (Department of Social services Bungoma, 2013).

1.2 Statement of the problem

The role micro and small enterprises play in driving the global economy has been recognized and documented in a number of studies and government policy documents. According to the 1999 baseline survey (CBS, ACEG and K-REP), there are 1.9 million MSEs which contribute to 18% of Kenya's GDP. Small scale individual enterprises are seen as potential solutions to eradicating poverty as they contribute to employment, general development and offer quality goods and services. Yunus (2003, 2008 and 2010) published his experience with micro financing and sees this as a tool of poverty alleviation. Microfinance & Microenterprise related services play a vital role in Kenya's economy. An estimated 10 percent to 15 percent of the population relies entirely on microfinance for financial services. Indeed many cases of business stagnation and failures could be attributed to lack of additional capital which is very critical in spurring economic development. Thus, those business owners that go loans are likely to grow much faster than those that shun loans.

Financial services deepening (FSD),(2009) indicates that MSEs access to credit had increased greatly from 7.5% in 2006 to 17.9% in 2009.However, a recent study by Bowen et al. (2009) shows that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment. A report by Gor (2010), in his article in the Business Daily of May 2010, indicated that many micro and small entrepreneurs in Bungoma experience problems in servicing their loans; others have had their private property being attached in order to recover money advanced as loans. This has left the entrepreneurs even poorer and at the same time discouraging other potential borrowers. Therefore, the general objective of this research was to investigate the performance of selected MSEs in Bungoma South District and to what extent this performance has been influenced by the services provided by MFIs.

The research was necessary to help find out the influence of the services provided by MFIs on the performance of MSEs in Bungoma South District with a view of making recommendations on how this sector can be develop further, so as to contribute more positively to the general growth of Bungoma County and the nation at large.

1.3 Purpose of the study

The purpose of this study was to determine the influence of Micro finance institutions on the performance of Micro and Small enterprises in Bungoma South District.

1.4 Research Objectives

The study was guided by the following objectives;

1. To assess how the provision of micro loans by microfinance institutions influence the performance of Micro and Small enterprises.

2. To examine how the provision of micro insurance by MFIs influence the performance of Micro and Small enterprises.

3. To assess how the provision of savings facilities by microfinance institutions influence the performance of Micro and Small enterprises.

4. To examine how the provision of business training by Microfinance institutions influence the performance of Micro and Small enterprises.

1.5 Research questions

This study was guided by the following research questions;

1. How do the micro loans provided by microfinance institutions influence the performance of Micro and small enterprises?

2. How do the micro insurance facilities provided by microfinance institutions influence the performance of Micro and Small enterprises?

3. How do the savings facilities provided by microfinance institutions influence the performance of Micro and Small enterprises?

4. How does the business training provided by microfinance institutions influence the performance of Micro and Small enterprises?

1.6 Significance of the study

This study sought to establish the influence of microfinance institutions in the development of Micro and Small enterprises. This information was going to be valuable to prospective customers of micro finance institutions as they will be able to know the different players in the market and the various products that they offer.

This study was also to provide a framework for assessing the influence of the strategic interventions that are being provided by microfinance institutions in the performance of Micro and Small enterprises. This was intended to provide policy makers and other players in the micro finance sector with practical and cost effective approaches to the design and implementation of sound policies and other initiatives for the sector.

The study intended to highlight the outcomes and make some useful contributions to the debate about how the performance of micro enterprises had been influenced by microfinance institutions. It summarized the lessons that were learnt from the methodology that was used in the study and the specific findings from the study. It is hoped that this would be useful to other scholars and other researchers interested in this area of study.

It is also hoped that the study would be useful to the management and staff of microfinance institutions as it investigated how their activities are influencing the performance of Micro and Small enterprises. This would help them to know what is working effectively and which areas require adjustments so as to be able to serve their clients more effectively.

1.7 Basic assumptions of the study

The study assumed that the performance of micro and small enterprises in Bungoma South District is steady and the target respondents were able to respond willingly and give correct information that gave accurate and consistent results.

1.8 Limitations of the study

The study anticipated a few challenges; some of these included lack of cooperation from respondents. Some respondents were not willing to divulge some pertinent information concerning their business operations. This challenge was mitigated by the researcher introducing herself to the respondents before giving them questionnaire and interviewing them. The researcher also had to make it clear that the research was purely for academic purposes and not for any reasons; this helped to calm down the respondents. Another limitation was that was anticipated was a low return rate of the questionnaires, this was mitigated by making several visits to the respondents at their places of business and urging them to expedite the process of completing the questionnaires, telephone calls to the respondents also assisted a lot.

1.8 Delimitations of the study

The study was expected to cover micro and small enterprises that have benefited from the services of microfinance institutions within Bungoma South District, even though large businesses are also prevalent in Bungoma South District. The choice of Small and Micro enterprises was because they face peculiar challenges due to their financing and scale of operation.

1.10 Definitions of significant terms used in the study

Micro and Small Enterprises: These are small businesses that have between one to fifty employees, and have limited capital and assets. Most of these businesses are not registered.

Micro enterprises **:**These are small businesses of not more than ten workers, mostly they are family undertakings operating informally and lack succession plans.

Financial services **:**These are loans and other services that are that are provided by MFIs to entrepreneurs operating small and micro enterprises. The loans dispensed are usually small and rise gradually with increase of loan cycles.

Savings **:** Savings are small regular deposits that are made by the owners of the micro and small enterprises to the MFIs. These savings are compulsory during the time of servicing the loan as they are part of the loan collateral.

Micro Insurance **:**Denotes the financial cover provided by MFIs to their clients to protect them against unforeseen circumstances, this covers death in most cases. It may also include health insurance in some cases.

Micro Finance institutions (MFIs): These are those institutions that provide non conventional financial services to Micro and small entrepreneurs.

Performance **:**This expansion of Micro and Small enterprises in terms rise in the levels of stock of the micro and small entrepreneurs.

1.11 Organization of the study

Chapter one represents the background of the study, the statement of the problem, the purpose of the study, the research questions, the significance of the study, limitations and the delimitations of the study and the definitions of significant terms as used in the study.

Chapter two represents literature review related to the influence of the services provided by MFIs on the performance of MSEs, they include provision of micro loans, provision of micro insurance, provision of micro savings and the provision of business training; these will form the core of this chapter. The chapter also has theoretical literature, conceptual framework and the knowledge gap that the study will fill.

Chapter three discusses studies on Research methodology which includes: Research Design, target population, sampling procedures, data collection procedures, data collection instruments, reliability and validity of instruments, pilot testing and data analysis.

Chapter four presents data presentation, interpretation, analysis and discussion. The analysis is bases on four objectives of the study and the findings of the study. The items include Questionnaire return rate, demographic information of the respondents, Chapter five discusses the summary of the findings of the study basing on the four objectives of the study, conclusion, recommendations and suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examined literature review on microfinance institutions and the services they provide, the performance of micro and small enterprises and how they have been influenced by microfinance institutions. This section also covers the theory related to MSEs in relation to MFIs and the conceptual framework and a summary of the literature review.

2.2 Past studies on the services offered by Microfinance institutions and their influence on the performance of Micro and Small Enterprises

Most small traders undertake micro enterprise development activities to meet the basic needs of their families. However, such enterprise typifies the inadequate and unsustainable nature of many informal enterprises. Micro and small enterprises play a key role in alleviating poverty and achieving sustainable development, but to do so; they must operate on the principle of good business with adequate financing. The owners of micro and small enterprises must be more innovative in their enterprises, and this must be facilitated by private and public sector support in financing and business development skills. The informal enterprise sector provides the much needed, albeit meager income to a larger number of otherwise incomes deprived people. Yet micro and small enterprises success is rare in developing countries and returns are typically low, confining the participants and their families to poverty. The informal sector is characterized by ease of entry, small scale enterprises, family ownership, use of simple technologies and reliance on indigenous resources and is often run part-time to supplement other incomes. Ruhiigi (2000).

The success of many micro enterprises is impaired by a number of constraining factors rooting in the developing countries and they include: restrictive legal frameworks, problems with access to markets, too much competition, inadequate ways of retaining and attracting customers, poor infrastructure, lack of access to finance and high cost of credit, low technical skills, lack of business and marketing skills, lack of access to minimum and appropriate technology, low income and low educational levels. This is exacerbated by the business owners lacking in basics of good business; enterprises are characterized by poor management, inadequate planning, insufficient capital and low turnover, lack of marketing and inferior quality of goods and services, most microenterprises have inadequate personal savings resulting into low initial owners' equity. Most micro enterprises require marketing. So many marketing opportunities are waiting to be snapped up if only small businesses are prepared to study the average day in the average life of the consumer and research what he or she wants. True entrepreneurship is associated with risks and many start ups are as a result of enforced entrepreneurship rather than the pull of market opportunities (Rodgerson 2000).

Although driven by the need to improve their livelihoods, many micro and small enterprises are established at less risky sectors that are over traded, and face tough competition for limited local cash and customers. Such activities generate low income and are non lucrative. The future of micro enterprises depends on the owners' ability to keep ahead of changes in the local, external and international market. It is beyond doubt that micro enterprises require the private and public support and training to encourage exploration of innovative niche enterprise opportunities, and build market oriented approaches on enterprise development and management. The degree to which small firms are capable for dynamic and innovative indigenous growth is seen as primarily being dependent on clustering. Spatial clustering would increase exposure to customers and increase interaction between enterprise owners, facilitate opportunities for collective and supportive actions such as shared enterprise support services and training, lower transaction costs and shared services such as telecommunication and joint power supply (Dondo A. 2003).

The MFIs have considered providing creative, accessible and affordable mechanisms to access loans and business enterprise support services for micro and small enterprise development to take root and become sustainable, though more organizations prefer women and self help groups. The government has supported the establishment of small traders' associations and formation of self help groups for development initiatives. Further, the government should establish trade and fiscal policies that are supportive and would protect micro and small enterprises against the negative effects of globalization, while enabling the enterprises to identify and harness profitable local and global trade opportunities (DFID 2002).

Microfinance therefore provides a platform to deliver financial products and complementary services reaching the poor in order to get them out of poverty. By providing capital, trust, social esteem, information, knowledge, competences, empowerment, networking, social capital, technology and market access, microfinance institutions and other sources of microfinance become active subject in the fight against poverty in all its dimensions and levels (Sebstad and Cohen 2001).

2.3 Services offered by Microfinance institutions and their influence on the performance of Micro and Small Enterprises

Micro finance institutions offer a wide range of services to micro and small enterprises. These services are useful in enhancing the performance of these business ventures enabling them to expand their operations and open new outlets, provide opportunity for new employment and increase the volume of goods and services that are offered to the market. Some of these services include the following;

2.3.1. Micro loans by Microfinance institutions and the performance of enterprises

The core product of microfinance is microcredit: an extremely small loan to purchase productive assets boosting the MSEs' revenue allowing repayment over a short period of time in small installments without the guarantee of collateral**.** These impoverished MSEs lack steady employment and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower the entrepreneurs and uplift entire communities by extension. (Goetz, 1996).

The size of the loan is small in three dimensions, in absolute monetary values, as compared to typical business loan, so as to operate in a segment where there is no banking competition. It may also be in relation to the borrower's income, so that payback is easier and finally in respect to the lender's portfolio, so that the default of any single borrower has no impact on its financial soundness. The size of the loan is also kept small in order to reach a larger the number of recipients, thus the wider the outreach over the target population. It is also to meet the goal of attracting extremely poor people and keeping the instrument not attractive for the more affluent. This is important since, as a general rule, if both poor and non-poor are eligible to a line of credit, the non-poor will typically crowd-out the poor, obtaining a much larger part of the funds, because non-poor are usually more educated, better informed, more capable of responding to requirements, more at ease in the relationship with the lender (Ledgerwood, 1998).

The MSEs can afford to pay a high interest on a year base if the loan is immediately boosting his income and the repayment is just in few weeks. Keeping short the period of reimbursement forces the borrower to concentrate on low-risk improvements of his current activity and it is coherent with the short time planning horizon typical of the entrepreneurs. High frequency of repayment reduces the value of each installment, easing the task to honor it, and offers more opportunities to monitor how the business is going. This is particularly important since microcredit is not backed by collateral, i.e. goods taken by the fund provider in case of partial or no repayment. The MSEs usually do not have assets to offer as collateral and, when they have, to take them out would worsen their conditions and income capability, thus would largely be contrary to the same goal of microfinance. Microloans represent sound opportunities of stepwise improvement in the life of the poor. Microfinance starts from basic microloans to provide a host of new variants and complementary services, including payment services, flexibly taking into account the national and local specificities (Shahidur, 1995).

According to Roodman (2011), Microcredit operates on a number of principles. The economic principle advances the fact that microcredit is ideally based on a unique set of principles that are readily distinguished from trends in the wider credit market. Microcredit organizations were initially created as alternatives to the commercial banks which were considered unreachable by the micro entrepreneurs. Indeed, many micro lenders began as non-profit organizations and operated with government funds or private subsidies. However, the commercialization of microcredit officially began in 1984, and to date; many microcredit organizations now function as independent banks. This has led to their charging higher interest rates on loans and placing more emphasis on savings programs.

Group lending has long been a key part of microcredit; microcredit initially began with the principle of lending to individuals. Despite the use of solidarity circles in 1970s, Grameen Bank and other early microcredit institutions initially focused on individual lending. Indeed, Muhammad Yunus propagated the notion that every person has the potential to become an entrepreneur. The use of group-lending was motivated by economics of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Many times the loan to one participant in group-lending depends upon the successful repayment from another member, thus transferring repayment responsibility off of microcredit institutions to loan recipients. Moreover, group loans are normally referred to as 'character loans', one's character, more than anything else will determine whether the group shall be willing to guarantee him or her. Group members will normally rely on mutual trust, mutual obligation, honesty, reciprocity, mutual respect and mutual help. The transaction cost of doing business with people one trusts is lower is lower than the people one distrusts. In addition mutual guarantee allows people to develop mutual support and reciprocity-based system that pool resources and allow them to better manage risks (Roodman, 2011).

Lending to women has become an important principle in microcredit, with some banks and NGOs catering for women exclusively. Though Grameen Bank initially tried to lend to both men and women at equal rates, women presently make up ninety-five percent of the bank's clients. Women continue to make up seventy-five percent of all microcredit recipients worldwide. Exclusive lending to women began in the 1980s when Grameen Bank found that women have higher repayment rates, and tend to accept smaller loans than men. Subsequently, many microcredit institutions have used the goal of empowering women to justify their disproportionate loans to women. Peer-to-peer lending has also been quite prevalent, it is where a loan is not made in the form of a single, direct loan, but as the aggregation of a number of smaller loans (Hulme, 1996).

2.3.2. Micro savings facilities by MFIs and the performance of enterprises

This is a branch of microfinance, consisting of a small deposit account offered MSEs as an incentive to store funds for future use. Micro savings accounts work similar to a normal savings account, however, are designed around smaller amounts of money. The minimum balance requirements are often waived or very low, allowing users to save small amounts of money and not be charged for the service. There are a number of reasons why MSEs find it difficult to save. Some of them may lack a structured disciplined method of saving. Others may have difficulty controlling the consumption habits of other members of their household. This problem is particularly acute for women, who often have no control over household spending. Moreover, for those who are interested in saving, the only mechanisms available may be investments in illiquid assets that deprive them of the ability to take advantage of new investment opportunities or respond to sudden setbacks. In addition, those assets may themselves be risky investments. For example, investments in livestock are susceptible to the risks of disease and drought. Meanwhile, more liquid assets such as cash and jewelry are susceptible to the risk of theft (Mutalima, 2006).

A number of MFIs require that borrowers contribute a small portion of their earnings to a savings vehicle, often in small amounts on a frequent basis. These savings will often be unavailable to the borrower for a predetermined period and are designed to help MSEs develop effective savings habits. Alternatively, an MFI may allow the MSEs to make voluntary deposits. These deposits are intended to be safer and more liquid than alternative savings instruments.

It is important to recognize that these kinds of savings plans also serve the interests of MFIs by allowing them to accumulate capital and, because the deposits can be seized in the event of default, collateralize the debt obligations of their borrowers (Germidis D. et al, 1991)

2.3.3. Micro insurance by MFIs and the performance of enterprises

Some MFIs have discovered that health crises are the primary reason MSEs default on their loans; if you have to choose whether buy medicine for your child or payback an installment, a mother will always choose the former. And this is also in the long-term interest of the lender: if the child does not timely receive cares, her/his health will deteriorate, cares will be even more expensive, time spent for her/him will be detrimental to the income-generating activities of the MSE owner and a host of other negative effects will follow. By providing health care to their clients and their families (directly or - mostly - indirectly), MFIs reduces this risk and its impact, gaining centrality in the life of the MSE owner, thus positioning themselves better in comparison with competitors. The target population typically consists of MSEs ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products (Dercon 2005).

Providing the MSEs with insurance against risks of any kind is the mission of micro-insurance. A small and repetitive payment covers - in a pool of people – reduces the probability of a negative event deeply effecting one of them. By sharing the risk, the price can be kept low and the disruption to the partners of the affected person can be avoided. Micro-insurance is getting into new areas such as health risks, property damages in productive assets, weather-indexed crop insurance for farmers, storm housing damage, etc. These extensions rely on the observation that poverty can easily be the result of negative events, that the poor are the most hit by many widespread risks and that their precautionary savings are freezing badly needed resources (Robinson, 2001).

Although life micro insurance products are becoming increasingly available, micro insurance is a new field and still in the experimental stage. As MFIs expand beyond credit to a broader array of financial products, there is increasing interest to offer the MSEs access to micro insurance products in partnership with insurance companies. While commercial insurers provide the majority of the world's products, mutual, cooperative and other community-based or community-led insurance organizations are emerging as providers of micro insurance. The greatest challenge for micro insurance schemes is providing real-value for poor households: finding the right balance between adequate protection and affordability. Micro insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable to fall back into poverty in times of hardship. When farmers are insured against a bad harvest (resulting from drought), they are a in a better position to grow crops which give high yields in good years, and bad yields in year of drought. Without the insurance however, they will be inclined to do the opposite; since they have to safeguard a minimal level of income for themselves and their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather conditions (Churchill 2006).

There are various Micro insurance delivery models**.** These models include the Partner agent model, which is a partnership formed between the micro insurance (partner as MFI) scheme and an agent (insurance companies), and in some cases a third-party healthcare provider. The micro insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, micro insurance schemes benefit from limited risk, but are also disadvantaged in their limited control. There is also the full service model in which the micro insurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering micro insurance schemes full control, yet the disadvantage of higher risks. In the Provider-driven model, the healthcare provider is the micro insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services. Finally the Community-based/mutual model is where the policyholders or clients are in charge, manages and owns the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations. A few micro lenders have insured their clients as part of a loan package. Life insurance has been the most successful, but property, health, and weather insurance have also been offered (Dror, D, Jacquier Ch (1999).

2.3.4. Business training by MFIs and the performance of enterprises

MSEs often lack entrepreneurial and financial management skills, and often fail to run their business efficiently and even face difficulties in repaying loans. As a result, many microenterprises remain sub-optimal*:* there is a visible lack of investment in productive assets, or human resources beyond their immediate family. Contrary to the anecdotal evidence on micro-credit and loan usage, a very small proportion of these loans go into expansion of businesses. These behaviors may reflect the information constraints that most MSEs face that prevent them from expanding or thinking about alternative business ideas. Investing in basic business or financial skills training may greatly increase the impact of taking a loan and result in improved repayment and benefit to the lending organization and increased incomes in the MSEs' household. For a microfinance institution, it may therefore be useful to provide such training (Rhyne, Elizabeth, 2001)

According to Yunus, (1999), It is unquestionably valuable for the larger sector to understand how to help MSEs optimize the use of financial services. In order to reach the goal of bringing the poor out of the debt trap, MFIs must help MSEs learn both that they are able to forward themselves economically as well as ensure that they adapt financial behaviors that are characteristic of those who are not accustomed to indebtedness. Guidance on business expansion could potentially decrease the number of non-performing assets (NPAs) for an MFI by increasing the capacity of clients to repay. In addition, proper identification of effective ways to encourage business expansion among MFI clients would ensure a greater benefit, and possibly greater economic mobility from borrowing than would otherwise occur if loans were used solely for consumption purposes. However, everything comes at a cost, both to the implementing organization and to the participants, in the form of either monetary or an opportunity cost.

Most academic and development policy discussions about micro entrepreneurs focus on their access to credit, and assume their human capital to be fixed. The self-employed poor rarely have any formal training in business skills. However, a growing number of microfinance organizations are attempting to build the human capital of micro-entrepreneurs in order to improve the livelihoods of their clients and help further their mission of poverty alleviation (Karlan 2006).

2.4 Theoretical Framework

The study is based on the wealth Multiplier theory.Every time there is an injection of new demand into the circular flow there is likely to be a multiplier effect. This is because an injection of extra income leads to more spending, which creates more income, and so on. The multiplier effect refers to the increase in final income arising from any new injection of spending. Thus as more and more loans are provided by MFIs to MSEs, it leads to creation of new wealth from the activities of entrepreneurs.

The research conducted by DFID (2006) found that the average current microfinance client in retail outlets restock their business almost on daily basis and purchase from other suppliers or wholesalers, thereby forming strong customer base of other business concerns. With this kind of multiplier at work, microfinance may be the single fastest way to grow the purchasing power of emerging markets. This is a possibility that promises to pave way for strategic partnerships between local business initiatives and multinational corporations seeking to penetrate markets where microfinance works.

The wealth multiplier theory will form the basis of the conceptual framework for this study. From the services provided by MFIs, the MSEs will be able to expand their business operation which shall enable them to earn more profits and as a result contribute greatly to the wealth creation of the country.

2.5 Conceptual Framework

The study was guided by the conceptual framework shown in figure 1 which shows the relationships between dependent and independent variables.

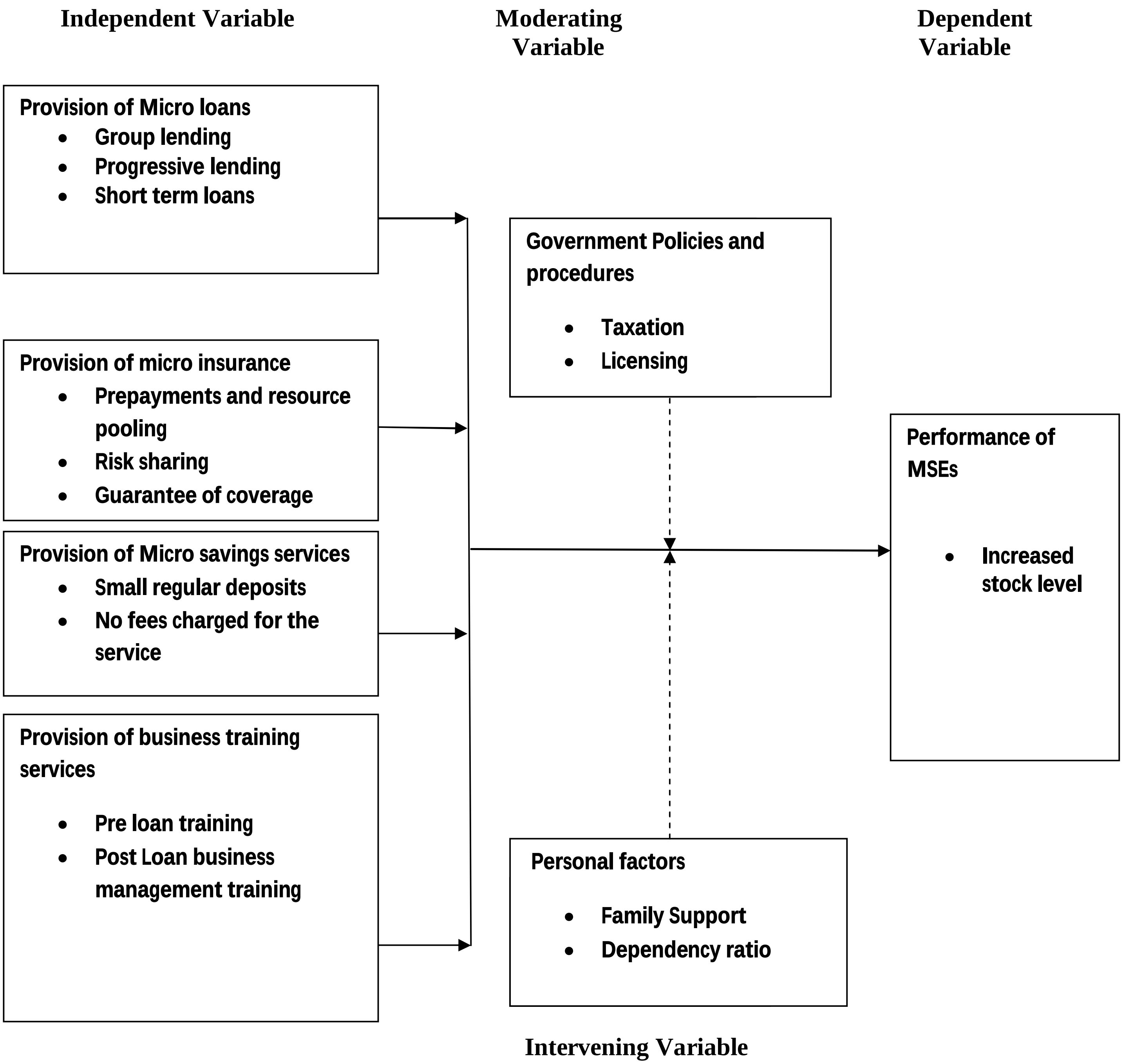

Figure 1. Conceptual Framework

2.5.1. Discussion on the conceptual framework

The study was set to establish how microfinance services in the categories of microloans, micro savings; micro insurance and business training influence the performance of micro and small enterprises in terms of success or failures of the MSEs and their contribution to economic development. Suggestions on the influence of these services and their implications will also be investigated.

The micro loans provided my MFIs to MSEs is expected to spur growth in terms of creation of new business outlets, increased stock and creation of employment opportunities. In terms of micro insurance, the service is meant to cushion MSEs from unforeseen circumstances such as business failure and death of the MSE owner. The savings product on the other hand is meant to boost the MSEs effort to create their capital base and inculcate a savings culture in them. Finally the business training is meant to sharpen the MSE owner's skills and knowledge of how to boost and grow their businesses.

2.6 Knowledge gaps

Various bodies of literature dealing with theory research and practices have been cited. A great deal has been known about the influence of services provided by microfinance on the performance of MSEs. The following deficiencies have been analyzed to be addressed by this study or future research.

The first deficiency, as supported by various scholars, is that most existing theories concerning the influence of the services provided by microfinance on the performance of MSEs in the developed countries are in the context of developed economies and they do not fully suit developing countries because of the unique social, political and economic contexts and firm specification characteristics of emerging markets. Most of the research in Europe and Asia are incomplete and unsatisfactory which poses challenges of incorporating unique contextual influences into theoretical reasoning.

The other deficiency is the particular dynamics of emerging, asymmetric information in emerging economies when compared with developed markets. This calls for reconsideration of strategy because of new foreign entrants.

2.7 Summary of Literature review

Literature review showed that services provided by microfinance institution have had some influence on micro and small enterprises. The MFIs provide MSEs with micro credit, avenues for savings, micro insurance and also training on business skills basic financial management knowledge. On the other hand, some past studies have also indicated that there was little evidence that micro credit had produced dramatic increase in employment, since employment had fallen in some micro enterprises. In this regard, extending credit to micro enterprises, contrary to what is expected, do not generate additional employment; but rather, preserve jobs and their success should not be measured by the generation of new jobs, Milford (2010). Since there was a variation as to whether microfinance institutions' services have had an influence on MSEs or not, this study sought to determine the influence of MFI services on MSEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the methodology used in the study. This included; research design, target population, sample size, sampling procedure, research instruments, data collection procedures, validity and reliability of the research instruments and data analysis techniques.

3.2 Research Design

The researcher adopted a descriptive survey design with both quantitative and qualitative techniques in the study. The study adopted descriptive survey because it targeted a wider scope. It gathered data from a relatively large number of cases at a particular time (Wellington, 2000). Quantitative and qualitative approaches complemented each other. Descriptive survey was the best for this study because the researcher was able to gather a lot of information by using the relevant tools that gave a broad and reasonably accurate view of the response to certain issues (Peil, 1995).

3.3 Target Population

A target population refers to the entire group of individuals, objects or things that share common attributes or characteristics and may not be found in the same geographical location. According to Mugenda, (2000), target population is the total population that the researcher specifies in his or her research.

The target population in this research included all the MSEs who have access to the services provided by four MFIs and the loans officers working for these MFIs in Bungoma, Kanduyi and Bukembe markets.

Therefore, target population for this research was 1,360. This was distributed as follows; Equity Bank – 307, Opportunity Microfinance – 305, Kenya Women Finance Trust (KWFT) – 373, and Faulu Kenya – 363, loans officers in KWFT, Opportunity microfinance, Equity Bank and Faulu Kenya - 12 (source: heads of the four MFIs, Bungoma, 2013)

3.4 Sample size and sampling procedure

Introduction

This section looked at how the sample size used in the study was determined; it also discusses the procedure that was used in sampling.

3.4.1. Sample size

The sample size is the number of respondents the researcher will select from the target population to constitute a sample that fulfils the requirements of the representativeness of the target population (Kothari, 2008).

From the Krejcie and Morgan schedule, a population size of not more than 1400 will have a sample size of 302. Therefore, in this case where the population is 1,360, the sample size will be 302.

3.4.2. Sampling Procedure

Proportional sampling technique was applied to calculate the independent sample size for each MFI to ensure equal representation of businesses from the four institutions since each had a different number of entrepreneurs involved in business activities. Therefore the sample sizes were as follows; Equity Bank 66, Opportunity Microfinance 65, KWFT 81, Faulu Kenya 78, Loans Officers 12.

Since the loans officers were very critical in the study, as they are the ones overseeing the entire processes of delivering the MFI services to the MSEs, all the 12 in the population were considered in the study.

Stratified random sampling was used after the determination of sample size from each of the four institutions. This was followed by systematic random sampling in selection of the required entrepreneurs that have benefited from each of the four MFIs. In this case, MSE owners from each institution were assigned numbers and these numbers were written on pieces of papers which were then the put in a container. After mixing up the pieces of papers inside the container, the researcher went ahead to pick one paper after the other (returning the paper picked after recording the number therein) until the required number was reached. This process was repeated for all the other institutions.

Lists of all the 302 MFI clients were collected from each of the four institutions and all these entrepreneurs were issued with questionnaires.

3.5 Data collection instruments

The study used two instruments to collect data, administration of questionnaires and use of interview guide which helped probe for more information that would not have been captured effectively in the questionnaire.

Questionnaires

The questionnaire was chosen because it was assumed that most of the MSE owners possessed literacy skills. It was also cost effective especially because the sample was large and widespread. Questionnaires were free from bias of the interviewer as answers were in the respondent's words. The questionnaires were also appropriate as respondents had adequate time to give well thought out answers. There were both closed and open ended questions to make it flexible for all kinds of opinions relevant to the study.

The questionnaires are also appropriate as large samples can be reached conveniently and even those respondents who are not easily approachable can be reached. The researcher and her assistants will apply direct contact to explain the purpose and significance of the study, clarify points, answer questions and motivate respondents to answer the questions carefully and truthfully.

Interview guide

This was used for not-very-educated MSE owners and those who had problems of understanding the contents of a questionnaire. This method led to fairly reliable results as the questions were easier to understand by the respondents. The interview schedules contained both open and closed ended items so as to encourage complete responses from respondents.

3.5.1. Pilot Study

A pilot study is a research project that is conducted on a limited scale that allows researchers to get a clearer idea of what they want to know and how they can best find it out without the expense and effort of a full-fledged study. They are used commonly to try out survey questions and to refine research hypotheses (Crossman, 2000)

The pilot study was used to check reliability and validity of the instrument and was conducted in the neighboring Bungoma central district on respondents not involved in the final study to avoid contaminating the final actual sample.

3.5.2 Validity of the instruments

According to Mugenda and Mugenda (1999) validity is a degree to which result obtained from data represents the phenomena under study. Ranjit and Kumar (2005) further define validity as the quality of measurement procedure that provides respectability and accuracy. In this study the questionnaire and interview schedule were given to University of Nairobi supervisors who are experts in the field to ascertain the validity. A field test was conducted with 10 MSEs randomly selected in Bungoma central. Upon completion of the pilot study the researcher then corrected the questions that were not measuring up. The researcher also included more questions to cover all the research objectives.

3.5.3 Reliability of the instruments

Mugenda and Mugenda (2002) explain reliability as the degree to which a research instrument will yield consistent results after repeated trials. The researcher tested the reliability of instruments using Split-Half method. This involved administering a single instrument once. The instrument was then divided into two halves; the first half was odd numbered items while the second half was even numbered items. These two halves were assumed to form different sets of questionnaires which were then scored separately using a Spearman brown prophecy correlation coefficient which was used to determine the reliability of the instrument. The correlation coefficient was 0.6 and this is acceptable according to Mugenda and Mugenda (1999).

$$R = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

d – Absolute deviation of the actual ranks of the variables X and Y

n – Number of pairs of scores

3.6 Data collection procedure

The researcher obtained a research permit from the National Council for Science and Technology. After receiving written consent, the researcher proceeded to went the Branch Managers of the MFI to be involved in the study to seek permission for their clients to be interviewed. The Branch managers consented and handed the researcher over to the loans officers who availed the lists of all the clients benefiting from their services. The sampled clients and all the loans officers were issued with questionnaires, these questionnaires were then collected by the researcher after two weeks.

3.7 Data analysis techniques

Data analysis refers to examining what has been collected in the field and making deductions and inferences. It involves uncovering the underlying structures, extracting variables, detecting anomalies and testing any underlying assumptions. Quantitative research involves coding responses into categorical variables followed by application of a method of analysis (Kombo and Tromp, 2006).

The findings of the study were analyzed using content analysis method (Mugenda and Mugenda, 2002) which refers to a systematic qualitative description of the objectives or units of study (categorical variables) and determines the intensity with which certain themes or phrases had been used. It will involve detailed description of the items that comprise the sample.

In interpreting the results, the frequency with which the items appeared was interpreted as a measure of importance, attention or emphasis. The specific classification system used to record the information for this research was content analysis which determined the frequency and trends with which concepts of the objectives were mentioned.

This was then interpreted as a measure of direction or bias regarding the objectives. Tabulating data and presenting it on a table was also used to give a visual display of individual units about which descriptive and explanatory statements were made from the sampled content. Groups of data helped in the final compilation of results and interpretations were made.

3.8 Operational definition of variables

There were two variables that were considered in this study, the independent and the dependent variables. The independent variables were: provision of micro loans, provision of savings facilities, provision of micro insurance and provision of training services. This information is presented in the table below.

Table 3.1: Operationalisation Table

Ss/no	OBJECTIVES	VARIABLES	MEASUREMENT SCALE	STATISTICS
1.	To determine how the provision of loan influence the performance Micro and Small enterprises.	**Independent: Provision of loans** Measured by the number of loans received by MSEs	Nominal	Descriptive
		Dependent Measured by the increase in the value of stock of the entrepreneurs.	Nominal	Descriptive
2.	To examine how the provision of micro insurance influence the performance of Micro and Small enterprises.	**Independent: Provision of insurance.** Measured through a)ways by which entrepreneurs respond to emergencies.	Nominal	Descriptive
		b) Change in the level of stock after the emergency has	Nominal	Descriptive

		been addressed.		
3.	To determine how the provision of savings facilities influence the performance of Micro and Small enterprises.	**Independent: Provision of savings products** Measured through; a)the number of savings products offered by MFIs b)number of customers with savings accounts	Nominal Ordinal	Descriptive Descriptive
4.	To find out the how the provision of business training influence the performance of Micro and Small enterprises.	**Independent: Provision of training services** Measured by; a)the number of training modules attended. b)the number of trainees in attendance registers. c)the perception of MSE owners regarding the MFI's training	Ordinal Nominal	Descriptive Descriptive

3.8. Ethical considerations

The researcher observed confidentiality especially from the information given on the questionnaires. The respondent's information was not to be passed to a third party. The respondent's names were not written on the questionnaires. The respondents' consent was sought before administering questionnaires or conducting interviews. The researcher did personal identification before the respondents and explained the mission of the research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter gives data analysis, presentation of the findings and interpretation. It starts with the demographic information of the study and discusses the four objectives that guided this study. These are: Influence of micro loans on the performance of MSEs, Influence of micro insurance on the performance of MSEs, Influence of micro savings on the performance of MSEs and influence of business training on the performance of MSEs.

4.2 Questionnaire return rate

A total of 302 questionnaires were dispatched to the respondents. 272 questionnaires were filled and returned. This translated to a return rate of 90.1%. Table 4.1 shows the number of questionnaires dispatched and the number returned and the percentage response rate.

Table 4.1 Questionnaire Return Rate

Respondents	No. Delivered	No. Returned	Rate of Return
Loans Officers	12	12	100%
Entrepreneurs	290	260	89.6%
TOTAL	**302**	**272**	**90.1%**

From table 4.1, out of the 12 questionnaires issued to loans officers all of them were able to fill and return the questionnaires; this gave 100% return rate. This 100% return rate was achieved through numerous follow up visits to the MFI offices to urge the loans officers to speed up the process. Out of the 290 questionnaires dispatched to the entrepreneurs, 260 managed to fill and return the questionnaires; this gave a return rate of 89.6%. The overall return rate was 90.1%, according to Kothari, 2004, any rate more than 70% is sufficient to give reliable analysis of the data presented. Therefore the return rate of 90.1% for this study was adequate to give reliable results from analysis of the data.

4.3 Demographic characteristics of respondents

The study sought to find out the demographic characteristics of the respondents in terms of age, level of education and the gender aspects of the respondents.

4.3.1. Distribution of the respondents by age

The study sought to determine the age of the respondents as this would enable the profiling the respondents by age. Table 4.2 gives the findings of the study.

Table 4.2 Distribution of the respondents by age

Age	Number of respondents	Percentage
18 - 25	55	20.2%
26 – 35	69	25.4%
36 – 45	88	32.4%
46 and above	60	22.0%
Total	272	100.0%

Table 4.2 shows the age distribution of the respondents, respondents were asked to state their age in the questionnaire and the findings came out that 53 respondents were between the ages of 18-25 years. This constituted 20.2% of the total population, 69 respondents were in the interval 26-35 years of age, constituting 25.4% of the population, 88 respondents were in the bracket 36-45 years (32.4% of the population) while 60 respondents were in the interval 46 years and above representing 22% of the population. The study revealed that most of the micro and small entrepreneurs were in the age bracket of 36-45 years; the reason for this is that this is the prime age of doing business.

4.3.2. Educational level of respondents

The study sought to determine the level of education of the respondents to enable profiling of the respondents by age. Table 4.3 gives the findings of the study.

Table 4.3 Educational level of the respondents

Level	No. respondents	Percentages
University	21	7.8%
College	33	12.2%
Vocational	38	14.1%
Secondary	133	49.2%
Primary	45	16.7%
Total	270	100.0%

The respondents were asked to state their level of education, it was important to ascertain this since the level of education of an entrepreneur can affect the level of business performance. Out of the 260 respondents, 21, (7.8%) had attained a university degree. This was noted as the highest level of education of the respondents, 33 respondents, (12.2%) had attained middle level college, 38 respondents (14.1%) had vocational training, 133 respondents (49.2%) had secondary school education while 45 respondents (16.7%) indicated that they had either not gone to school or dropped out of primary or completed primary level of education. The study thus revealed that the majority of the entrepreneurs were secondary school leavers who had opted to venture into business as their source of livelihood. There was also a significant proportion of the entrepreneurs (16.7%), who had very low levels of education – this could negatively influence the performance of their businesses in terms of managerial skills.

4.3.3. Respondents by gender

The study sought to determine the gender of the respondents since this shall enable the profiling of the respondents by gender. Table 4.4 summarizes the findings of the study.

Table 4.4. Distribution of the respondents by gender

Gender	Number of respondents	Percentage
Male	168	61.8%
Female	104	38.2%
Total	272	100.0%

From table 4.4, the study reveals that there were more male entrepreneurs, 61.6% as compared to female entrepreneurs who were 38.2% of the respondents.

4.3.4 Categorization of respondents by business type

The study sought to determine the type of businesses that the entrepreneurs were engaged in so as to enable the profiling of the respondents by the type of businesses that they do. Table 4.5 summarizes the findings.

Table 4.5 Respondents by type of business

Category	Respondents	Percentage
Trade	180	69.2%
Service	71	27.3%
Others	9	3.5%
Total	260	100%

From table 4.5, most of the entrepreneurs, 69.2% of them were involved in trade – these included those who were dealing with butcheries, retail shops, clothes, shoes, groceries and hawking. Those dealing with services were 27.3% of the respondents – these included those in saloons, hotels, Mpesa agents, computer and internet services, transport services and tailoring. Those in other businesses like jua kali artisans were 3.5%.

4.4. Influence of the services offered by MFIs on the performance of MSEs

In this section the study presents the findings on the services offered by microfinance institutions and their influence on the performance of micro and small enterprises.

4.4.1. Micro loans and their influence on the performance of micro enterprises

On whether loans have influenced the performance of businesses of the micro and small entrepreneurs, the study focused on the sources of working capital and the number of loans that have been borrowed by the micro and small entrepreneurs from the microfinance institutions.

Table 4.6 gives the findings on the sources of working capital for the micro and small entrepreneurs.

Table 4.6 Main sources of working capital

Source of capital	No. of respondents	Percentage
Microfinance institutions	176	67.7%
Personal Savings	43	16.5%
Friends and relatives	27	10.4%
Retirement benefits	14	5.4%
Totals	260	100.0%

From table 4.6, the study revealed that most of the entrepreneurs depend mainly on microfinance institutions for their working capital (67.7%), 16.5% of them draw their working capital from their personal savings, 10.4% get their capital from friends and relatives while those who depend on retirement benefit were 5.5%.

On the influence of the micro loans on the level of stock of the micro entrepreneurs, the study sought to find out how the stock levels of the entrepreneurs have been influenced depending on their various sources of capital. The findings of the study are summarized in table 4.7.

Table 4.7 Influence of micro loans on stock levels of MSEs

Main sources of capital	Decline in stock	No change	Doubled	Tripled	Total
Microfinance institutions	6 (3.4%)	12 (6.8%)	92 (52.3%)	66 (37.5%)	176
Personal savings	8 (18.6%)	30 (69.8%)	5 (11.6%)	0	43
Friends and relatives	3 (11.1%)	20 (74.1%)	4 (14.8%)	0	27
Retirement benefits	2 (14.2%)	10 (71.4%)	2 (14.3%)	0	14
Total					260

From table 4.6 the majority of the entrepreneurs who depend on MFIs for the working had had their levels of stocking doubling up or tripling, (89.8% of the entrepreneurs). 10.2% of them had had their levels of stock either remaining the same or declining; this could be attributed to either diversion of the loan funds or other unexpected occurrences that could have interfered with the normal running of the business. Those who relied on different other sources of funds for their working capital mostly had their businesses stagnating or declining in some cases. A few of them had their business stocks doubling; this could be attributed to the personal skills and attributes of the entrepreneurs that enabled them to perform exceptionally well.

4.4.2 Micro Insurance and the performance of micro and small enterprises

On whether micro insurance services have influenced the performance of businesses of the micro and small entrepreneurs, the study focused on the ways MSEs responded to emergencies, and how this has affected the stock levels of the entrepreneurs.

Table 4.8 summarizes the findings of the study.

Table 4.8. How micro and small entrepreneurs cater for their emergencies

Category	Frequency	Percentage
From friends and relatives	71	27.3%
From personal savings	118	45.4%
Insurance from MFIs	71	27.3%
Total	260	100%

From table 4.9 above, 118 respondents, (45.4%) were going to their personal savings to cater for their emergencies, 71respondents (27.3%) relied on friends and relatives while 71 respondents (27.3%) were going for insurance. This study revealed that the uptake of insurance services was still low among the micro and small entrepreneurs.

How the entrepreneurs' response to emergencies has affected their levels of stock has been summarized on table 4.10.

Table 4.9. Influence of micro insurance on the levels of stock of the entrepreneurs

Responses to emergencies	Decline in stock	No change	Doubled	Tripled	Total
Friends and relatives	37 (52.1%)	29(40.4%)	5 (7.1%)	0	71
Personal savings	63 (53.4%)	41 (34.7%)	14 (7.6%)	0	118
Insurance	3 (4.2%)	10 (14.1%)	45(63.4%)	13(18.3%)	71
Total					260

From table 4.9, most of the entrepreneurs who have taken insurance had had their business stock either doubling or tripling (74.6%), this is because the emergencies that arose never affected their working capital as the bills were footed by MFIs' insurance covers. Those who had their businesses either stagnating or declining 18.3% could have had different other challenges that could have interfered with the running of their businesses. Majority of the entrepreneurs who were relying on other means of catering for their emergencies rather than insurance had had their businesses either stagnating or declining. This is mainly due to the fact that when emergencies arise, they would have to dip into their working capital to sort out the problems.

4.4.3 Micro savings and their influence on micro and small enterprises.

On whether micro savings have influenced the performance of businesses of the micro and small entrepreneurs, the study focused on where the entrepreneurs kept their voluntary savings and what influence these savings have had on the stock levels of the entrepreneurs.

As to where the entrepreneurs keep their voluntary savings, table 4.11 summarizes the findings of the study.

Table 4.10 Where micro and small entrepreneurs keep their voluntary savings

Category	Frequency	Percentage
Microfinance institutions savings accounts	98	37.7%
At home	52	20.0%
M-pesa	110	42.3%
Total	260	100%

From table 4.10, 37.7% of the respondents voluntarily put their savings in MFIs. Most of the entrepreneurs, 42.3% asserted that they save with M-pesa service available in their phones while 20% keep their savings at home. The study found out that the micro and small entrepreneurs preferred to keep their savings in places that are within their reach, where they are able to make withdrawals any time as they so wished.

On how the choice of savings avenues had influenced the stock levels of the entrepreneurs, table 4.12 gives the findings of the study.

Table 4.11. Influence of savings on business performance

Savings Avenues	Decline in stock	No change	Doubled	Tripled	Total
MFIs	5 (5.1%)	12 (12.2%)	55 (56.1%)	26 (26.6%)	98
At home	19 (36.5%)	57 (51.8%)	21 (19.1%)	9 (8.2%)	52
M- Pesa	23 (20.9%)	57 (51.8%)	21 (19.1%)	9 (8.2%)	110
Total					260

From table 4.11, most of the entrepreneurs who kept their voluntary savings in the MFIs had their businesses grow at a faster rate compared to those who kept their savings elsewhere. 82.7% of them had had their stocks doubling or tripling. The savings at the MFIs also influenced the amount loans borrowed from the MFIs; the higher the amounts of savings, the higher the amounts of loans that could be accessed. For those who kept their money at home and in M pesa, most of their businesses were stagnating or declining; this was due to the fact that their money was always accessible to and as such they could misuse it. Furthermore, the loans to be accessed by these entrepreneurs were low because their savings levels at the MFIs were also low.

4.4.4 Business training and its influence on the performance of micro and small enterprises

On whether business training had influenced the performance of businesses of the micro and small enterprises, the study focused on the number of trainings accessed by the entrepreneurs and how these trainings have contributed to the level of stock of the entrepreneurs.

Table 4.12. Influence of training on the stock levels of the enterprises.

No of trainings	Decline in stock	No change	Doubled	Tripled	Total
None	9 (20.9%)	21 (48.8%)	13 (30.3)	0	43
One	8 (10.7%)	16 (21.3%)	48 (64.0%)	3 (4.0)	75
Two	6 (6.0%)	13 (15.5%)	46 (54.8%)	20 (23.7%)	84
More than two	5 (8.6. %)	10 (17.2%)	19 (32.8%)	24 (41.4%)	58
Total					260

From table 4.12, it can be seen the level of business performance is enhanced with the increased number of training undertaken by the entrepreneurs. Those who had had two or more trainings were having their businesses growing at a much faster rate compared to those who had exposed themselves to as much training. This signifies that training enhances the skills of entrepreneurs in managing the business entities.

4.4.5. Perspective of the loans officers regarding the influence of MFI services on performance of MSEs

Regarding the performance of entrepreneurs in terms of loan repayment, the loans' officers' assessment is summarized in table 4.13.

Table 4.13. Performance of loans accesses by MSEs

Loan Performance	Frequency	Percentage
MSEs paying their loans very well	133	51.2%
MSEs paying their loans fairly well	88	33.8%
MSEs struggling with their loans	20	7.7%
MSEs not repaying their loans	19	7.3%
Total	260	100%

From table 4.13 above, the study established that 133 (51.2%) of the entrepreneurs were paying their loans very well, 33.8% were paying their loans fairly well while the non performing loans accounted for 7% of their loan portfolio.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents a summary of the findings of the study, discussions, conclusions and recommendations. It also provides suggestions for further research and contribution to the body of knowledge. The overall goal of the study was to determine the influence of microfinance institutions on the performance of micro and small enterprises, a case of Bungoma South district. The results of the study are presented and discussed in the proceeding sections.

5.2 Summary of Findings

On the influence of micro loans on the performance of enterprises, the findings showed that 67.5% of entrepreneurs rely on microfinance institutions to raise their working capital, 16.6% rely on personal savings, and 10.4% depend on friends and relatives while 5.5% rely on retirement benefits. Regarding how business performance has been influenced by source of funds for the business, those enterprises that were relying on MFIs for their working capital were performing better; 37.5% of them had had their businesses doubling, 52.3% had had their businesses doubling, 6.85% remained unchanged and 3.4% registered some decline. Most of those who relied on different other sources for their working capital had had their businesses either stagnating or declining.

On the influence of micro insurance on the performance of micro and small enterprises, the study found out that 27.3% of the entrepreneurs have taken on insurance, 45.4% rely on their own personal savings in cases of emergencies while 27.3% relied on friends and relatives. The study also established that 82.6% of the entrepreneurs who were taking insurance had had their businesses doubling or tripling, only 17.4% registered a decline or stagnation. For those who were relying on personal savings or friends and relatives over 75% of them were registering a decline or stagnation in their business, only 8.3% of them had had their businesses doubling.

On the influence of micro savings on the performance of micro and small enterprises, 37.7% of the entrepreneurs preferred to keep their voluntary savings with MFIs, 42.3% were keeping their voluntary savings with M pesa service and 20% of the entrepreneurs kept their voluntary savings at home. The study also revealed that those who kept their savings with the MFIs had had their businesses performing much better; 56.1% had had their businesses doubling, 26.6% had experienced tripling of their business. 17.3% of these enterpreurs had had their businesses either stagnating or declining. Of those who kept their savings with M pesa, 27.7% of them had had their businesses either doubling or tripling while 72.3% of them had had their businesses stagnating or declining. Of those who kept their savings at home, 11.6% of them had had their businesses doubling while 88.4% of them had had their businesses either declining or stagnating.

On the influence of business training on the performance of enterprises, 74.2% of the entrepreneurs who had taken two or more trainings had had their businesses either doubling or tripling, 25.8% of them registered stagnation or decline in their business performances. Of those who had taken two trainings 78.5% of them had had their businesses doubling or tripling and 21.5% showed stagnation or decline. For those who had taken no training at all, 30.3% of them had had their businesses doubling while 69.7% of them registered stagnation or decline.

From the assessment of loans officers from the microfinance institutions, 53.0% of the entrepreneurs were paying their loans very well, 32.6% were paying slightly well, 7.4% were struggling while 7.0% were not paying their loans at all.

5.3 Discussions of the findings

This section analyzes the findings of the study from the data presented. This will be based on the four objectives of the study; influence of micro loans from MFIs on the performance of MSEs, influence of micro insurance from MFIs on the performance of MSEs, influence of micro savings from MFIs on the performance of MSEs and influence of business training from MFIs on the performance of MSEs.

On micro loans, most of the MSE were getting their working capital from MFI. This is majorly because MFIs have considered providing creative, accessible and affordable mechanisms to access loans and business enterprise support services for micro and small enterprise development and more MFIs prefer dealing with groups. The government has also supported the formation of self help group for development initiatives, (DFID, 2002). The use of group lending is motivated by economics of scale, as the costs associated with monitoring loans and enforcing repayments is significantly lower when credit is distributed in groups rather than individuals, (Roodman, 2011). This explains why many MSEs prefer borrowing from MFIs due to ease of access of these loans. Studies by Onyuma (2000) also viewed micro credit as a cost effective way of building on entrepreneurs' culture, enhancing domestic economic capacity, reducing poverty and unemployment. The findings of this study are similar to those of K'Aol (2008) who, in his research paper on the role of microfinance in fostering women entrepreneurship in Kenya assessed the impact of Microfinance funding on women entrepreneurship in Kenya. The population consisted of women entrepreneurs who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans from K-REP. The most significant impact evident among the women entrepreneurs involved in farming activities was that the number cattle hey owned had doubled after taking the loans.

On savings, most MSEs only save with the MFIs what has been set as the compulsory savings limits. According to Mutalima, 2006, there are a number of reasons why MSEs find it difficult to save. Some may lack a structured disciplined method of saving; others may have difficulty controlling their consumption habits and those of the other members of their families. Moreover, a number of MFIs compulsory savings deposited with the MFIs will often be unavailable to the borrower for a predetermined period. These deposits may be seized in the event of default as they collateralize the debt obligations of their borrowers (Germidis D et al, 1991). This majorly explains why most MSEs are not willing to deposit more savings than what has been set by the MFIs as the compulsory minimum amounts.

Regarding insurance services, most MSEs have not embraces the culture of insurance and very few of them have taken insurance policies for their lives and enterprises. The main challenge with regard to the need to insure at the bottom of the pyramid is insurance awareness. In the MSE sector, demand is often thin due to the regular premium entrepreneurs must pay; lack of education on insurance and bad image of insurers' vis-à-vis the poor. Micro insurance has the potential to help low-income families cover risks that affect their day-to-day lives at an affordable premium. MFIs need to develop relevant products, at attractive pricing if they are to have greater impact. People at the bottom of the pyramid have to be reached in a way that is economical and makes sense. Growth therefore can only be ensured through aggressive marketing micro insurance, it requires dedicated time to build relationships with clients. (Churchil, 2006)

For business training, most MSEs lack entrepreneurial and financial management skills, and often fail to run their businesses efficiently and even face difficulties meeting their financial obligations. This forces many micro enterprises to remain sub optimal and lacking in investment of productive assets or human resources beyond the family members. But with the business training being offered by MFIs, this may greatly increase the impact of taking loans which may lead to improved repayment and benefit for the lending institution and also increased incomes in the MSEs households (Rhyne, Elizabeth, 2001). Most MSEs, 50.4% acknowledge that their businesses are performing better as a result of the business training that they have received from MFIs. With such realization, a growing number of microfinance organizations are attempting to build the human capital of micro entrepreneurs in order to improve the livelihoods of their clients and help further their mission of poverty alleviation (Karlan, 2006). Bowen et al. (2009) researched on Management of business challenges among small and micro enterprises in Nairobi Kenya. The findings of the research indicated that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs failing within months of establishment. The results showed that 49.5% of those who had received training in their areas of business reported that their businesses were doing well. He recommended that there is need to get entrepreneurs trained in the areas that are relevant to their businesses. Bowen’s study also reiterated that 50% of the entrepreneurs who were trained in their areas of business expressed satisfaction and it reflected in terms of business.

5.4. Conclusions

This section gives the conclusions arrived at from the discussions of the findings. These conclusions are summarized below.

5.4.1 Influence of micro credit on the performance of micro and small enterprises.

It can be deduced that micro loans have contributed immensely to the performance of micro and small enterprises. Most entrepreneurs rely on loans as a means of raising their working capital and this has inspired most of them to work very hard in order to repay these loan and later tale other new loans so as expand their businesses more. The MSEs also value the contribution of MFIs in their operations; many of them feel that there have been expansion of their business activities as a result of the services offered by these institutions.

5.4.2. Influence of micro insurance on the performance of micro and small enterprises

It can be deduced that most micro and small enterprises have not fully embraced the importance and benefits of insurance, most of them see it in terms of a cost and not a benefit. As such most of the entrepreneurs don't have a plan of how they can handle emergencies when they occur, and this may cause serious disruptions and even closure of business operations. These may even lead to collapse of businesses.

5.4.3. Influence of micro savings on the performance of micro and small enterprises

It can be deduced that most micro and small enterprises have not fully embraces a savings culture within them; most of them only deposit savings amounts that have been made compulsory by the micro finance institutions. In their own volition, they don't view savings as an important aspect of business.

5.4.4 Influence of business training on the performance of micro and small enterprises

It can be deduced that business training plays a very important role in helping entrepreneurs improve the levels of their business performance. Most of the entrepreneurs acknowledge that there has been a great improvement in their business performance as a result of the business training that they had received from the microfinance institutions.

5.4.5. Performance of MSEs and assessment of loans officers

From the loans officers' perspective, most of the entrepreneurs are doing quite well in terms of loan repayments and their levels of stock had increased as a result of their utilization of services offered by microfinance institutions.

5.5. Recommendations

Based on the finding, the study recommends the following;

1. Micro loans and the performance of MSEs

Most of the micro and small entrepreneurs rely on microfinance institutions for working capital to uplift and grow their businesses. The MFI's should design its loan products in a manner that

would enhance the overall business operations of the small business enterprises for greater economic impact.

2. Micro insurance and the performance of MSEs

The number of MSEs who have embraced insurance is quite low; therefore a lot of marketing needs to be done to increase the uptake of insurance among the entrepreneurs. This is very critical as it can make the difference between business survival and business collapse.

3. Micro savings and the performance of MSEs

Most of the entrepreneurs have not embraced the savings culture which is very critical for business survival and expansion. What is happening currently is that most of them are being forced to save; thus, a lot of mentorship and couching needs to be done so as to make the entrepreneurs see the benefits of savings as a means of wealth creation and business expansion.

4. Business training and the performance of MSEs

Though most of the entrepreneurs have received basic business training, a lot more needs to be done. If the benefits that accrue from this sector are to be reaped, then these ventures need to expand and become small and medium enterprises; and similarly contribute more actively to the national GDP. Business training may be the surest vehicle to deliver this. Small business entrepreneurs should be trained in skills that add value to their ability to run the business more efficiency. This should be done by the relevant MFI's client's officers or business development officers. For meaningful training to be achieved training assessment be carried out to know in exactly which area an entrepreneur require further skills.

5. Suggestions for further study

This study had in no way exhaustively investigated the influence of the services provided by microfinance institutions on the performance of micro and small enterprises. It is therefore suggested that further similar studies be carried out in other microfinance institutions, banks, SACCOS, and other related financial sectors to fill the knowledge gap left. The following recommendations were made following this study;

1. A study to be carried out on other factors influencing the performance of MSEs apart from the services offered by microfinance institutions.

2. A study to be done elsewhere covering a wider area other than the one covered in this study, probably covering the whole nation.

3.A study to be conducted on the challenges facing micro and small entrepreneurs and how to overcome such challenges.

4. A study to be conducted on the factors inhibiting to the transition of micro and small enterprises to medium and large enterprises.

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APPENDICES

APPENDIX A

LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI

DEPARTMENT OF

EXTRAMURAL STUDIES

P.O. BOX 30197

NAIROBI.

Dear Sir / Madam,

I am a Masters' student at the University of Nairobi carrying out research to determine the influence of services offered by microfinance institutions on the performance of micro and small enterprises.

Your organization has been randomly selected for the purpose of participation in the study. It's my humble request that you allow me access to a few of your clients whom I shall interview in order to get information regarding how the services they have received from you have influenced their businesses. Opinions given will remain confidential and will be used for academic purposes only.

I take this opportunity to thank you in advance for your co-operation.

Yours faithfully,

Emily Otidi

APPENDIX B

Questionnaires for MFI Clients

Name of the respondent…………………………………………………..

Age of the respondent…………………………………………………….

Type of business …………………………….…………………………

This questionnaire is designed for purposes of determining the influence of the services offered by MFIs on the performance of MSE. You have been randomly selected to participate in the study. The information provided will be strictly confidential and used for academic purposes only. Kindly respond to all questions in this questionnaire.

PART A : Micro Loans Data

1.What kind of business do you operate?...

Please tick the correct answers in the given boxes for the following questions.

2. For how long have you been in business?

[ ] 1 -2 yrs [ ] 3 – 4 yrs [ ] 4 – 5 yrs [ ] Over 6 yrs

3. For how long have you been a member of the MFI?

[ ] 1 yr [ ] 2 yrs [ ] 3yrs [ ] 4yrs [ ] Over 5 yrs.

4. How do you raise working capital for your business?

[ ] Mostly from personal savings

[ ] Mostly credit from relatives and friends

[ ] Retirement benefits

[ ] Mostly credit from MFIs

5. How many times have you borrowed from the MFI?

[ ] Once [ ] Twice [ ] Thrice [ ] Four times [ ] More than four times

6. a) How have the loans you have borrowed from MFIs affected your business and stock?

[ ] My business and stock has more than doubled

[ ] My business and stock has increased slightly

[ ] There has been no effect on my business and stock

[ ] My business and stock has decreased

b) Briefly explain your answer in a) above

……………………………………………………………………………………..…………

……………………………………………………………………………………..…………

……………………………………………………………………………………...……….

………………………………………………………………………………………………….

……………………………………………………………………………………..………….

PART B : Micro insurance Data

1. How do you cater for emergencies that occur in your day to day life e.g. sicknesses, death, e.t.c.

[ ] I borrow from my friends and relatives

[ ] I draw from my savings

[ ] I do fundraising

[ ] I use my insurance cover from my MFI.

2. a)Have you received any insurance products from your MFI?

[ ] Yes [ ] No

b) If yes, which insurance products do you receive from your MFI?

…………………………………………………………………………………………………...

……………………………………………………………..…………………………..…………..

…………………………………………………..……………………..………………….

………………………………………………………………………………….……………….

3. a) How have the insurance products you have received from your MFI affected your Business performance?

[ ] My business is performing very well because my emergencies are taken care of by my insurance cover.

[ ] My business is performing moderately well.

[ ] My business is not performing very well

b) Briefly explain your answer above

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

……
…………………………………………………………

PART C : Micro Savings Data

1. Are you provided with any savings facilities by your MFI?

[ ] Yes [ ] No

2. If yes, which savings products are available to you?

……………………………………………………………………………………….….

………………………………………………………………………….……………

……………………………………………………………………………………….

………………………………………………………………………..……………

3. How have the savings products provided affected your business performance?

[ ] My business is performing very well.

[ ] My business is performing moderately well.

[ ] My business is not performing very well

4. Briefly explain your answer above

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……
……

………………………………………………………………………………………………………
……………………………………………………………………………………………………..

PART D : Business Training Data

1. Have you received any business management training from the MFI?

[ ] yes [ ] no

2. How has the training influenced your business?

[ ] My business performance has improved a lot

[ ] My business performance has improved slightly

[ ] There has been no effect on my business performance

[ ] My business performance has declined

4. Briefly explain your answer in b) above.

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…………………………………………………………………………………………………….

……………………………………………………………………………………………………..

……………………………………………………………………………………………………..

…………………………………………………………………………………………………….

Thank you for your participation.

APPENDIX C

Questionnaire for Loans Officers

This questionnaire is designed for purposes of determining the influence of the services offered by MFIs on the performance of MSE. You have been randomly selected to participate in the study. The information provided will be strictly confidential and used for academic purposes only. Kindly respond to all questions in this questionnaire.

1. How many active clients do you have? (those currently servicing loans).

2. In which loan cycles are the majority of the clients?

[ ] 1st cycle [ ] 2nd loan cycle [ ] 3rd loan cycle [ ] 4th loan cycle [ ] more than 4 cycles

3. How is the general performance of the loans?

[ ] Most of the clients are paying their loans very well

[ ] Most of the clients are paying their loans fairly well

[ ] Most of the clients are struggling with their loans

[ ] Most of the loans are non performing

4. Do you offer Micro insurance services to your clients?

5. Which micro insurances services do you offer?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

……
…….

5. How is the uptake of these services?

[ ] Very good [ ] fairly good [ ] not good [ ] very poor

6. Do you offer Micro savings services to your clients?

[ ] Yes [ ] No

7. Which micro savings services do you offer?

……
……
……
……
…….

8. How is the uptake of these services?

[ ] Very good [ ] fairly good [ ] not good [ ] very poor

9. Do you offer any business training services to your clients?

[ ] Yes [ ] No

10. Which business training services do you offer?

……
……
……
……
……

11. How is the uptake of these services?

[ ] Very good [ ] fairly good [ ] not good [ ] very poor

12. Generally, how do you assess the level of business performance of your clients?

[ ] the businesses are doing very well as most of the clients have opened new outlets and employed more people

[ ] the businesses are doing fairly well

[ ] the businesses are struggling

[ ] the business is performing poorly

13. Briefly explain your answer above

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Thank you for your participation

TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size
"S" is sample size.

Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.