THE RELATIONSHIP BETWEEN MICROFINANCE CREDIT AND FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN KENYA

BY

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DECLARATION

I declare that this is my original work and to the best of my knowledge has not been presented for examination to any other university.

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This project has been forwarded for examination with my approval as the University supervisor.

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ABSTRACT

Microfinance refers to small scale financial services such as cash loans, money transfers, direct deposits, savings, and insurance made accessible primarily to the poor. Microfinance programs and institutions have become increasingly important in promoting MSE development in developing countries, and specifically to reduce poverty. Microfinance is widely celebrated as a possible solution to the financing problems of micro businesses and smaller firms. Through MFIs poor individuals are granted the possibility to access local financial markets and to invest in small businesses. MFIs enable people to engage in productive economic activities and thus contribute to development in low income populations. Micro finance schemes have been found to reduce poverty and to positively affect nutrition, health and education as well as gender empowerment.

For a long time in Kenya, promotion of MSE sector has been duly recognized as a viable and dynamic strategy for attainment of national goals such as job creation, poverty alleviation and development between diverse sectors. These are the cornerstones of a strong national base and domestic structures that are central to the Kenya government's vision of achieving newly industrialized country status by the year 2030.

This study sought to find out whether there is a relationship between microfinance credit and the financial performance of the micro and small enterprises in Kenya. The study employed the causal research design to establish the cause and effect relationships between the various research variables. Cluster sampling of MSEs in the central business district in Nairobi was done by clustering the MSEs based on the streets where they are located. A sample of 65 MSEs within the central business district was selected for the survey. A semi-structured questionnaire was used to collect primary data from the respondents. Descriptive and inferential statistics were used to analyse the quantitative data collected. The research findings indicated that there is a strong positive relationship between microfinance credit and the financial performance of MSEs.

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LIST OF ABBREVIATIONS

ADEMI	Association Para el Desarrollo de la Microempresa
AIMS	Assessing the Impacts of Microfinance Services
ADB	Asian Development Bank
ASA	Association for Social Advancement
BRAC	Bangladesh Rural Advancement Committee
CBD	Central Business District
GDP	Gross Domestic Product
GOK	Government of Kenya
ILO	International Labour Organisation
MFIs	Microfinance Institutions
MSEs	Micro and Small Enterprises
NBFIs	Non-Bank Financial Institutions
NBV	Net Book Value
NGOs	Non-Governmental Organisations
NOI	Net Operating Income
ROSCAS	Rotating Savings and Credit Associations
SHGs	Self Help Groups
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SEWA	Self Employed Women's Association
USAID	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microfinance refers to the provision of banking services to low income people especially the poor and the very poor. The clients are not just micro entrepreneurs seeking to finance their businesses but the whole range of poor clients who use financial services to manage emergencies, acquire household assets, improve their homes and smooth consumption and fund social obligations. The services go beyond micro credit and also include savings and transfer of services (Christen et al 2003). Microfinance as we know it today owes its origins to a model experimented by Dr. Mohammad Yunus with a group of poor women entrepreneurs in Bangladesh in 1976. By then it was referred to as micro credit, advancing working capital mainly to female entrepreneurs. Later it was realized that not only entrepreneurs required loans for their businesses, but all poor people as well and that they needed a whole range of financial services (CGAP 2003). The provision of micro credit to small business concerns has since blossomed into a financial movement referred to as microfinance and represented by the microfinance institutions (MFIs) (Dondo, 1999).

MFIs refer to formal organizations whose primary activity is microfinance business. The range of institutions referred to as MFIs is wide and vary from country to country. There is emerging consensus that these institutions include commercial banks, state-owned development banks, financial non-governmental organizations (NGOs), financial cooperatives, and a variety of other licensed and unlicensed non-bank financial institutions (NBFIs), which focus on serving the poor (Christen et al 2003). The number of MFIs has risen from a few initial establishments mainly in Bangladesh, Bolivia and Indonesia in the 1980's to approximately 3,552 MFIs reaching over 154 million clients in 2007 thus meeting the objective defined in 1997(Daley-Harris 2009).

The microfinance industry in Kenya has grown over the past two decades in response to the lack of access to formal financial services for most of Kenya's poor people. Currently the number of known MFIs operating in Kenya is approximately close to 100 serving over four million clients with an outstanding loan portfolio of more than Kshs 2.3 billion which is equivalent to 30 million US dollars (Aron, 2010). The majority of Kenya's MFIs operate under the auspices of Non-Governmental Organization (NGO's), with the majority being concentrated in Nairobi, Mount Kenya region and western Kenya. The MFIs serve an ever increasing number of poor clients but the demand for their financial services far outstrips their capacity (ILO, 2008).

In Kenya, the microfinance industry has continued to experience impressive growth providing financial services to the largest segment of the Kenyan market consisting of individuals groups and micro-enterprises (Faulu, 2009). Microfinance has gained prominence among the poor in developing countries of Asia, Latin America, Eastern Europe and Africa. It has been prompted by the search for solutions to poverty alleviation. It has been argued that improving the supply of financial services to the poor enables them to build productive assets and enhance their productivity and potential for sustainable livelihoods. This can directly contribute to poverty reduction (World Bank 2001).

A crucial link between financial development and poverty reduction is through the growth of micro and small enterprises (MSEs). In this study MSEs are defined to include enterprises employing up to 50 workers. Micro enterprises are business that employ up to 10 persons including the working owner while small enterprises refers to those businesses employing between 10 and 50 workers. All these enterprises include informal sector business (which employ one up to ten persons) and those in the formal sector which employ up to 50 workers (CBS 1999). MSEs play an important role in improving the livelihood of the rural and urban population in developing countries. A wide variety of earlier studies support MSEs sector potential for enhancing pro-poor growth by creating employment and contributing to household incomes (Daniels and Mead 1998; Mcpherson 1996).

The findings of the 1999 MSE baseline survey estimated that there are about 1.3 million MSEs in Kenya, employing an estimated 2.3 million people. The average income of the enterprises surveyed was about KES 6,000 per month which was more than two times higher than the minimum legal monthly wage for skilled employees. Further, the sector was found to contribute approximately 18 percent of Kenya's Gross Domestic Product (GDP) and 25 percent of non-agricultural GDP. According to the economic survey of 2006 the sector contributed over 50 percent of new jobs created in the year 2005. In the recent past employment growth in Kenya's small enterprise sector has far outpaced growth in the larger modern sector (Aboagyie, 1986).The MSEs sector experienced substantive growth from the year 1999 to 2002 increasing to 2.8 million enterprises and MSEs employment of 5.1 million persons accounting for 74.2 percent of the total employment in 2002.MSEs are spread widely across the country, with two thirds of them located in rural areas (GoK 2006; ILO 2008). In Kenya a significant number of MSEs engage in commerce with 74 percent and 66 percent in urban and rural areas respectively (Liedholm, 2002). Others are involved in agriculture, tourism, manufacturing, telecommunications and other services (ILO 2008).

Performance of MSEs as a research topic has attracted a number of scholars with performance being operationalised in terms of growth of the enterprise (Masakure et al 2009; Vandenberg 2009). This performance in measured using financial indicators such as profitability, growth in sales, increase in stock levels, increased savings and increase in value of fixed assets. The development of MSEs has been identified as one of the strategies for generating industrialization, employment generation and poverty reduction in Kenya. This objective has been outlined in Kenya's major policy documents such as the sessional paper no. 2 of 1992 which served as the basis of development of the MSE sector. In 2003, the economic recovery strategy for wealth and employment creation was developed to provide the necessary framework for poverty alleviation, employment creation and promotion of economic growth. In 2005, the sessional paper no. 2 on development of MSEs was developed. In this paper, the government introduced a policy framework with the goal of providing a favourable environment for development of MSEs by reducing the cost of doing business and creating economic stability, improving infrastructure, providing incentives for the growth of the sector, removing barriers and providing a market and marketing services for MSEs. The MSE sector was expected to create most of the 500,000 jobs envisaged in the economic recovery strategy (GoK, 2005).

Despite the recognition, the sector faces constraints that limit their growth and development. MSEs generally suffer from a range of problems in their establishment and development. Among these problems, access to affordable credit is one of the main challenges facing MSEs in Kenya, despite efforts directed to the sector over the years (World Bank 2005; Argwings-Kodhek et al 2004; GoK 2006). A recent World Bank survey found that about 90 percent of small enterprises surveyed stated that credit was a major constraint to new investment (Parker, Riopelle and Stell 1995). According to Oketch (2000), lack of credit has been identified as one of the most serious constraints facing MSEs and hindering their development. Some other challenges facing MSEs in Kenya range from lack of access to markets, a weak legal framework, high interest rates to limited access to non-financial services especially business advisory services, among others (GoK 2006; World Bank 2005).

The Limited access to credit has been attributed to factors such as lack of collateral, high risk profile of MSEs, an oligopolistic banking sector and bias by commercial banks against the MSEs (Gallardo et al, 2003). Banks in most African countries have made little effort to reach MSEs due to difficulties in administering loans particularly screening and monitoring small-scale borrowers, high costs of managing loans, handling savings accounts and high risks of default (Gallardo et al, 2003; Yahie, 2000).

In response to the credit challenge facing MSEs in Kenya, grassroots organizations, credit unions, savings and credit cooperatives, village banks and NGOs have become active in microfinance activities to rural and urban areas in Africa (Yahie, 2000). Borrowing from banks has been relatively uncommon in Kenya because of stringent borrowing conditions. This means that MSEs have had to turn to informal sources of credit such as borrowing from friends, relatives, rotating savings and credit association (ROSCAs) and MFIs.

MFIs play a vital role in the economic development of many developing countries. They offer loans and technical assistance in business development to low income communities in developing countries (Hartungi 2007). They offer a variety of products including micro loans, savings and other deposit products, remittances and transfer payments, insurance or any other financial service that a commercial bank doesn't offer to low income clients in the banking system. Microfinance may be seen as a way of extending financial services to formerly unbanked people, thus deepening the financial system in the country by removing the frictions that prevent poorer segments of the society their access to financial service. Providing access to microfinance has therefore been seen a promising tool for poverty alleviation (Morduch, 1999). Most of the poor tend to engage in activities related to micro enterprises thus credit provided by MFIs is related to the improvement of production possibilities of the poor either as entrepreneurs themselves or as employees of micro enterprises. The strong growth in microfinance reflects an answer to an underlying demand. This is evidence in itself that microfinance is "working" or that it has a positive impact. Poor people are offered the opportunity to store their savings in a safe place and to smooth consumption. Microfinance therefore brings the basic utility of finance to poor people (Green et al 2005).

1.2 Statement of the Problem

Microfinance programs and institutions have become increasingly important strategies to promote MSE development in developing countries, and specifically to reduce poverty. Microfinance is widely celebrated as a possible solution to the financing problems of micro businesses and smaller firms. Through MFIs poor individuals are granted the possibility to access local financial markets and to invest in small businesses. MFIs enable people to engage in productive economic activities and thus contribute to development in low income populations. Micro finance schemes have been found to reduce poverty and to positively affect nutrition, health and education as well as gender empowerment. (Littlefield et al, 2003).

Studies about achievements of microfinance initiatives remain not only partial but also highly contested. Some studies argue that microfinance programs have many positive effects. There are those who find beneficial social-economic impacts such as increased stability and growth, reduced income inequalities, reduced vulnerability, improvements in employment, school attendance, and strengthened social networks and women's empowerment. Other studies allude to negative impacts such as exploitation of women, unchanged poverty levels, increased income inequality, high interest rates, creating dependencies and increased workloads. Others showed mixed impacts where microfinance programs were shown to benefit the poor but not the poorest of the poor.

Empirical studies done in Kenya include those by Buckley (1997) who studied micro enterprises in three African countries (Kenya, Malawi and Ghana). He concluded that there was little evidence to show any significant impact of microfinance services on fixed assets, increased income flows or employment levels. Kibas P. (1995) conducted a study to determine the impact of credit on micro- enterprise development. He found that clients reported improvement in their sales, profits, assets cash flows, management practices and family welfare. New Jobs and Linkages with other organizations had also been created. The loans assisted the micro- enterprises to grow horizontally but did not appear to assist them to grow vertically. Mutua et al (1991) conducted a study to establish the impact of credit on various economic variables like employment, increase in household income and enterprises output. They established that despite the fact that MFIs extend credit to MSEs, they lack information on the relative sizes and types of loans needed by these enterprises in various sectors of the economy.

The studies reviewed above indicate that microfinance programs will not always yield positive economic impacts on the beneficiaries. Other factors apart from credit may mediate the impact of microfinance on the performance of MSEs. There is therefore no conclusive evidence on the impact of microfinance on the financial performance of MSEs. This study will therefore contribute to literature by examining specifically the impact of microfinance interventions on the financial performance of MSEs in Kenya.

1.3 Objective of the Study

The objective of this study was to establish the relationship between microfinance credit and the financial performance of MSEs in Kenya.

1.4 Importance of the Study

The findings of the study will be useful to the following groups of people.

1.4.1 Microfinance Practitioners

The study will assist microfinance practitioners in improving their institutions by helping them to establish whether their programs have the desired impact. This will enable them to focus on designing products and services that will suit the needs of their clients.

1.4.2 Funding Agencies/Donors

The study will enable financers or donors of MFIs to re-evaluate their credit lending methodologies. This will assist them in assessing the sustainability of the MFIs.

1.4.3 The Government and Policy Makers

The study findings will assist the government and policy makers in designing policies and regulations that are necessary to guide the establishment, operations and other activities of MFIs.

1.4.4 Academicians

The study findings will contribute to the existing body of knowledge in this field. Future researchers may use the findings of this study as the basis for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Recently the field of microfinance has attracted a great deal of attention by researchers. This chapter starts with a discussion of the various theories related to microfinance. This is followed by a review of the existing empirical studies conducted by researchers from all over the world on the impact of MFIs on MSEs performance. The chapter then closes with a brief summary on theories and empirical discussions.

2.2 Theories of Microfinance

2.2.1 Imperfect Information Theory

According to Robinson (2001) this theory is based on the assumption that banks can't differentiate cost effectively between low risk and high risk loan applicants. In addition, it is thought that formal financial institutions are unable to compete successfully with informal money lenders because such lenders have access to better information about credit applicants than formal institutions can obtain cost effectively. Imperfect information theory suggests that it would be difficult for banks to both operate profitability in developing countries credit markets and to attain extensive outreach. On the basis of this model, it would be difficult for economists, bankers, financial analysts, donors and government decision makers to muster much enthusiasm for advocating entrance of commercial banks into rural credit markets or into micro credit markets.

2.2.2 Savings of the Poor Theory

Robinson (2001) contends that savings are more crucial to microfinance clients than credit. The theory focuses on voluntary savings mobilized from the public. People choose to save excess liquidity for future use and this excess liquidity can be mobilised by financial institutions serving low income people. Proponents of this theory argue that MFIs are an important part of the solution to poor people's problems with dead capital. Savings accounts in regulated financial institutions are legally recognised assets, and often the first that poor families' acquire .Their bank accounts are fungible assets (Live capital).

Since banks are legally accountable for their savers deposits, the deposits can be used as collateral for loans and mortgages. Regulated MFIs provide voluntary savings accounts that are appropriate for low income savers and are legally recognised as loan capital.

2.2.3 Financial Systems Approach

The theory suggests that poor people are able to pay high interest rates that cover the lenders transaction costs and emphasises institutional self sufficiency (Robinson 2001). The main argument to support this theory is that the large scale outreach to the poor on a long-term basis can't be guaranteed if MFIs are incapable of standing on their own feet. In other words, MFIs should be maintained by clients, not donors. This is referred to as operational self-sufficiency. According to Otero and Rhyne (1994) this theory relaxes its attention to "impact" in terms of measurable enterprise growth and focuses instead on measures of increased access to financial services.

2.3 Microfinance Credit Lending Approaches

Ledgerwood (1999) identifies two major lending approaches used by MFIs in providing credit to their clients.

2.3.1 Minimalist Approach

This approach only offers financial intermediation services. Minimalists base their approach on the premise that there's a single "missing piece" for enterprise growth, usually considered to be lack of affordable and accessible short term credit.

2.3.2 Integrated Approach

This approach provides a combination of financial and social intermediation, enterprises development and social services. MFIs may not provide all the four services but they take advantage of their proximity to clients and based on their objectives they provide those services that are most needed or those that they have a comparative advantage providing (Ledgerwood; 1999). Some studies have examined the integration of microfinance with other development services. Smith (2002) compared minimalist microfinance services in Ecuador and Honduras to those offering financial services integrated with health education. Using surveys of 963 Ecuadorian clients and 981 Honduran clients, he finds that clients in integrated programs experienced improved family health while those in minimalist programs didn't. Edgecomb (2002) and Cook et al (2001) also supported the integrative approach. Each used case methodology to analyse MFIs offering integrated business development training. They concluded that business development training significantly improves micro enterprise performance and micro enterprise empowerment.

2.3.3 Group Lending Methodology

Micro credit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be locked out due to their extreme poverty levels. Group lending is also referred to as joint liability lending. Participants of joint liability lending organise themselves into groups and act as a security for each others loans. Thus the group and not the individual are responsible for the loan repayments to the MFI. The groups use peer pressure and peer monitoring to ensure that loans are repaid. Stiglitz (1990) in his seminal work on peer selection and monitoring contends that joint liability reduces information asymmetries between borrowers and lenders. Wenner (1995) argues that groups takes over the underwriting, monitoring and enforcement of loan contracts from lending institutions. Ghatak and Guinnane, (1999) showed that group lending achieves self selection of borrowers and acts as a screening device. Islam (1995) argues that lenders using peer monitoring systems can charge lower interest rates relative to conventional lenders; and that at the same interest rates, the expected rate of repayment is higher with lower risk when using peer monitoring. Group lending has some drawbacks: For example, group members might decide to collude against the lender and together default on their loan or an individual can be tempted to default because other members will then repay for his part (Besley and Coate, 1995). Group lending has also proved unsuitable for wealthier borrowers which have led to institutions such as Grameen Bank in Bangladesh and Bancosol in Bolivia to offer individual lending contracts for the better off clients.

2.3.4 Individual Lending Methodology

(Armendariz de Aghion and Morduch 2005) contend that some borrowers might prefer not to be obligated to others and prefer independence to the security provided by the group. Attending group meetings and monitoring group members can be costly to members due to, for example long distances that members have to cover to attend meetings. They describe the problem that poor borrowers may divert a loan, at least partially to urgent consumption needs. In order to ensure the use of the loan for the agreed upon investment projects, they point out the importance of monitoring borrowers in Individual lending schemes. Navajas et al (2003) also stresses the crucial role of closely monitoring borrowers. While Champagne et al (2007) stresses the need to regularly visit clients. By offering individual loans, MFIs can attract relatively new clients.

2.4 Microfinance Lending Schemes

2.4.1 Self Help Groups (SHGs)

An SHG is a group of individual members who by free association come together for a common collective purpose. They comprise individual members known to each other, coming from the same village, community or even neighbourhood. In the context of microfinance, SHGs are formed around the theme of savings and credit. A small group of individuals become members and pool their savings on a regular basis to form a collective fund. This fund is then rotated as credit among the members through self generated norms. Hence the basis of SHGs is the mutuality and trust in depositing individual savings in group funds. Once the initial trust is established the incentive or motivation for a member is the access provided to financial services through a common pool which is higher than the individual fund saved (Satish, P. 2001).

SHGs provide both financial and technical services to members to enable them engage in income generating activities. The operations of SHGs are based on the principle of revolving the members own savings. External financial assistance augments the resources available to the group-operated revolving fund. Savings thus precedes borrowing by the members. In many SHGs programs, the volume of individuals borrowing is determined either by the volume of member savings or the savings of the group as a whole. Some NGOs operate microfinance programmes by organising federations of SHGs to act as the MFI which obtains external loan funds in bulk to be channelled to members via the SHGs (Ajai, 2005).

2.4.2 Cooperatives

These constitute credit unions and savings and credit cooperative societies (SACCOs).They provide savings and credit services to their members. They raise capital through mobilizing savings from the members and give loans to the members.
Loans are given to members without collateral where the members guarantee each other. All borrowers are members of the organisation. Creditworthiness and loan security are functions of a cooperative membership within which member's savings and peer pressure are assumed to be a key factor. Cooperatives have a formal constitution and a degree of legal status. Credit cooperatives are playing an increasingly active role in the microfinance market today (Armendariz de Aghion and Morduch, 2007).

2.4.3 Rotating Savings and Credit Associations (ROSCAs)

Armendariz de Aghion and Morduch (2005), argue that ROSCAs are built on informal understandings among friends and acquaintances. ROSCAs provide an alternative solution to borrowing from friends and relatives (to avoid social costs and obligations involved with this kind of borrowing). There are based on the principle of pooling resources with a broad group of neighbours and friends.

Bowman (1995), contend that members regularly, often weekly or monthly pool their savings or contributions and rotate these as grants or loans among members. The groups normally consist of 10-30 members and are organized by the members either collectively or by one or a few of those predominantly involved. Despite the outreach of more formal types of microfinance the ROSCAs continue to be popular. The ROSCAs dependence on internal funding (savings), grassroots leadership and inexpensive operating models making outreach to the very remote areas feasible have recently attracted considerable donor attention. (Allen 2006). Like money lenders, ROSCAs are very much local institutions. In Bangladesh for example among the 95 investigated by Rutherford (1997), 70 percent were made up of people in the same neighbourhood with others based on a shared workplace.

2.4.4 Village Banks

NGOs help set up village financial institutions in partnership with local groups allowing substantial local autonomy over loan decisions and management. Village banks tend to serve a poor predominantly female clientele similar to that served by the Grameen Bank.

In a standard model, the sponsoring agency makes an initial loan to the village bank and its 30-50 members. Loans are then made to members with subsequent loan sizes tied to the amount that members have on deposit with the bank. The deposits of members are held in an internal account that can be drawn down as depositors need. The original aim was to build up internal accounts such that external funding can be withdrawn within three years but in practice growing credit demand and slow savings accumulation have limited those aspirations. They focus on savings and tend to remain small in scale and lending to individual members. Membership to a village bank is based on self selection. Village banks have gained grounds and they make certain adjustments to suit their partner institutions (Nelson et al 1996).

2.5 Empirical Studies

Interest in impact assessment of MFIs has led to a number of impact studies published in scholarly journals. The impact on credit programs of MFIs can be economic, social-cultural or personal. For the purpose of this study, emphasis will be laid on the impact of MFIs on the MSEs in particular considering aspects of business expansion or transformation. A number of studies have been carried out to ascertain the impact of credit programs on MSEs. Some of the variables that have been investigated are indicators of change on the enterprise such as increased production, fixed assets, working capital, inventories, level of sales, net profit and additions to the work place that enhance productive capacity. Some of the studies are discussed below:

A study carried out in the Domination Republic by ADEMI from January to December 1986 concluded that the program had a positive short term effect on the beneficiaries. The study centred on the effect of borrowing by MSEs on variables such as fixed assets, sales, savings, salaries and employment. The findings revealed that fixed assets recorded an increase of between 8 to 50 percent, sales increased from between 18 to 54 percent and employment increased by between 2 to 27 percent, and savings by participating MSEs increased significantly.

In 1995, the United States Agency for International Development (USAID) launched the Assessing the Impacts of Microfinance Service (AIMS) project to provide practitioners with a low cost way to measure impact and to improve institutional performance. Some of the AIMs core impact assessments are discussed here below:

Chen and Snodgrass (2001) compared the impact on clients who borrowed for self-employment and those who saved with SEWA bank (India) without borrowing and compared both groups to non-clients. The results showed that borrowers were considerably better off than savers, who were in turn better off than the non participants. However savers showed the fastest rate of income growth but still, borrowers' income remained over 25 percent greater than savers.

Barnes (2001) examined the impact of continuing clients and new clients of Zambuko trust as well as program drop outs and a comparison group of non participants in Zimbabwe. The comparison group was comprised of entrepreneurs who met Zambuko's eligibility requirements including that they had owned an enterprise for at least six months. The results showed benefits of repeated borrowing with only 22 percent of continuing clients earning below a dollar a day versus 40 percent of non clients and 42 percent of incoming clients. However, while the income of continuing clients was significantly higher in 1997 than the income of other groups, by 1999 the difference was no longer statistically significant though continuing clients still earned the most.

Barnes et al (2001) assessed the impact of three MFIs programs in Uganda. They found that significantly more clients (43 percent) than non clients (31 percent) reported an increase in profits from their primary enterprises. Clients were more likely to become homeowners (10 percent versus 1 percent) and spent significantly more on school fees for their children. Participants showed a greater increase in durable assets and half of the clients increased their savings over the previous two years, compared to a third of the comparison group.

Todd (2001) used the AIMS methodology to compare 125 clients of SHARE microfinance institution in India to 104 new clients who had not yet received any exposure to the program. The 125 mature clients had all been participants for at least 3 years (only two clients in the sample had been members for more than four years). Todd created a poverty index composed of four elements namely sources of income, productive assets, housing quality and household dependency burden. She found dramatic differences between mature and incoming clients. The results showed that 76.8 percent of clients experienced a reduction in poverty of at least one category while 38.4 percent left poverty entirely. A small number of clients experienced deterioration in poverty status.

In the Philippines Mahabub Hossain and Catalina Daiz (1997) compared older borrowers of CARD microfinance with newer borrowers. They found that productive capital as well as the ability to finance expansion from borrowers own funds increased with the number of loans taken from CARD microfinance. Income from older borrowers' micro enterprises was 3.5 times higher than for newer borrowers' enterprises. Older borrowers also increased income from other sources. Regression results showed that every 'peso' borrowed from CARD microfinance yielded 3 'pesos' in income.

Bolnick and Nelson (1990) conducted a study in Indonesia to evaluate the impact of credit programs on small enterprises. They found that MFIs participation had a positive impact on enterprises that were typically smaller, labour intensive and growing, although the impact was far from uniform across sectors and target variables. Copestake et al (2001) found that those borrowers' who were able to obtain two loans experience high growth in profits and household income compared to a control sample, but borrowers who never qualified for the second loan were actually worse off due to MFI collection mechanisms. Dunn, (2001) conducted a study on the impact of micro credit on micro-enterprises in Peru. She found that program clients' enterprises performed better than non client enterprises in terms of profits, fixed assets and employment. In Bangladesh, Khandker et al (1998) found that program participation has positive impacts on household income, production and employment particularly in rural non-farm sector and that the growth in self-employment was achieved at the expense of wage employment which implies an increase in rural wages.

Mosley and Hulme (1998) studied MFIs in Bolivia, Indonesia, Bangladesh, India, Kenya, Sri Lanka and Malawi. They found evidence of a trade-off between reaching the very poor and having substantial impact on household income. They found that programs that targeted higher-income households (those near the poverty level) had a greater impact on household income. Those below the poverty line were not helped much and the very poorest were somewhat negatively affected. The poorest tended to be more averse to risk-taking. They also used their loans for working capital or to maintain consumption levels rather than for fixed capital or improved technology. Since, micro-credit programs typically require loan repayment on a weekly basis; some critics argue that repayment comes from selling assets rather than from profits of micro-enterprises. In order to examine this, one must also study if borrowing actually increases household assets.

Coleman (1999) focused on experiences with village banking in Thailand. He utilized data on villages that had participated in village bank microfinance schemes and those control villages that had were designated as participants. He found out that months of village banking membership had no impact on any asset or income variables and that there is no evidence that village bank loans were directed to productive purposes. He concluded that the poor are poor because of some other factors such as lack of access to markets, unequal land distribution, stock prices but not lack of access to credit.

Buckley (1997) carried out a study in Kenya, Malawi and Ghana. He concluded there was little evidence to show any significant impact of microfinance services on fixed assets, increased income flows or employment levels. Mosley (2001) while analysing four programs in Bolivia on the impact of microfinance on poverty reduction found that there is a significant increase in household's incomes and assets for microfinance clients as opposed to those of their non-borrowing counterparts. He therefore argues that microfinance makes a considerable contribution to the reduction of poverty.

Hulme and Mosley (1996) argue that the better off the borrower, the greater the increase in income from a micro enterprise loan. Borrowers who already have assets and skills were able to make better use of the credit. They argue that the poorest are less able to take risks or use credit to increase their incomes. Indeed some of the poorest borrowers interviewed became worse off as a result of micro enterprise credit which exposed them to high risk. For them business failure was more likely to provoke a livelihood crisis than it was for borrowers with a more secure asset base. Specific cases included bankruptcy, forced seizure of assets and unofficial pledging of assets to other members of a borrowing group. There have even been reports of suicide following peer pressure to repay failed loans.

Another survey comparing micro enterprise programs in El Salvador and Vanuatu found that the development of successful enterprises and the improvement of incomes of the very poor people were conflicting rather than complementary objectives. By selecting those most likely to be successful for credit and training the program inevitably moved away from working with the poorest of the poor (Tomlinson, 1995). Diagne and Zeller (2001) conducted a study in Malawi and concluded that microfinance does not have any significant effect in household income. In other words, investing in MSEs will have no effect on raising household incomes because the infrastructure and markets are undeveloped. Dreze and Sen (1989) contend that microfinance specialists increasingly view improvements in economic security as the first step in poverty reduction. From the perspective of poverty reduction, access to reliable monetised savings facilities can help the poor smooth consumption over periods of cyclical or unexpected crisis thus greatly improving their economic security. Bennet and Cuevas (1996) argue that it's only when people have some economic security that access to credit can help move them out of poverty by improving the productivity of their enterprise or creating new sources of livelihood. Mckernan (2000) analysed the impact of participation in these program on profits. She found a significant impact with profits increasing roughly by 175 percent.

Mcpherson (1996) used survey data from four African countries and analysed growth determinants for small micro-enterprises. He finds a significant influence of business sectors, human's capital, gender and firm size on growth. New world bank research findings break away from the traditional view that subsidizing MSEs foster growth and poverty alleviation. Researchers Beck and Demirguc-kunt (2006) recommend that countries focus on improving overall business climate for all firms, while also expanding finance to small and medium enterprises (SMEs). The banks latest research emphasises the importance of strengthening the overall business environment for all firms instead of focusing on subsidising SMEs.

Zeller et al (2001) presents evidence that credit access has a significant and strong effect on income generation and food and calorie consumption. According to his study, every 100 taka of credit access generates an additional 37 taka of annual household income for

Association for Social Advancement (ASA) and Bangladesh Rural Advancement Committee (BRAC) members. Khandker (1998) finds that, for all the three programs in Bangladesh that he surveyed, household net worth did increase, and the impact was much stronger for men than for women. He further finds that Grameen Bank's practice of providing larger loans allowed the bank to gain higher returns on capital and the effect of borrowing on household net worth was greater. This implies that the size of loans matters and larger loans may be needed for sustained poverty reduction. Mosley (1999), states that microfinance makes a considerable contribution to the reduction of poverty through its impact on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average, smaller loans reduce poverty much more by lifting borrowers above the poverty line, whilst institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people.

2.6. Chapter Summary

It is evident from the above review of existing literature on impact of microfinance does have some positive impact on individuals, households and micro enterprises. Evidence suggests clear support for declining vulnerability through consumption and labour smoothing that protects households from seasonal fluctuations. Microfinance intervention programs to may increase incomes contribute to individual household's livelihoods security and lead to better financial performance for micro enterprises. This is supported by increase in sales, profitability, employment and savings levels. However this should not always be assumed to be so. Although micro-credit is a popular tool in the MSE development toolkit it is no panacea to all the challenges that MSEs face. Microfinance may ease some constraints but doesn't eliminate all the problems of MSEs.

There is need to continually improve the design of MFI products and services to MSEs and to perceive MFIs as part of the package for enhancing growth and development of MSEs rather than perceiving it as the perfect solution to all their problems. The use of microfinance for consumption loans can be reduced by introducing new products and by combining loans with savings and insurance. Besides credit the poor lack skills, accounting ability and the education to create and sustain a business. Therefore, more effective microfinance programmes would require greater commitment of funds and resources to basic training programmes for micro-entrepreneurs. Furthermore, an improvement in the skills of the micro entrepreneurs should be used to encourage the adaptation of more advanced technologies especially in the rural non-farm sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a description of the methodology adopted in the study to achieve the objective. The chapter starts with a description of the study design chosen and the justification of the choice of the design. This is followed by a description of the population, the sampling frame and justification for the same. The subsequent section describes the data collection tools and procedures, followed by the various techniques that were used in the analysis of data. Finally, the chapter closes with an explanation of the measures to be taken in order to control data validity and reliability in the questionnaires.

3.2 Research Design

This study employed the causal research design. According to Kothari (2006) causal research design is suitable for studies whose major emphasis is on determining the cause and effect relationships. Causal research explores the effect of one thing on another and more specifically, the effect of one variable on another. The research design is used to measure what impact a specific change will have on existing norms. Causal research has the potential to illustrate that a change in one variable causes some predictable change in another variable. This research design explains how various independent variables are manipulated in order to check how a dependent variable is affected with a relatively controlled environment. The research question, "what is the relationship between micro finance credit and the financial performance of MSEs in Kenya?" involved developing causal explanations. The study attempted to establish a causal measure of the impact of microfinance programs on the performance of MSEs. variation was observed between causes (x_1 x_2.....xn) and an effect (y) expressed in form of a regression equation. This involved statistical analysis using correlation between variables as evidence of causation.

3.3. Population

The population of study was all the MSEs in the Central Business District (CBD) in Nairobi city.

3.4 Sample

A total of 65 MSEs were selected from Nairobi based on the observation that Nairobi, being the capital city of Kenya had a very large concentration of MSEs. Selection of MSEs participants was done by use of cluster sampling method due to the large numbers and informal nature of MSEs. This approach is justified by the difficulty in obtaining a database of MSEs due to a lack of a directory of all enterprises in Nairobi. Clusters were created based on geographic locations. Four main streets namely River road, Kirinyaga road, Tom Mboya Street and Ronald Ngala Street in the CBD were selected. MSEs on these streets were counted and used as a sampling frame. This was followed by random selection of a total of 65 MSEs using random sampling. Caution was taken to ensure that a proportional representation from each cluster was taken. The cluster sampling method was helpful in minimizing the costs and time taken in conducting the research.

3.5 Data Collection

The study employed both primary and secondary sources of data. Primary data from the MSEs owners-managers was collected by use of semi-structured questionnaire. The questionnaire was divided into four parts. Part A gathered information on personal attributes or demographics of the participant MSE owners-managers. Part B covered business profile variables ranging from the nature of the business activity, ownership and size among others. Part C consisted of questions intended to collect information on the perceptions of the MSE owners-managers on use of microfinance services and their assessment of the terms and conditions surrounding credit delivery. Part D contained questions addressing the dependent variable of the study i.e. MSEs financial performance. The construct of MSE performance was measured using profitability as the measure of financial performance.

During the interview participants were advised to base the assessment of their performance of the business on their experience from the year 2006 to 2010. The questionnaires for collecting primary data were administered to the MSE owners-managers with the help of two trained research assistants. Secondary data was sourced from the financial records of the businesses if any. Other sources of secondary data include the relevant literature and records available in the library. Electronic databases provided access to relevant journals and publications related to the topic.

3.6 Data Analysis

Descriptive and inferential statistics were used in analyzing data. Descriptive statistics such as frequency distributions, percentages, variations and measures of central tendency were used to summarize basic features of the data in the study. Inferential statistics were be used to infer the sample results to the population. The statistical package for social sciences (SPSS) version 17 was used to perform the analysis of quantitative data. Regression analysis was used to assess the strength of the relationship between the independent variable on the dependent variable. The regression equation that was used is as shown below.

$Y = a + \beta_1 x_1 + \varepsilon$

Where Y = MSEs financial performance as measured by growth in net profit

a = regression constant

X_1 = MFI credit

β_1 = Coefficient of MFI credit.

ε = Error term

3.7 Data Validity and Reliability

3.7.1 Data Validity

Validity is concerned with whether the findings are really about what they appear to be (Saunders et al 2009). It also refers to how well the result of a research can give the right answer to the research question (Remenyi et al 1998). To ensure validity, information from previous studies and different literatures which cover all areas of the study is used. The theoretical framework being a reflection of these previous studies, the questionnaire was developed based on theoretical framework in order to arrive at the right answer to the research question. Peer review of the questionnaire was conducted for purposes of validation and to minimize internal validity threat of the instrument. A pilot test was also done to test validity.

3.7.2 Data Reliability

Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings. (Saunders et al, 2009). Data was analysed and interpreted based on theoretical framework and the researcher tried to relate it back to empirical evidence.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This study sought to establish the relationship between microfinance credit and the financial performance of MSEs in Kenya. The study targeted 65 Micro and Small Enterprises in Nairobi city and as such 65 questionnaires were administered. The researcher managed to collect 65 completed questionnaires representing 100 % response rate. The researchers used a semi-structured questionnaire to obtain the relevant data. This chapter presents the study findings. It comprises of respondents personal information, business profiles, business financial needs and operations, and business performance.

4.2 Personal Information of the Respondents

The following findings relates to the respondents personal information as gleaned from the questionnaires.

4.2.1 Age of Respondents

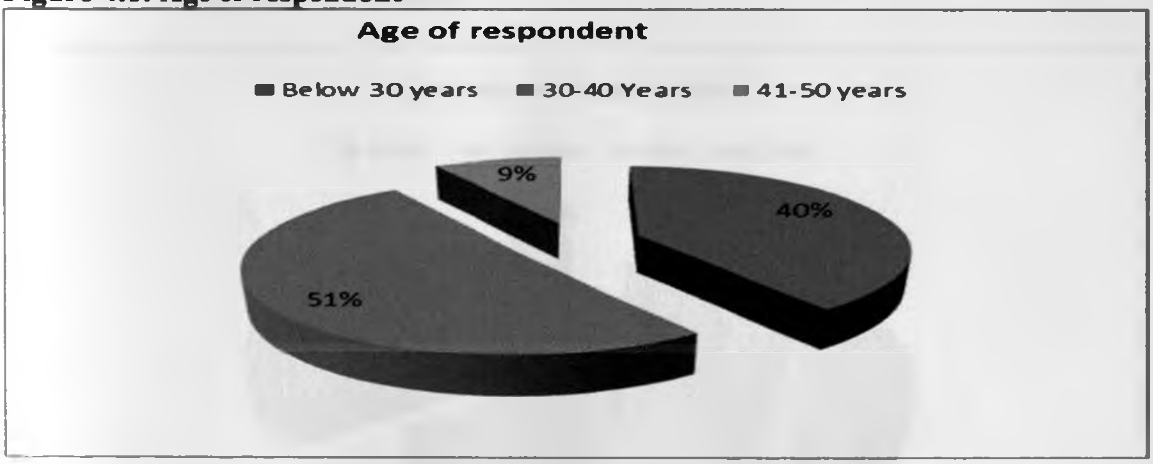
Majority (50.8%) of the respondents indicated that they were aged between 30-40 years, followed by those who were aged below 30 years and finally by those aged between 41-50 years at 9.2% as shown in table 4.1 and figure 4.1 below.

Table 4.1 Age of respondents

Age	Frequency	Percentage
Below 30 years	26	40.0
30-40 Years	33	50.8
41-50 years	6	9.2
Total	65	100.0

Source: Research Data 2011

Figure 4.1: Age of respondent



4.2.2 Gender of Respondents

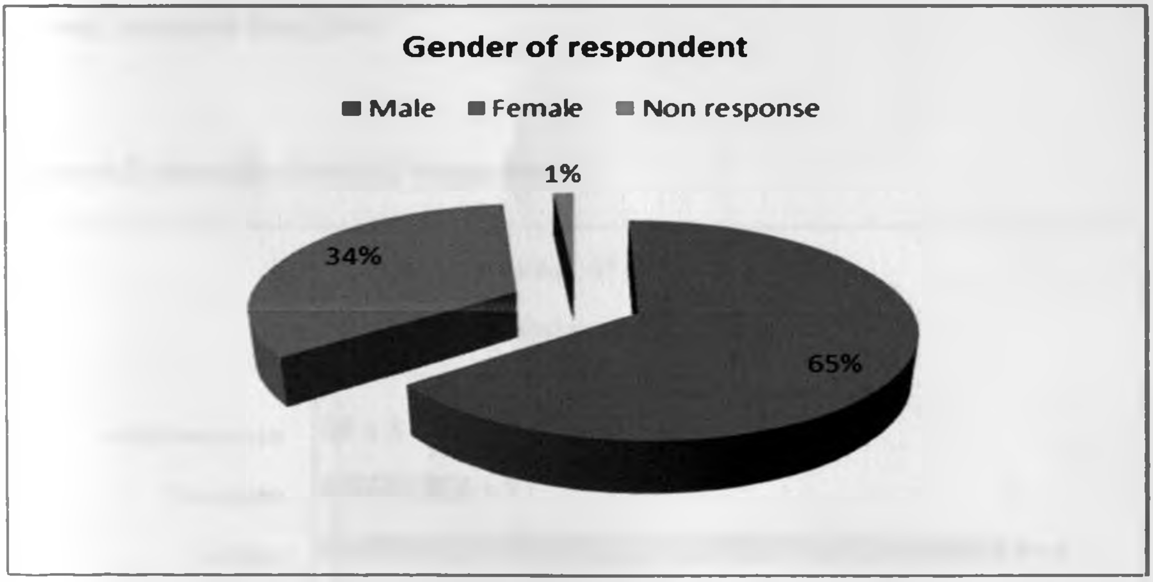
Majority (64.6) of the respondents were male while the remaining 33.8% of them were female as shown in table 4.2 and figure 4.2 below.

Table 4.2 Gender of respondent

Gender	Frequency	Percentage
Male	42	64.6
Female	22	33.8
Non response	1	1.5
Total	65	100.0

Source: Research Data 2011

Figure 4.2: Gender of Respondent



4.2.3 Education Level of Respondents

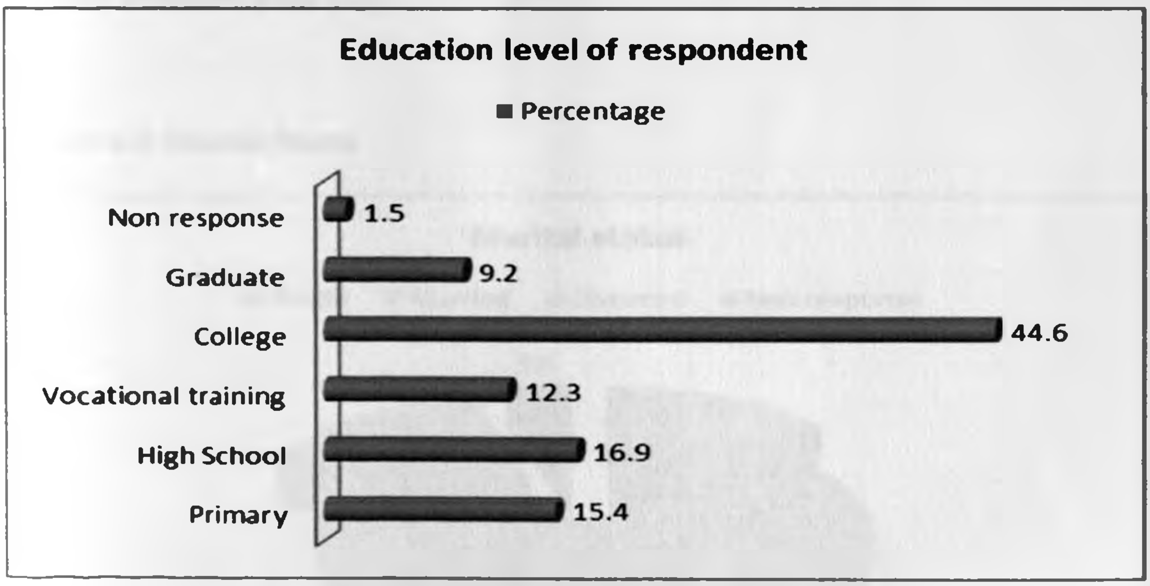
Majority of the respondents in this study had attained college education at 44.6%, followed by those who had attained high school education at 16.9%, primary education at 15.4%, vocational training at 12.3%, 9.2% were university graduates and one respondent did not indicate his level of education as shown in table 4.3 and figure 4.3 below.

Table 4.3 Education level

Level of education	Frequency	Percentage
Primary	10	15.4
High School	11	16.9
Vocational training	8	12.3
College	29	44.6
Graduate	6	9.2
Non response	1	1.5
Total	65	100.0

Source: Research Data 2011

Figure 4.3 Education levels of respondents



4.2.4 Marital Status

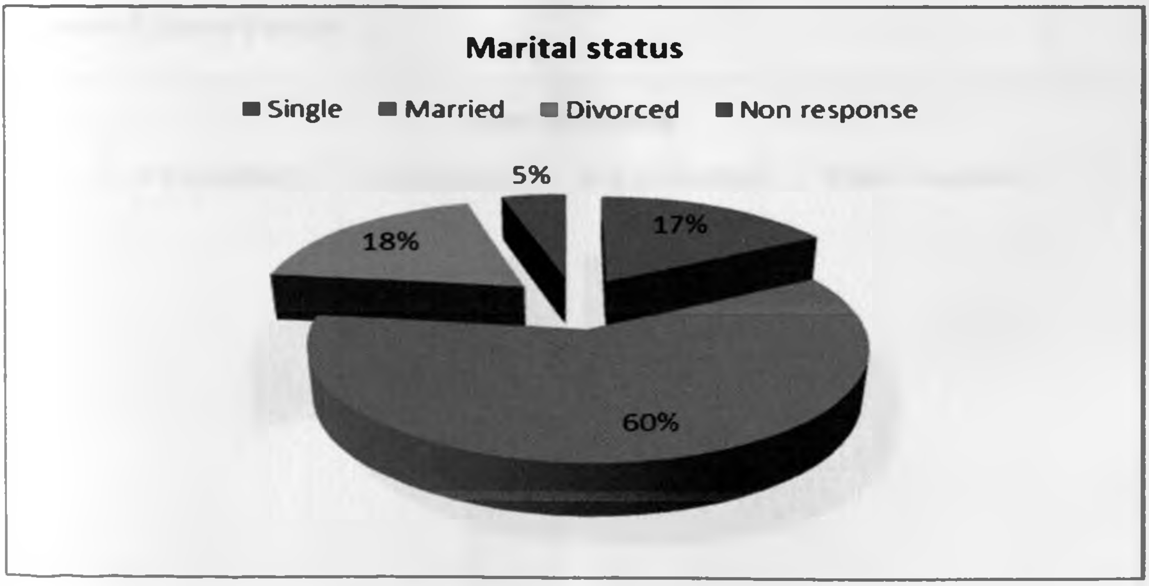
Majority (60%) of the respondents in this study were married, 18.5% of them indicated that they had divorced, 16.9% of them were single and the remaining 4.6% of them did not indicated their marital status as shown in table 4.4 and figure 4.4 below.

Table 4.4 marital status

Marital status	Frequency	Percentage
Single	11	16.9
Married	39	60.0
Divorced	12	18.5
Non response	3	4.6
Total	65	100.0

Source: Research Data 2011

Figure 4.4: Marital Status



4.2.5 Size of the Family

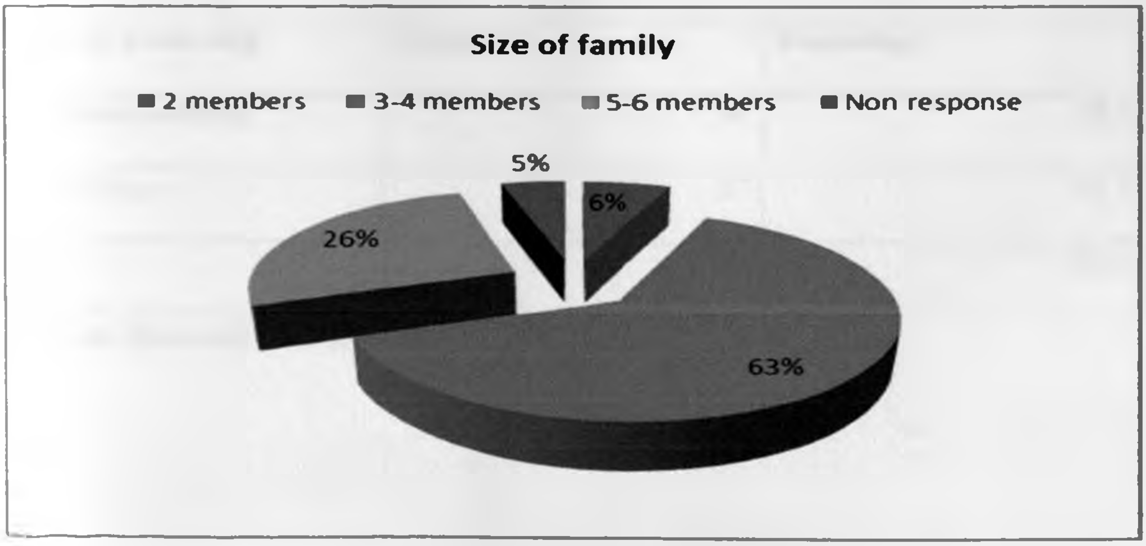
63.1% of the respondents indicated their families had between 3-4 members, 26.2% of them indicated that their families had between 5-6 members, 6.2% of them families of 2 members and the remaining 4.6% of them did not indicate the size of their families as shown in table 4.5 and figure 4.5 below.

Table 4.5 Size of family

Size of family	Frequency	Percentage
2 members	4	6.2
3-4 members	41	63.1
5-6 members	17	26.2
Non response	3	4.6
Total	65	100.0

Source: Research Data 2011

Figure 4.5 Size of Family



4.3 Business Profile

The following findings relates to the characteristics of the businesses of respondents who completed the questionnaires.

4.3.1 Nature of Business

Respondents indicated that they dealt in computers and computer accessories, selling clothes, butchery, cosmetic shops, motor vehicle spare parts, chemists, electrical accessories, fast moving foods, dress making, restaurants and running pubs and general merchandize in their businesses.

4.3.2 Form of Ownership of Businesses

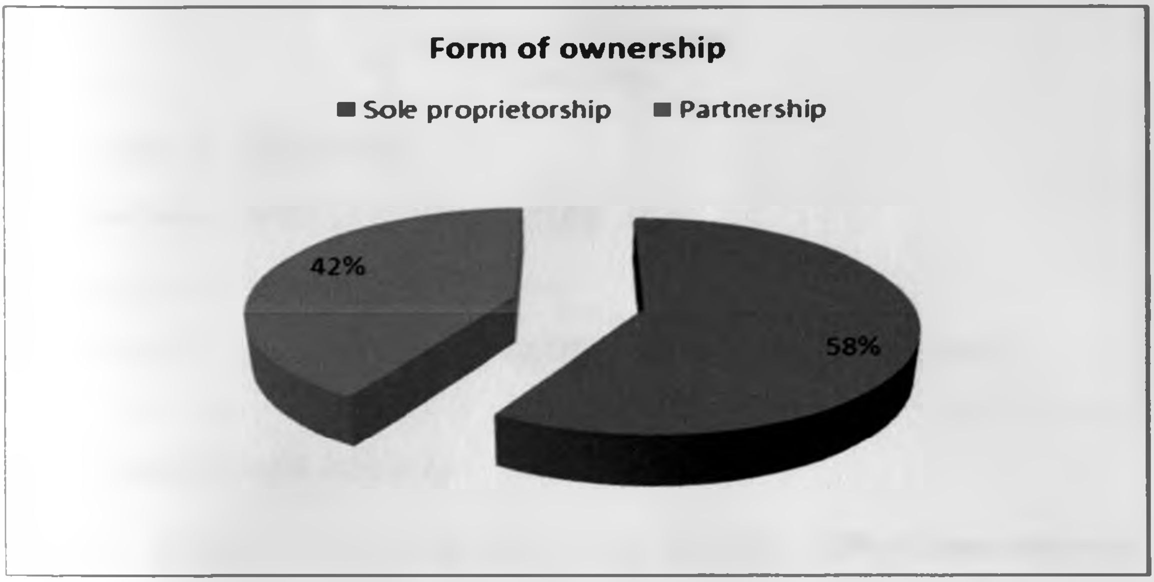
58.5% of the respondents indicated that they owned their businesses alone i.e. sole proprietorship while the remaining 41.5% of them indicated their businesses were partnerships as shown in table 4.6 and figure 4.6 below.

Table 4.6 Form of ownership

Form of ownership	Frequency	Percentage
Sole proprietorship	38	58.5
Partnership	27	41.5
Total	65	100.0

Source: Research Data 2011

Figure 4.6 Form of Ownership



4.3.3 Location of Business

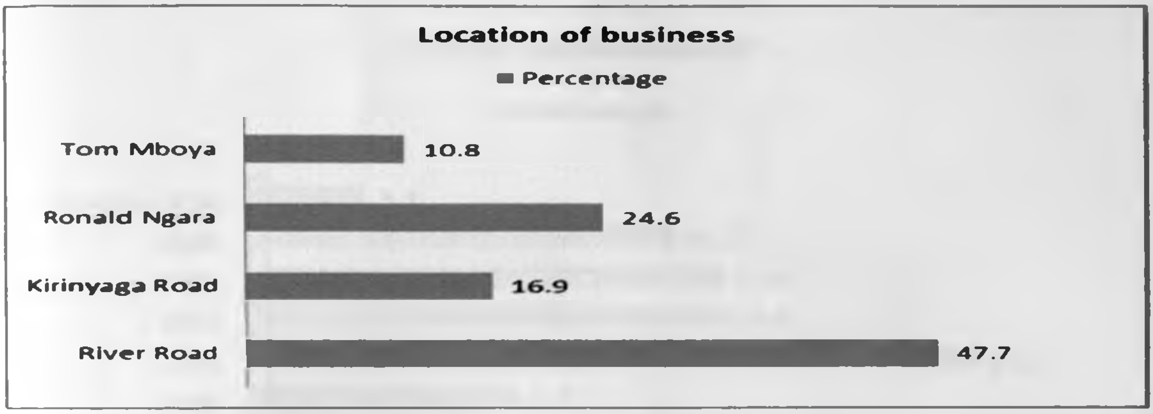
47.7% of the respondents indicated that their businesses were located along River Road, 24.6% of them were located along Ronald Ngara Street, and 16.9% of them were allocated along Kirinyaga Road while the remaining 10.8% of them were located along Tom Mboya Street as shown in table 4.7 and figure 4.7 below.

Table 4.7 Location of business

Location of business	Frequency	Percentage
River Road	31	47.7
Kirinyaga Road	11	16.9
Ronald Ngara	16	24.6
Tom Mboya	7	10.8
Total	65	100.0

Source: Research Data 2011

Figure 4.7 Location of business



4.3.4 Year of Establishment

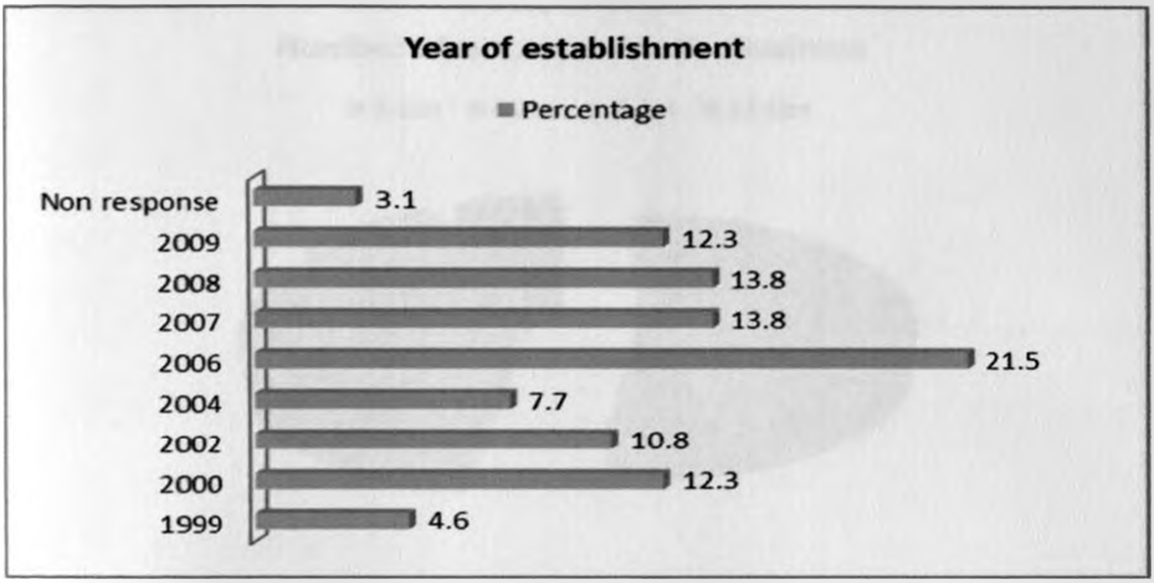
21.5% of the businesses were established in the year 2006, 13.8% of them each were established either in 2007 or 2008, 12.3% of them each were established in the year 2000 or 2009, 10.8% of them in the year 2002, 7.7% of them in the year 2004 and the remaining 3.1% of them did not indicate the year in which they were established as shown in table 4.8 and figure 4.8 below.

Table 4.8 Year of establishment

Year of establishment	Frequency	Percentage
1999	3	4.6
2000	8	12.3
2002	7	10.8
2004	5	7.7
2006	14	21.5
2007	9	13.8
2008	9	13.8
2009	8	12.3
Non response	2	3.1
Total	65	100.0

Source: Research Data 2011

Figure 4.8 Years of establishment



4.3.5 Number of Employees in the Business

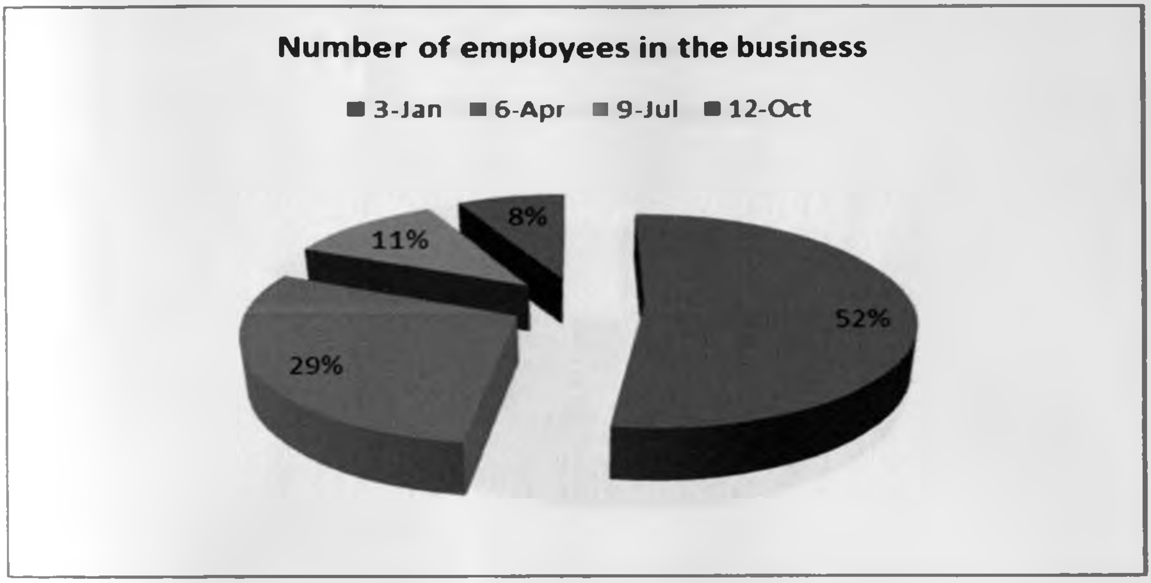
Majority (52.3%) of the respondents indicated that they had between 1-3 employees, 29.3% of them had between 4-6 employees, 10.8% of them had between 7-9 employees while the remaining 7.7% of them had between 10-12 employees as shown in table 4.9 and figure 4.9 below.

Table 4.9 Number of employees in the business

Year of establishment	Frequency	Percentage
1-3	34	52.3
4-6	19	29.2
7-9	7	10.8
10-12	5	7.7
Total	65	100.0

Source: Research Data 2011

Figure 4.9 Number of employees in the business



4.3.6 Number of Branches

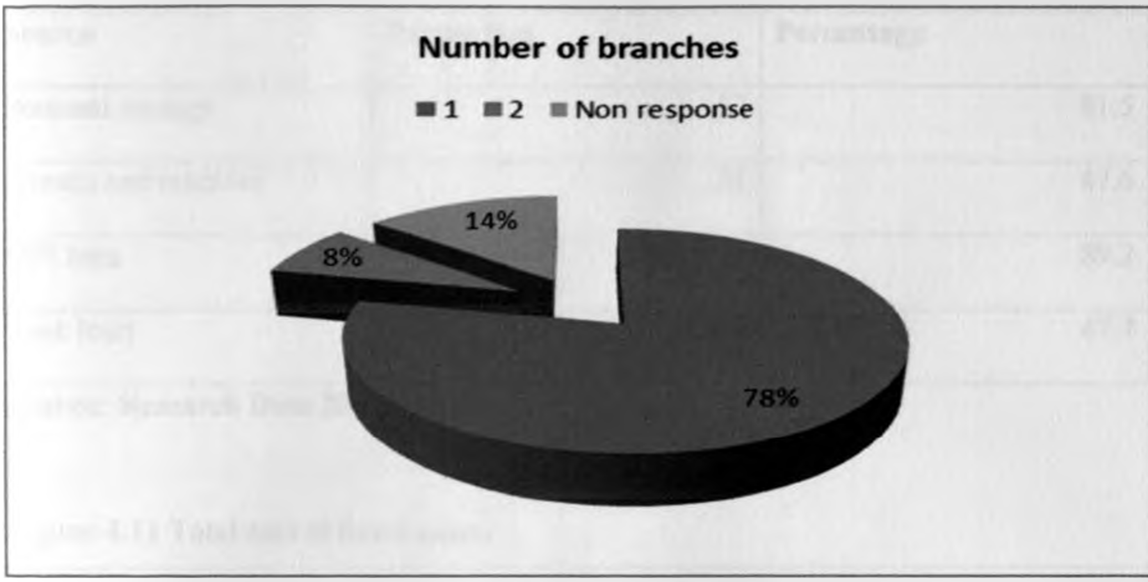
78.5% of the respondents indicated that they had one branch, 7.7% of them had two branches while the remaining 13.8% of them did not indicate the number of branches they had as shown in table 4.10 and figure 4.10 below.

Table 4.10 Number of branches

Number of employees	Frequency	Percentage
1.00	51	78.5
2.00	5	7.7
Non response	9	13.8
Total	65	100.0

Source: Research Data 2011

Figure 4.10 Number of branches



4.4 Financial Needs and Operations

Respondents were required to provide information on their financial needs and their operations as regards their sources of finances, percentage of financing from each source, source of first loan, reasons for loan application, amount of loan received, loan utilization, loan interest rate, loan repayment, other services provided by MFI and living conditions as a result of MFI loan. The findings are as follows:

4.4.1 Sources of Business Finance

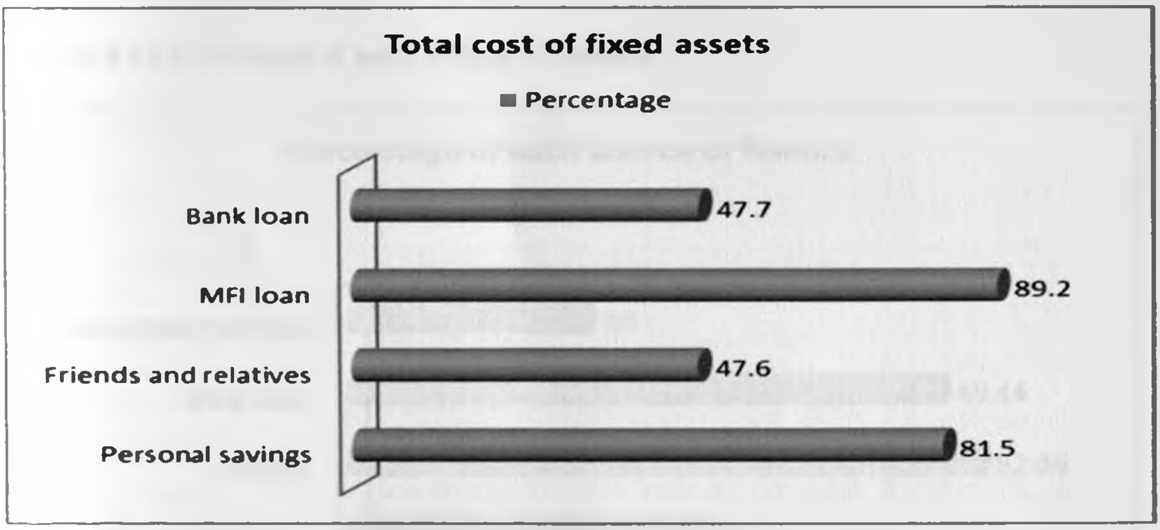
89.2% of the respondents indicated that they obtained funds for their businesses from micro financial institutions, 81.5% from personal savings, 47.7% of them from bank loans and 47.6% of them from friends and relatives as shown in table 4.11 and figure 4.11 below.

Table 4.11 Total cost of fixed assets

Source	Proportion	Percentage
Personal savings	53	81.5
Friends and relatives	31	47.6
MFI loan	58	89.2
Bank loan	31	47.7

Source: Research Data 2011

Figure 4.11 Total cost of fixed assets



4.4.2 Percentage of each Source of Finance

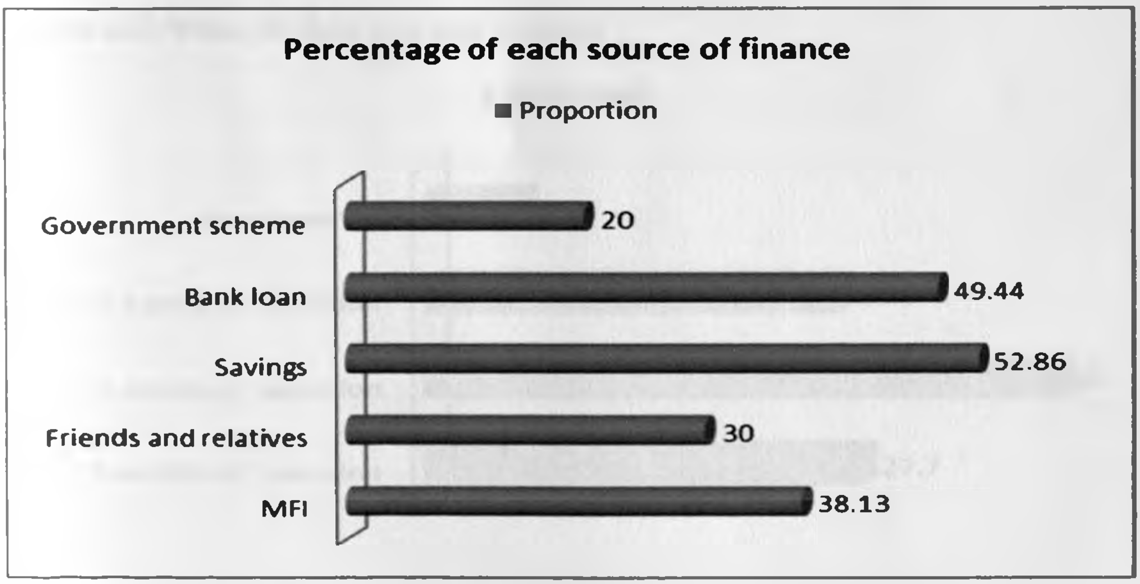
Respondents were required to indicate the proportions of finance from each source. On average respondents indicated that the proportion of funding from MFI as a source of business finance was 38.13%, friends and relatives contributed 30%, savings contributed 52.86%, bank loan contributed 49.44% and government scheme contributed 20% of business funding varying from one business to another as shown in table 4.12 and figure 4.12 below.

Table 4.12 Percentage of each source of finance

Source	Proportion
MFI	38.13
Friends and relatives	30.00
Savings	52.86
Bank loan	49.44
Government scheme	20.00

Source: Research Data 2011

Figure 4.12 Percentage of each source of finance



4.4.3 When Received first Loan

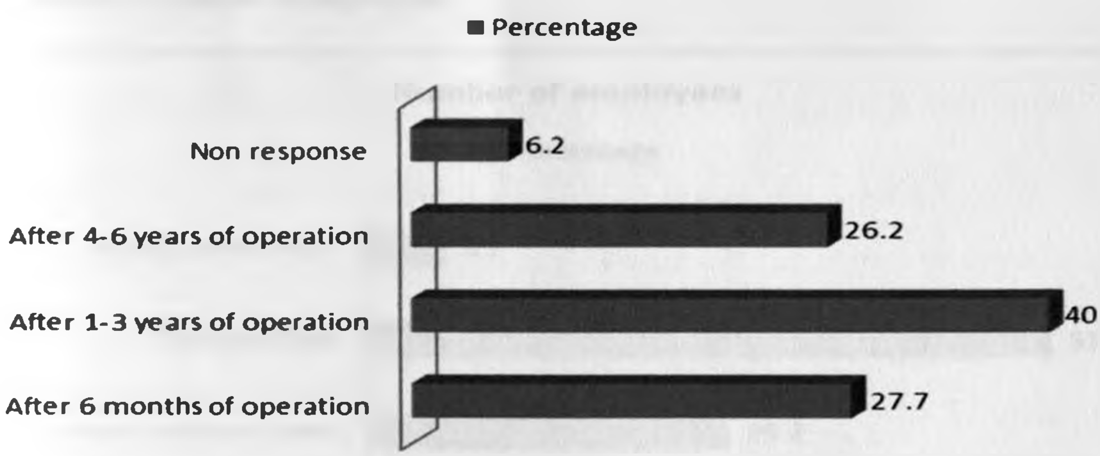
40% of the respondents indicated that they received their first loan from MFIs after 1-3 years of their operations, 27.7% of them indicated after 6 months of operations, 26.2% of them after 4-6 years of operations and the remaining 6.2% of them did not indicate the period it took their businesses to receive funding from MFIs as shown in table 4.13 and figure 4.13 below.

Table 4.13 When first loan was received

When	Frequency	Percentage
After 6 months of operation	18	27.7
After 1-3 years of operation	26	40.0
After 4-6 years of operation	17	26.2
Non response	4	6.2
Total	65	100.0

Source: Research Data 2011

Figure 4.13 When the first loan was received



4.4.4 Reasons for Taking Loan

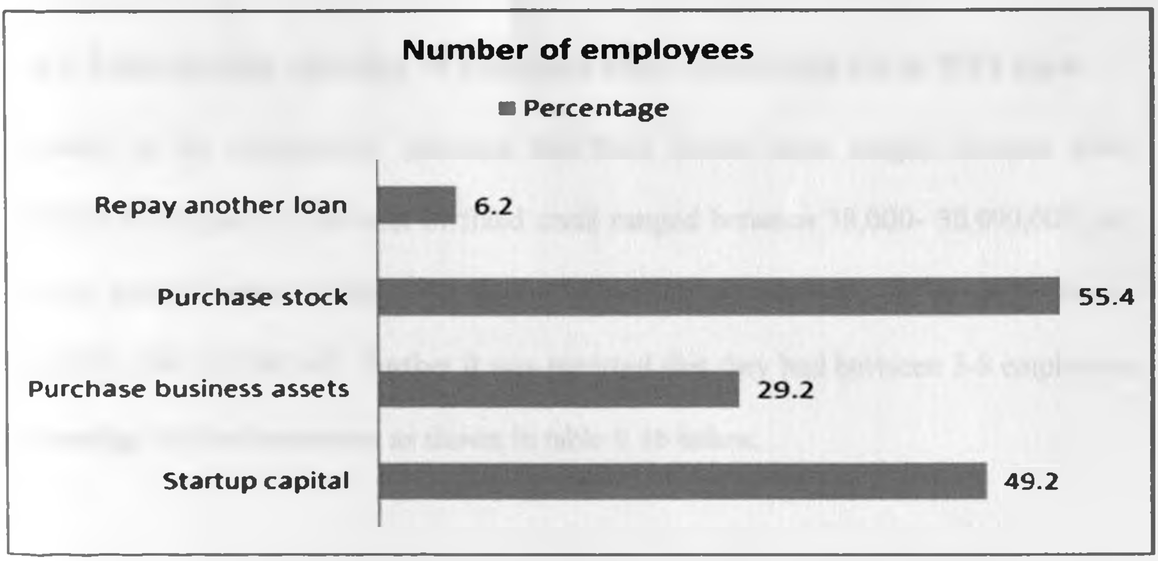
55.4% of the respondents indicated that they took the loans to purchase stock, 49.2% of them as start-up capital, 29.2% of them to purchase business assets and 6.2% of them took the loans to repay other loans. No response was reported as personal/ household expenditure and to seize business opportunity as the reasons for taking business loans as shown in table 4.14 and figure 4.14 below.

Table 4.14 Number of employees

Reason	Frequency	Percentage
Start up capital	32	49.2
Purchase business assets	19	29.2
Purchase stock	36	55.4
Repay another loan	4	6.2

Source: Research Data 2011

Figure 4.14 Number of employees



4.4.5 Information relating to Business just before First Loan

Majority of the respondents indicated that their annual sales ranged between kshs. 118,000 -48,000,000, total cost of fixed costs ranged between 32,000- 24,000,000, net income ranged between kshs. 172, 000 -56,000,000 and savings held ranged between kshs.174, 000- 20,000,000. Further it was reported that they had between 1-5 employees on average in their businesses as shown in table 4.15 below.

Table 4.15 Information relating to business just before first loan

Aspect	**Amount**
Sales	118,000 – 48,000,000 per annum
Total cost of fixed cost	32,000 - 24,000,000per annum
Net income	172,000 -56,000,000per annum
Number of employees	1-5
Savings held	174,000- 20,000,000 per annum

Source: Research Data

4.4.6 Information relating to Business after Receiving First MFI loan

Majority of the respondents indicated that their annual sales ranged between kshs. 200,000 -52,000,000, total cost of fixed costs ranged between 38,000- 30,000,000, net income ranged between kshs. 200, 000 -65,000,000 and savings held ranged between kshs.205, 000- 25,000,000. Further it was reported that they had between 3-8 employees on average in their businesses as shown in table 4.16 below.

Table 4.16 Information relating to business after receiving first MFI loan

Aspect	Amount
Sales	200,000 – 52,000,000
Total cost of fixed assets	38,000 - 30,000,000
Net income	200,000 - 65,000,000
Number of employees	3-8
Savings held	205,000- 25,000,000

Source: Research Data 2011

4.4.7 Number of Loans received from MFIs and their Amounts

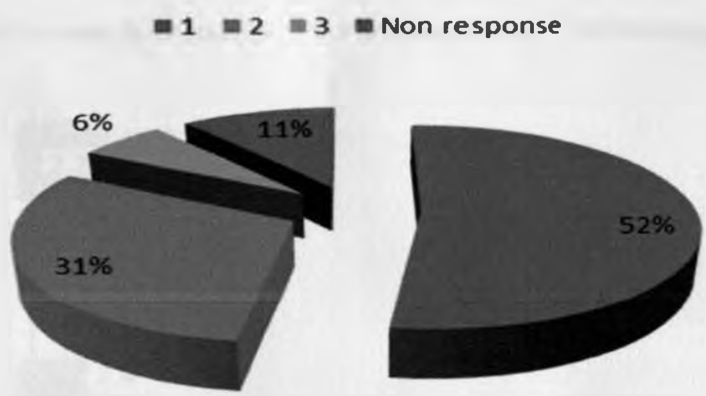
Majority (52.3%) of the respondents indicated that they had received one loan from MFIs amounting average to kshs. 100,000, 30.8% of the respondents indicated that they had received two loans from the MFIs amounting on average to between kshs. 150,000 - kshs. 2,000,000 while 6.2% of them indicated that they had received three loans from MFIs amounting to between kshs. 100, 000 - kshs. 2,500,000. 10.8% did not indicate the number of loans they had received from MFI nor their amounts as shown in table 4.16 and figure 4.15 below.

Table 4.17 Number of loans received from MFIs and their amounts

Loans	Frequency	Percentage	Amount
1.00	34	52.3	100,000
2.00	20	30.8	150,000 – 2,000,000
3.00	4	6.2	100,000-2,500,000
Non response	7	10.8	0
Total	65	100.0	

Source: Research Data 2011

Figure 4.15 Number of loans received from MFIs and their amounts



4.4.8 Utilization of Loans Received

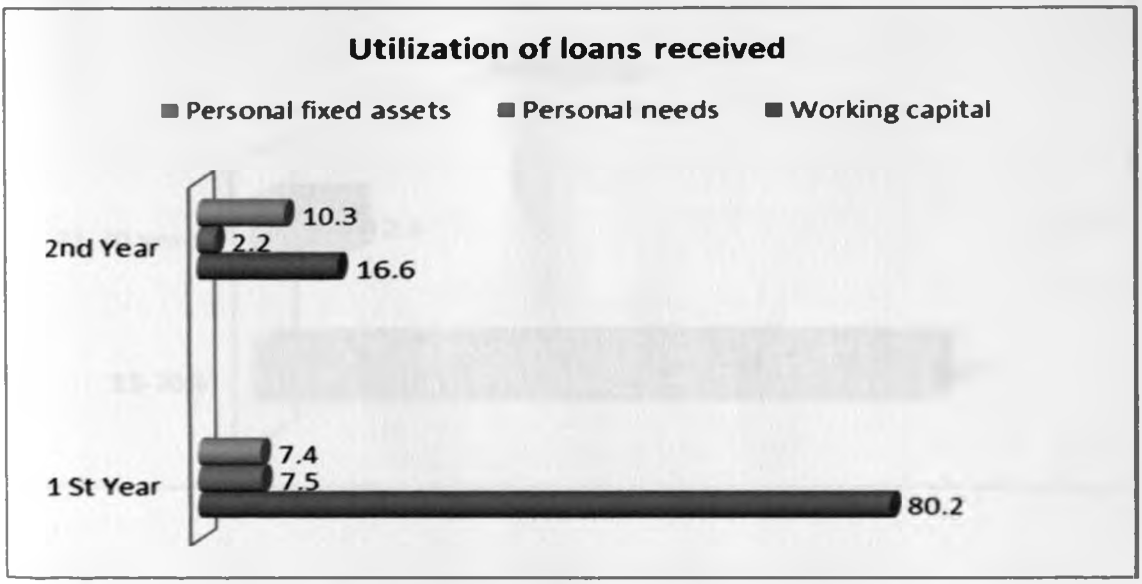
Majority of the respondents indicated that they utilized 80.2% of the loans received from MFIs as working capital in their first year, 7.5% for personal needs and 7.4% for personal fixed assets. They further indicated that they utilized 16.6% of the loans as working capital during the second year of operations after receiving loan, 2.2% on personal needs and 10.3% on personal fixed assets as shown in table 4.18 and figure 4.16 below.

Table 4.18 Utilization of loans received

Aspect	Percentage	
	1st Year	2nd Year
Working capital	80.2	16.6
Personal needs	7.5	2.2
Personal fixed assets	7.4	10.3

Source: Research Data 2011

Figure 4.16 Utilization of loans received



4.4.9 Approximate Interest rate per Year

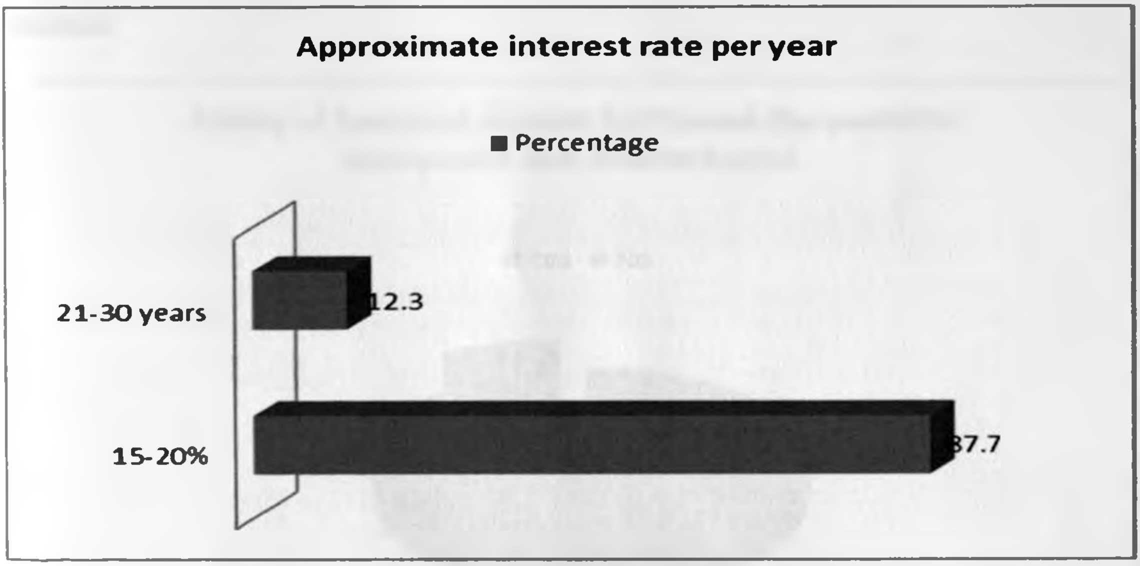
Majority (87.7%) of the respondents indicated that the interest rate for the loan facilities ranged between 15-20% while the remaining 12.3% of them indicated that the interest rate was between 21-30 years as shown in table 4.19 and figure 4.17 below.

Table 4.19 Approximate interest rate per year

Rate	Frequency	Percentage
15-20%	57	87.7
21-30 years	8	12.3
Total	65	100.0

Source: Research Data 2011

Figure 4.17 Approximate interest rate per year



4.4.10 Ability of Business Income to Finance Repayment and Interest Rates

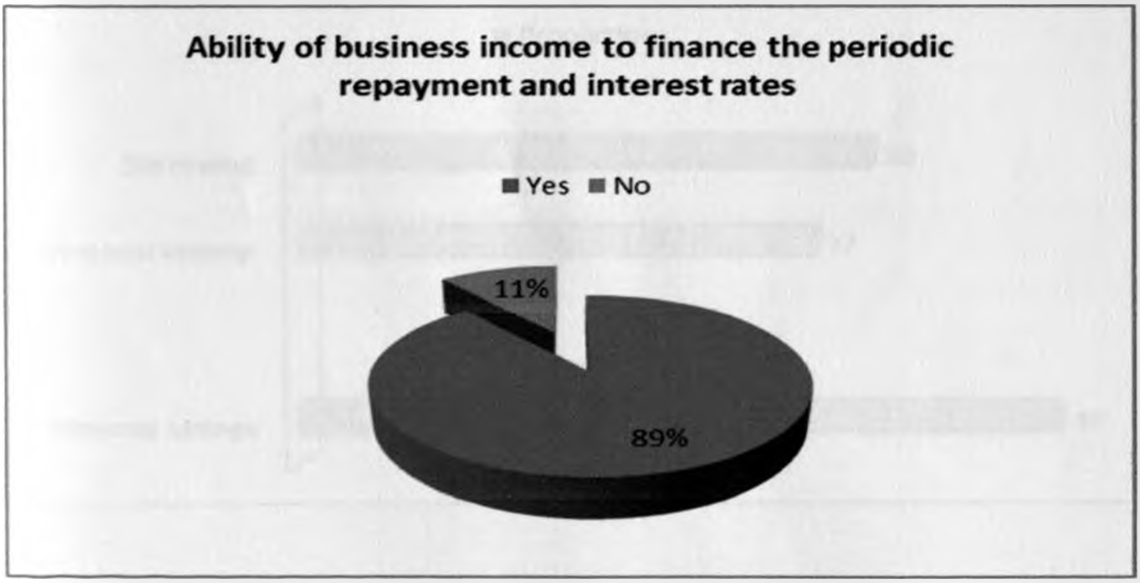
89.2% of the respondents indicated that their business income was able to finance the periodic repayment including the interest required while the remaining 10.8% of them were of a contrary opinion as shown in table 4.20 and figure 4.18 below.

Table 4.20 Ability of business income to finance repayment and interest rates

Ability	Frequency	Percentage
Yes	58	89.2
No	7	10.8
Total	65	100.0

Source: Research Data 2011

Figure 4.18 Ability of Business Income to Finance the Periodic Repayment and Interest



4.4.11 Other Sources of Financing Loan Repayment and Interest

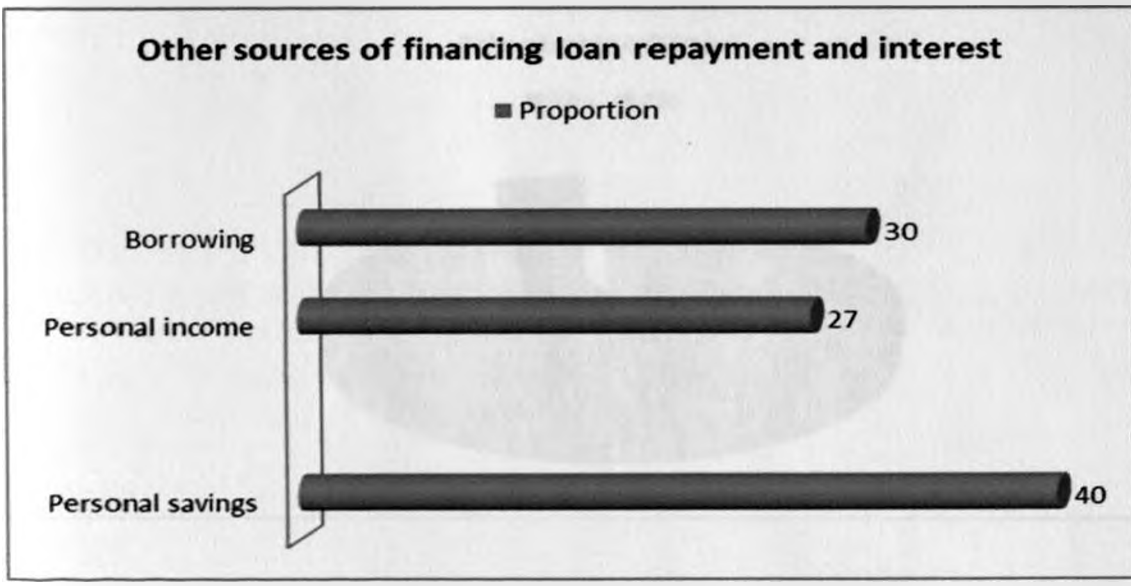
In the event that business income fails to finance the periodic loan repayment including interest, majority of the respondent indicated that on average 40% of personal savings can be used to finance meet this requirement, borrowing contributes 30% and personal income contributes 27% as shown in table 4.21 and figure 4.19 below.

Table 4.21 Other sources of financing loan repayment and interest

Source	Proportion
Personal savings	40
Personal income	27
Borrowing	30

Source: Research Data 2011

Figure 4.19 Other sources of financing loan repayment and interest



4.4.12 Adequacy of Loan

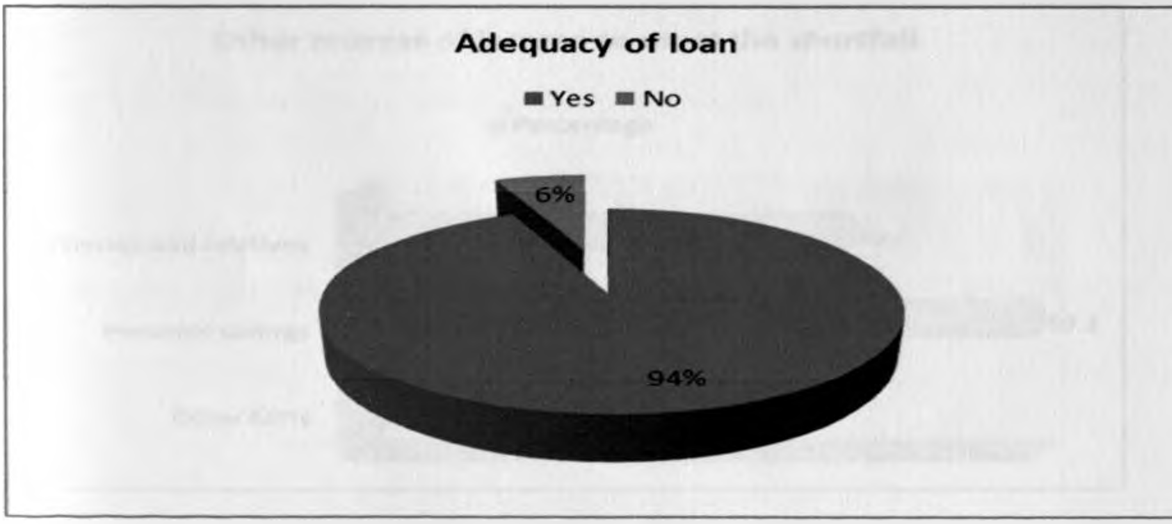
Majority (93.8%) of the respondents indicated that the loans they received from MFIs were adequate for their businesses while the remaining 6.2% were of a contrary opinion as shown in table 4.22 and figure 4.20 below.

Table 4.22 Adequacy of loan

Adequate	Frequency	Percentage
Yes	61	93.8
No	4	6.2
Total	65	100.0

Source: Research Data 2011

Figure 4.20 Adequacy of loan



4.4.13 Other Sources of Income to meet the Shortfall

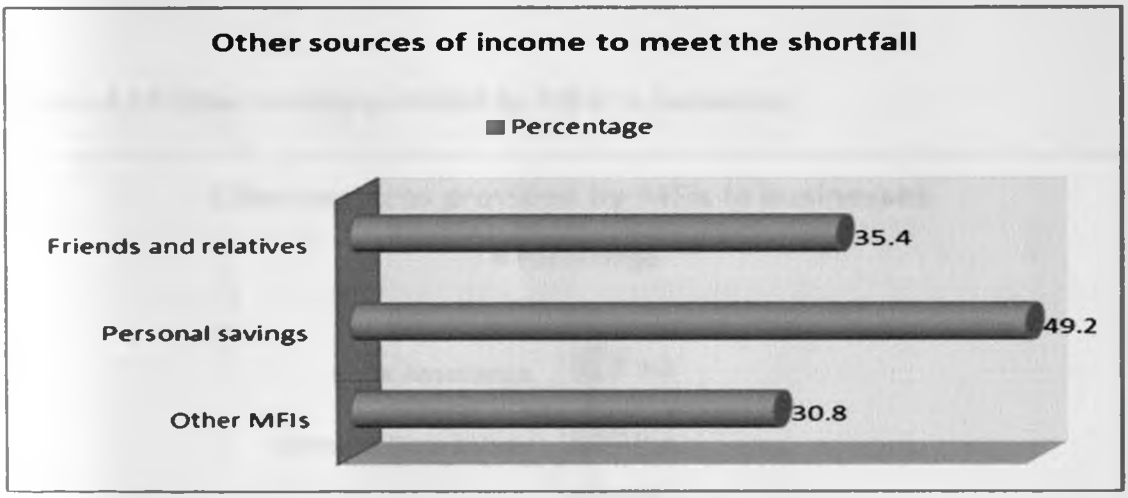
49.2% of the respondents indicated that in the event that the MFI financing was inadequate, they funded their business activities from their personal savings, 35.4% from friends and relatives and 30.8% from other MFIs as shown in table 4.23 and figure 4.21 below.

Table 4.23 Other sources of income to meet the shortfall

Source	Frequency	Percentage
Other MFIs	20	30.8
Personal savings	32	49.2
Friends and relatives	23	35.4

Source: Research Data 2011

Figure 4.21 Other sources of income to meet the shortfall



4.4.14 Other Services provided by MFIs to Businesses

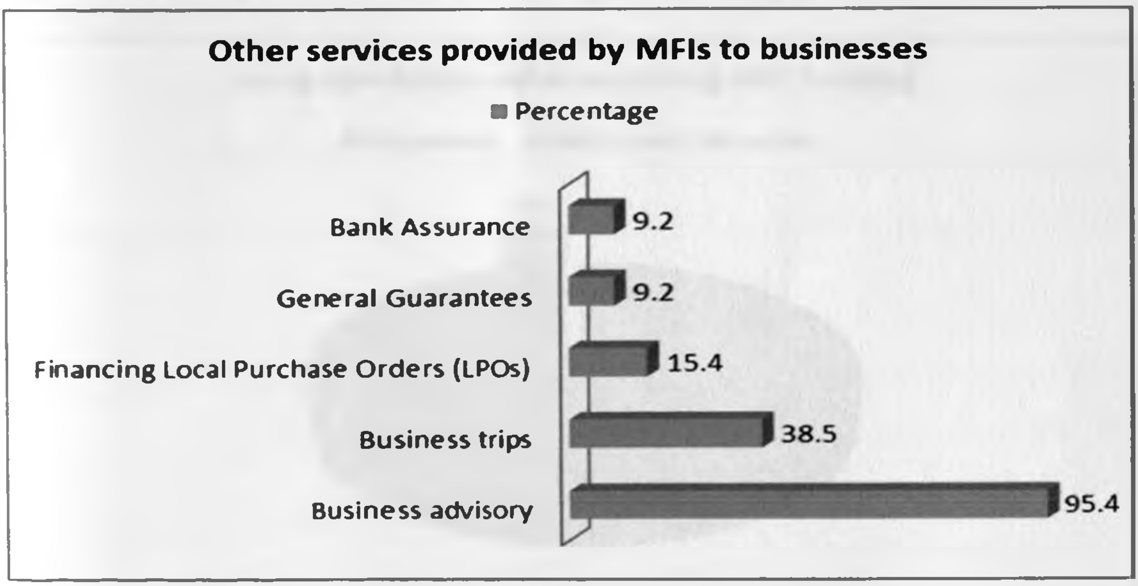
Majority (95.4%) of the respondents indicated that they received business advisory services from MFIs, 38.5% of them attended business trips organized by MFIs to expose them, 15.4% of them received local purchase order financing from MFIs and the remaining 9.2% of them benefited from general guarantees and bank assurance as the other services from MFIs other than funding as shown in table 4.24 and figure 4.22 below.

Table 4.24 Other services provided by MFIs to businesses

Service	Frequency	Percentage
Business advisory	62	95.4
Business trips	25	38.5
Financing Local Purchase Orders (LPOs)	10	15.4
General Guarantees	6	9.2
Bank Assurance	6	9.2

Source: Research Data 2011

Figure 4.22 Other services provided by MFIs to businesses



4.4.15 Living Conditions after receiving MFI Funding

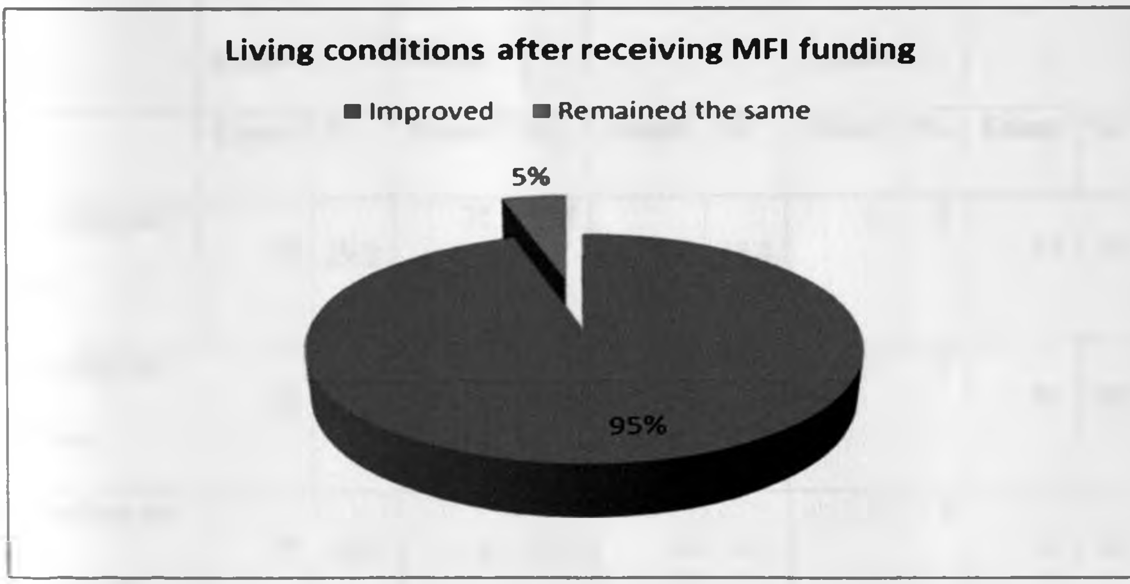
Majority (95.4%) of the respondents indicated that their living conditions since they started receiving MFI loans had improved while the remaining 4.6% of them indicated that their living conditions remained the same as shown in table 4.25 and figure 4.23 below.

Table 4.25 Living conditions after receiving MFI funding

State	Frequency	Percentage
Improved	62	95.4
Remained the same	3	4.6
Total	65	100.0

Source: Research Data 2011

Figure 4.23 Living conditions after receiving MFI funding



4.4.16 Extent of Improvement of Living Conditions after MFI Funding

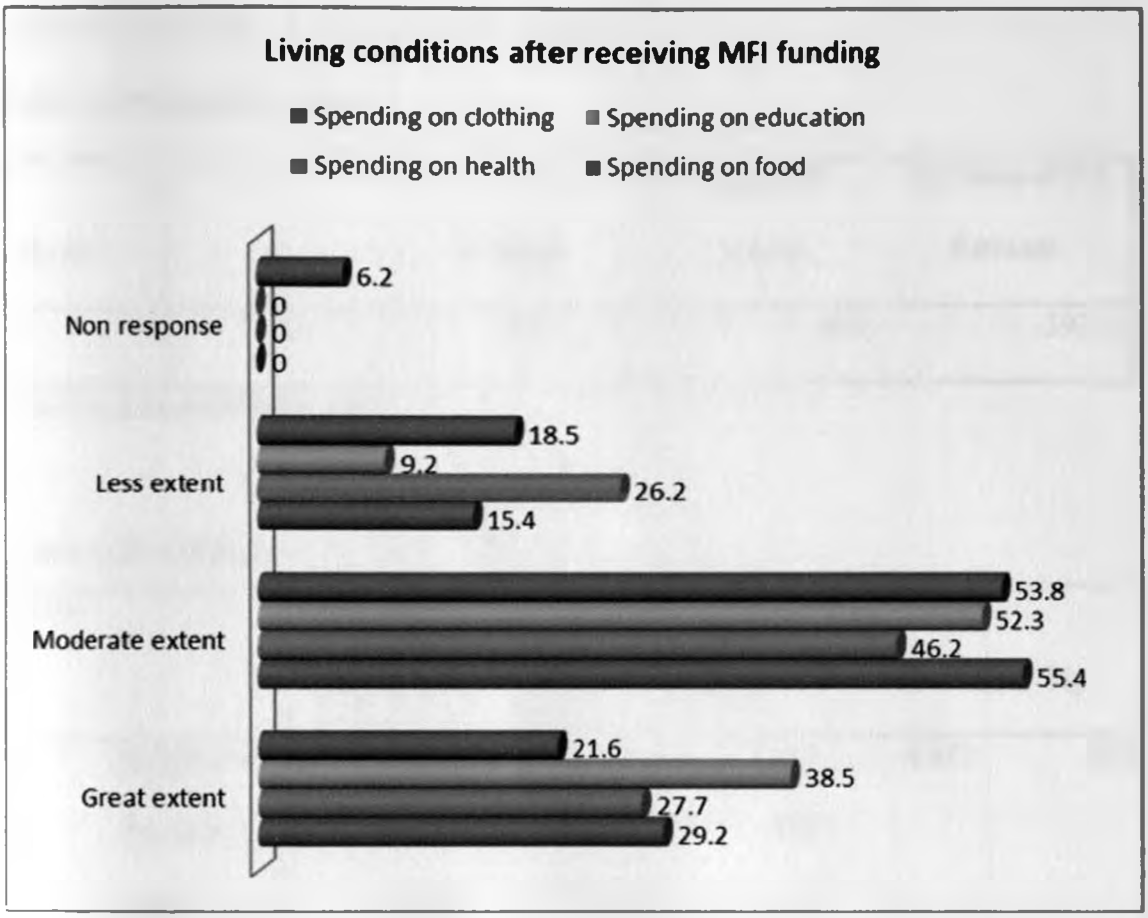
Majority (55.4%) of the respondents indicated that MFI loans had improved their spending on food to a moderate extent, 29.2% of them indicated that it had improved their spending on food to a great extent while 15.4% of them to a less extent. 46.2% of the respondents indicated that it had improved their spending on health to a moderate extent, 27.7% of them to a great extent and 26.2% of them to a less extent. 52.3% of them indicated it had improved their spending on education to a moderate extent, 38.5% of them to a great extent and 9.2% of them to a less extent. Another 53.8% of them indicated that it had improved their spending on clothing to a moderate extent, 21.6% of them to a great extent, 18.5% of them to a less extent and 6.2% of them did not respond to this aspect. The findings are as shown in table 4.26 and figure 4.24 below.

Table 4.26 Extent of improvement of living condition after receiving MFI funding

Factor	**Great extent**		**Moderate extent**		**Less extent**		**Non response**		**Total**	
	Count	**%**	**Count**	**%**	**Count**	**%**	**Count**	**%**	**Count**	**%**
Spending on food	19	29.2	36	55.4	10	15.4	0	0	65	100
Spending on health	18	27.7	30	46.2	17	26.2	0	0	65	100
Spending on education	25	38.5	34	52.3	6	9.2	0	0	65	100
Spending on clothing	14	21.6	35	53.8	12	18.5	4	6.2	65	100

Source: Research Data 2011

Figure 4.24 Living conditions after receiving MFI funding



4.5 Business Performance

The research study wanted to establish the relationship between microfinance credit and the financial performance of MSEs in Kenya. The researcher used a regression model to find out whether a relationship existed between the dependent and independent variable. The findings indicated that there was a strong positive relationship (R= 0.847) between the variables. The study also revealed that 71.7% of performance in MSEs can be explained by MFI financing. From this study it is evident that at 95% confidence level, the variables produce statistically significant values for this study hence can be relied on to explain financial performance of MSEs as a result of MFI financing. The findings are as shown in the tables 4.27, 4.28 and 4.29 below.

Table 4.27 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847	.717	.305	.59317

Source: Research Data 2011

Table 4.28 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.012	4	1.753	4.982	.002
	Residual	11.963	34	.352		
	Total	18.974	38			

Source: Research Data 2011

Table 4.29 Coefficients

Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.849	.730		1.184	.245
Microfinance Credit	.420	.216	.373	2.042	.039

Source: Research Data 2011

From this study it was evident that at 95% confidence level, the variables produce statistically significant values for this study (high t-values, $p < 0.05$). Positive effect was reported for microfinance credit ($\beta = 0.373$).

The results of the regression equation below revealed that for a 1- point increase in MFI credit, MSE financial performance is predicted to increase by 0.849, given that all the other factors are held constant. The equation for the regression model is expressed as:

$$Y = a + \beta_1 x_1 + \varepsilon$$

$$Y = 0.849 + 0.420X_1 + \varepsilon$$

Where Y = growth in net profit

a = regression constant

X_1 = MFI Credit

β_1 = Coefficient of MFI credit

ε = error term

The research further revealed that the businesses on average had annual sales of 1,371,769 Kenya shillings, annual profit margins of 2,236,482 Kenya shillings, annual expenses of 2,380,292Kenya shillings , annual savings of 2,072,230 Kenya shillings, annual fixed assets value of Kenya shillings 1,618,030, annual cash flows of Kenya shillings 2,045,295, annual stock levels worth Kenya shillings 2,090,430. On average the amount of MFI credit borrowed by the businesses surveyed amounted to Kenya shillings 234, 104 per annum as shown by the means and standard deviations in table 4.30 below.

Table 4.30 Descriptive statistics for business performance

	N	Mean	Std. Deviation
Sales growth	65	1371.7692	1989.45995
Profit	65	2236.4822	6004.11270
Expenses	65	2380.2923	5957.11542
Savings	65	2072.2308	6268.12330
Fixed assets value	65	1618.0308	3858.93123
Cash flows	65	2045.2954	5739.54956
Stock levels	65	2090.4308	7251.63077
Amount of loans received from MFI	65	234.1046	624.83984

Source: Research Data 2011

The results of the survey indicated that majority of the businesses reported a 45 percent increase in net profits on average after making use of MFI loans. Thus it can be concluded that financial performance of MSEs is greatly influenced by MFI loans as shown in table 4.31 below.

Table 4.31 Financial Performance Indicator

INDICATOR	Average increase (%)
Net Profit	45

Source: Research Data 2011

4.6 Summary and Interpretation of Findings

As per the analysis of the demographic information of the respondents involved in this study, large proportions (65%) were male while 34% were female. This is perhaps because the MSEs studied were located in the CBD of Nairobi city where the risks of doing business are higher. Generally women are known to be more risk averse compared to men. This may also explain the fact that majority of MFIs are located in the rural areas where majority of the poor women are (Majority of these MFIs target women as their major clientele). In terms of age 51% of the respondents were aged between 30-40 years and the remaining 49% were 40 years and above. This shows that majority of MSEs in Nairobi are dominated by young people. The respondents were also classified in terms of their education levels. Majority (45%) had college education, followed by 20% with high school education. Only 15% had vocational training and 9% were university graduates. This could affect the way in which they managed their business and lived their daily lives.

In terms of marital status majority of the respondents (60%) were married while the rest were either single or divorced. These findings indicated that most of the MSEs owners in Nairobi's CBD had families and were therefore more likely to be committed to the growth of their business which are the sources of their families livelihoods. This was underpinned by the sizes of their families where majority of the respondents (63%) had families consisting of between 3-4 members, while 26% had families with 5-6 members and only 6% had families of 2 members. This implies that the larger families had more expenses compared to the smaller ones. Majority of the businesses were run as sole proprietorships and family members could have been utilised as additional labour in the businesses. Majority (52.3%) had 3-4 employees and 29.3 % had 4-6 employees, 10.8% had 7-9 employees and the rest had 10-12 employees. This indicates that majority of the respondents operated micro enterprises (businesses employing between 1 and 10 workers including the working owner).

As concerns financial needs and operations majority (89.2%) indicated that their source of start up capital was loans from MFIs. The rest either started their business from their personal savings or borrowed loans from friends and relatives and banks. This implies that MFIs loans are a major source of initial capital and are playing a significant role in helping MSEs owners to start their businesses. This is visibly clear in figure 4.11 where majority used MFI loans to purchase fixed assets for their businesses. Majority of the respondents (40%) indicated that they received their first loan from MFIs after 1-3 years of operation and only 27.7% got their first loan after only 6 months of operation. This implies that most MFIs prefer working with those businesses that are already established and growing. Majority used the loans to purchase stock for their businesses and the rest either used to money as start up capital or to purchase assets for the businesses. A few used the money to finance other loans. This means that majority of the MSEs owners used the loans for the purposes for which they were intended and those diverted loans to personal needs never indicated so.

Concerning the amount of loans received from MFIs majority around 52% received kshs.100, 000 which implies that MFIs emphasise on micro-credit. The maximum amount received was kshs. 2,500,000 but this was by a very small percentage which may fall into another criterion of loans offered by MFIs. Majority 52.3% had received only one loan from MFIs and 30.8% had received two loans. Majority utilised the loans as working capital implying the loans were being used for business purposes .Though the interest rates charged were high (between15% -30%),89.2% of the businesses were able to finance the periodic repayments and interest. Majority (94%) indicated that the loans they received from MFIs were adequate to meet their business needs. Only 6% were of a contrary opinion. Majority of the respondents indicated that they received business advisory services from MFIs while 38.5% of them attended business trips organised by MFIs. The rest either benefited from local purchase orders or bank assurances and guarantees. This implies that some of the MFIs are embracing the integrated approach while providing credit to their clients.

Majority of the respondents (95.4%) reported improved living conditions after receiving MFIs loans while the rest reported that their living conditions did not change. Majority reported a moderate improvement on their spending on food, health, education and clothing. This can be interpreted to mean that the loans received were well utilised in the businesses leading to enhanced business performance which eventually translated to increased disposable incomes at the household levels.

In terms of business performance the researcher aimed at establishing whether a relationship exists between microfinance credit and financial performance of MSEs. The null hypothesis is that there is no relationship between microfinance services and the financial performance of MSEs. The alternative hypothesis is that there is a relationship between microfinance services and the financial performance of MSEs. The SPSS software was used to obtain the calculations. The results of the analysis are shown in table 4.27. Information in the model summary table indicates that the value of R-square for the model is 0.717.This means that 71.7percent of the variation in MSEs financial performance (dependent variable) can be explained from the amount of MFI credit received (independent variable).

The ANOVA table (table 4.28) shows the F ratio for the regression model. This statistics assesses the statistical significance of the regression model. The regression model is statistically significant (F=4.982, probability level of 0.02).The probability level 0.02 means that the chances are 0.02 that the results of regression are due to random events instead of a true relationship. The larger the F ratio, the more the variance in the dependent variable is explained by the independent variable. The F ratio of 4.982 indicates that the model is significant at 0.02.Thus to decide to reject the null hypothesis or not we compare the significance value to alpha which is usually 0.05.As a decision rule we reject the null hypothesis if the significance value is less than 0.05.In this case 0.02 is less than 0.05 so the null hypothesis is rejected. It can thus be concluded that there is a significant relationship between microfinance credit and financial performance of MSEs i.e. Microfinance loans have brought about an increase in financial performance of MSEs. This financial performance is predicted by the results that showed that on average the businesses reported a 45% increase in net profits.

From the regression co-efficient table the column (table 4.29) the column labelled "unstandardised coefficients" reveals the unstandardised regression coefficients for MFI credit. This information provided in the coefficients table indicates that the independent variable is significant predictor of MSEs financial performance. In this study the coefficients table reveals that the increase in MFI loans is a very significant predictor of MSEs financial performance since it has a high beta coefficient of 0.420.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Study

The objective of this study was to establish the relationship between microfinance credit and the financial performance of MSEs in Kenya. Causal research design was employed to attain this objective. The target population of study was all the MSEs in the Central Business District (CBD) in Nairobi city. A total of 65 MSEs was selected from Nairobi's CBD four main streets namely River road, Kirinyaga road, Tom Mboya Street and Ronald Ngala Street. Primary data from the MSEs owners-managers was collected by use of semi-structured questionnaire and the response rate of the survey was 100%. Descriptive statistics such as frequency distributions, percentages, variations and measures of central tendency were used to summarize basic features of the data in the study. Inferential statistics were used to infer the sample results to the population. The statistical package for social sciences (SPSS) version 17 was used to perform the analysis of quantitative data. Regression analysis was used to assess the strength of the relationship between the independent variable on the dependent variable.

This study established that most businesses in Nairobi CBD are financed through personal savings and MFI loans. It was also established that most of the MSEs owners obtained their first loan after 1-3 years of operations. This study found that although MSEs owners used MFI loan in start up capital, purchasing stock, and purchasing business assets, these are not the main reason why they took up the loan. A small proportion of 4% took the loans to repay another loan. The MSEs owners sought loans for business expansion and growth. Loans advanced to MSEs owners were found to be expensive with most charged at 15%-20% of interest rate. However, the loans were found to be sustainable since business incomes were found to be able to service their loans. These loans were also found to be adequate and that in the event they were not adequate the majority depended on their personal savings to finance the shortfall. It was categorically reported that the other services respondents received other than loans from MFIs were business advisory services and business trips organized by MFIs. Some respondents received general guarantees and bank assurances.

The MSEs owners' general living conditions improved after receiving their first loan. This was also supported by increased spending on education, health, food and clothing. Majority of the respondents indicated that their annual sales ranged between kshs. 118,000 – kshs.48,000,000, total cost of fixed assets ranged between Kshs.32, 000-kshs.24,000,000, net income ranged between kshs. 172, 000 -56,000,000 and savings held ranged between kshs.174, 000- kshs.20, 000,000.These were reported to increase significantly after receiving the first loans with annual sales of between Kshs.200,000-52,000,000, total cost of fixed assets ranged between Kshs38,000-30,000,000,net income ranged betweenKshs200,000-65,000,000and savings ranged between Kshs205,000-25,000,000. Majority of the respondents had received one loan or two loans ranging between kshs. 100,000 – Kshs. 2,000,000 from MFIs. The overall conclusion was that a strong positive relationship existed between microfinance credit and financial performance of MSEs. This is evidenced by a positive relationship of as shown by the R square of 0.717 between the variables. From this study it is evident that at 95% confidence level, the variables produced statistically significant values hence can be relied on to explain financial performance of MSEs as a result of MFIs financing..

5.2 Conclusions

From the study findings it would be safe to conclude that, the microfinance credit plays a very great role in the financial performance of MSEs. The conclusion is supported by the results of the various descriptive and inferential statistics. Given that most MSEs in Nairobi's CBD are financed through personal savings and MFI loans, then increased personal savings and availability of affordable MFI loans are critical for MSEs' growth. These businesses need injection of more funds mostly after their first to third year of operation. These funds are mainly used in purchase of new stocks and acquiring new business assets for growth. This therefore outlines the importance of additional financing for MSEs growth.

Although the loans were found to be sustainable since business incomes were found to be able to service their loans, availability of more affordable loans could enhance business performance and growth. The interest rate charged on loans ranged from 15% to 20% and if this figure was to go down, profits for MSEs would increase. Increase in profits will lead to business growth. However, caution should be taken to ensure availability is maintained. Low interest rates might discourage MFIs from availing loans to MSEs and this could also hurt MSEs as most depend on these loans to expand and grow.

MFIs concentrate not only on advancing loans to MSEs owners but should consider offering a combination of loan and business development services. Support services have been embraced by other financial institutions such as banks in an effort to add value to the services they offer their customers. Support services are also known to go a long way in reducing loan defaults and developing the business owners in terms of capacity to grow their businesses. MSEs Owners' can benefit from attending business tours, seminars, training, and constant follow up. These are some of the ways in which MFIs have to put more emphasis on inorder to make a positive impact on their customers and their businesses.

Improved business performance translated to improved general living conditions and increased spending on education, health, food and clothing in MSEs owners' households, however the rate of business growth is still low. Increased sales growth, cash flows, savings, business assets and profits call for more in terms of capacity of the MSEs owners. Besides that most of the business owners were found not to be well educated and trained in business skills was lacking. Training is thus critical to provide skills in order to enable the MSEs owners to effectively exploit the available opportunities through better management. Therefore the literature and empirical evidence in this research point out a positive relationship between microfinance credit and financial performance of MSEs. Empirical evidence confirms that microfinance services have led to a positive increase in assets, savings levels, profits and inventory levels and hence promoted the financial performance of the MSEs. This has been supported by the analysis in chapter four.

5.3 Policy Recommendations

From the study findings it would be safe to conclude that, the microfinance credit plays a very great role in the performance of MSEs. Therefore to improve the financial performance of MSEs the management of micro financial institutions should come up with strategies which encourage MSEs to take credit facilities from them This study recommends that MFIs should add more value to their services to improve business performance. In addition to business advisory, MFIs should append support services to their core business of advancing loans to MSEs. This will not only benefit the MSEs but will also enhance business performance among the MFIs owing to reduced default rates. The MFIs and other funding agencies should support MSEs owners with business management skills to ensure increased returns and sustainability of their businesses.

This study recommends that the government and policy makers should provide a conducive environment to MSEs owners that will encourages savings and accessibility of loans. This can be achieved through a comprehensive and flexible regulatory framework for MFIs and other financial institutions. MFIs should also provide loans to MSEs owners at affordable interest rates. This is because majority of the respondents indicated that the loans advanced to them by MFIs are charged high rates of interest. MSEs owners will be encouraged to seek loans from them and to expand and grow their businesses. This will consequently enable them to make savings.

5.4 Limitations of the Study

The researcher encountered quite a number of challenges related to the research and most particularly during the process of data collection. Due to inadequate resources, the researcher conducted this research under constraints of finances and therefore collected data from the Nairobi County only in this study. Time for the study was insufficient while holding a full time job and studying part time. However the researcher tried to conduct the study within the time frame as specified.

Some respondents were biased while giving information due to reasons such as privacy and busy schedules at their work place. At the same time it was hard to prove the accuracy of much of the data given due to lack of proper financial records by the MSEs owners.

A list of MSEs in Nairobi and their contacts and or locations could not be obtained due to lack of a database (directory) for MSEs in Kenya. This limited the sampling techniques that could have been applied by the researcher.

5.5 Suggestions for Future Research

Arising from this study, the following suggestions for future research in this area were recommended: First, this study focused on MSEs in Nairobi's CBD and therefore, generalizations cannot adequately extend to other parts of Nairobi or other towns in the country. Based on this fact, it is therefore, recommended that a broad based study covering all major towns in the country be done to find out the relationship between microfinance and the performance of MSEs.

Secondly, it is suggested that future research should focus on the different aspects of microfinance other than extending credit alone and how this may impact on the financial performance of MSEs. Further study should be carried out to establish the effect of business support services on sustainability and performance of micro enterprises.

Lastly the study neglected the supply gap of MFIs. Further research could be conducted in this area to find out the extent to which MFIs are capable of delivering their services to the poor and the very poorest people with the aim of finding reasons for the gap between supply and demand of microfinance services.

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APPENDIX A: Introductory Letter

Emma W. Waweru
C/o Faculty of Commerce
Department of Finance and Accounting
P. O. BOX 30197 – 00100
Nairobi

31st August 2011

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

REF: REQUEST FOR RESEARCH DATA: IMPACT OF MICROFINANCE INSTITUTIONS ON MICRO AND SMALL ENTERPRISES

I am a post graduate student at the University of Nairobi. I am undertaking research in the microfinance sector with specific reference to its impacts on micro and small enterprise performance. Your organisation has been selected randomly for this study. I would greatly appreciate if you could provide the requested information in the questionnaire. All responses are strictly confidential and are only used for research purposes in microfinance and its impact on micro enterprises.

Thanks

Yours faithfully,

EMMA WAWERU

APPENDIX B: Micro and Small Enterprise Questionnaire

A: Personal Information

i). What is your age?

Below 30 years ( )

30-40 years ( )

41-50 years ( )

Above 50 years ( )

ii). What is your gender?

Male ( )

Female ( )

iii). Educational level

Primary ( )

High school ( )

Vocational training ( )

College ( )

Graduate ( )

4. What is your marital status?

Single ( )

Married ( )

5. What is the size of your family?

2 members ( )

3-4 members ( )

5-6 members ( )

7 or more members ( )

B. Business Profile

i). Name of the business……………………………………………………(optional)

ii). Nature of the business ……………………………………………………………

iii). Please tick the appropriate form of ownership of your business.

Sole proprietorship ( )

Partnership ( )

Company ( )

Other (specify)………………………………………………………………………

iv). Location of the business

River road ( )

Kirinyaga road ( )

Ronald Ngala ( )

Tom Mboya ( )

v). When was the business established……………………………………………………

vi). Number of employees in the business

1-3 ( )

4-6 ( )

7-9 ( )

10-12 ( )

13 and above ( )

vii). Number of branches……………………………………………………………………

C Financial Needs and Operations

i). How is your business financed (please tick all that apply).

Personal savings ( )

Friends and relatives ( )

MFI loan ( )

Bank Loan ( )

Government scheme ( )

Others (specify)……………………………………………………………………………

ii). Indicate the percentage of finance from each source

MFI ( )

Friends and relatives ( )

Savings ( )

Bank loan ( )

Government scheme ( )

Other (specify)……………………………………………………………………………

iii). When did you receive your first loan?

After 6 months of operation ( )

After 1-3 years of operation ( )

After 4-6 years of operation ( )

After 7 years of operation ( )

After over 10 years of operation ( )

Other specify……………………………………………………………………………

iv). What made you take the loan?

Start up capital ( )

Purchase business assets ( )

Purchase stock ( )

Repay another loan ( )

Personal/household expenditure ( )

Seize a business opportunity ( )

Other specify..

v). Please give the information relating to your business just before you received your first loan.

Sales (maximum per year) Ksh ....

Total cost of fixed assets Ksh ....

Net income Ksh ....

Number of employees Ksh ....

Saving held Ksh..

vi). State the number of loans you have received from the MFI that finances your business since you started..

vii). Please indicate here below how you utilized the loan(s) received from the MFI.

	1st loan	2nd loan	3rd loan	4th loan
Working capital	( )%	( )%	( )%	( )%
Personal needs	( )%	( )%	( )%	( )%
Personal fixed assets	( )%	( )%	( )%	( )%
Others specify	( )%	( )%	( )%	( )%

viii). What is the approximate interest rate per year

Below 15 % ( )

15 - 20 % ( )

21-30 % ( )

ix). Is the business income able to finance the periodic repayment including the interest required by the MFI

Yes ( )

No ( )

x). If the answer to the above question is No indicate in percentage the other sources of funds that you usc to finance the repayment including interest.

Personal savings ( )

Personal income ( )

Borrowing ( )

Other specify ....

xi). Do you consider the loans adequate for your business?

Yes ( )

No ( )

xii). If inadequate, what other sources of income were available to meet the shortfall

Other MFIs ( )

Personal savings ( )

Friends and relatives ( )

Others specify..

xiii). What other services are provided to your business by the MFI?

Business advisory ( )

Business trips ( )

Financing Local Purchase Orders (LPOs) ( )

General Guarantees ( )

Bank assurance ( )

Others ....

xiv). Are there other services or product(s) that your business requires that are not being provided by the MFI? Please list them.

....

....

xv). Generally how would you describe your living conditions since you started receiving MFI loans?

Improved ( )

Remained the same ( )

Worsened ( )

Other (specify)...

xvi). If improved what specifically changed? Rate the extent of change in a scale of 1-5 where 1 is not at all and 5 is to a great extent.

	1	2	3	4	5
Spending on food	( )	( )	( )	( )	( )
Spending on health	( )	( )	( )	( )	( )
Spending on education	( )	( )	( )	( )	( )
Spending on clothing	( )	( )	( )	( )	( )

D. Business Performance (reference made to immediate period after the loan(s).

i) For the last five years of operation (2006-2010), assess the performance of your business in the following parameters. (For each parameter please tick appropriately).

	2006	2007	2008	2009	2010
Sales growth					
Profit					
Expenses					
Savings					
Fixed assets value					
Cash flows					
No. of employees					
Stock levels					
Amount of loans received from MFI(s)					