

**INFLUENCE OF MICROFINANCE INSTITUTION ON DEVELOPMENT OF SMALL
SCALE ENTREPRENEURS: A CASE OF BUNGOMA SOUTH SUB COUNTY,
BUNGOMA COUNTY, KENYA.**

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DECLARATION

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

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This research project is submitted to me for examination as the University Supervisor.

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DEDICATION

This research project is dedicated to my dear parents, Mr. and Mrs. Joseph Lumbasi who sewed the first seed of civilization into me, along with formal education, and who, by God's grace, have seen it grow to this level of Education. It is also dedicated to my dear friend Loise Kisaka who has kept my morale up in pursuit of this course.

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TABLE OF CONTENTS

Declaration.....	i
Dedication.....	ii
Acknowledgement.....	iii
Table of content.....	iv
List of tables.....	vii
List of figures.....	viii
Abbreviation and acronyms.....	ix
Abstract.....	x

CHAPTER ONE: INTRODUCTION

1.1	Background of the study.....	1
1.2	Statement of the problem.....	3
1.3	Purpose of the study.....	4
1.4	Research objectives.....	4
1.5	Research questions.....	4
1.6	Significance of the study.....	5
1.7	Basic assumption of the study.....	5
1.8	Limitation of the study.....	6
1.9	Delimitation of the study.....	6
1.10	Definition of significance terms.....	6
1.11	Organization of the study.....	6

CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction.....	8
2.2	The concept of microfinance with reference to small scale entrepreneurs.....	8
2.3	Theoretical framework of MFIs.....	9
2.4	MFIs & its impact on the economic development of small scale entrepreneurs.....	12
2.4.1	MFIs & employment of small scale entrepreneurs.....	12
2.4.2	MFIs & poverty level of small scale entrepreneurs.....	12
2.4.3	MFIs & income levels of small scale entrepreneurs.....	16
2.4.4	MFIs on the living standards of small scale entrepreneurs.....	18
2.5	Conceptual framework for the study.....	20
2.5.1	Overall assumption of the conceptual framework.....	21
2.6	Knowledge gaps.....	21
2.7	Summary of literature review.....	22

CHAPTER THREE: RESEARCH METHODOLOGY

3.1	Introduction.....	23
3.2	Research design.....	23
3.3	Target population.....	23
3.4	Sample size & sampling procedures.....	23
3.4.1	Sample size.....	23
3.4.2	Sampling procedures.....	23
3.5	Data collection instrument.....	25

3.5.1	Pilot study.....	25
3.5.2	Validity of the instruments.....	25
3.5.3	Reliability of the instrument.....	25
3.6	Data collection procedures.....	26
3.7	Data analysis and procedures.....	26
3.8	Operational definition of variables.....	26
3.9	Ethical consideration.....	28

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION AND DISCUSSION

4.1	Introduction.....	29
4.2	Response rate of the respondents.....	29
4.3	Experience of the respondents with MFIs.....	30
4.4	Personal information of the respondents.....	31
4.4.1	Age bracket of the respondents.....	31
4.4.2	Gender distribution of the respondent.....	31
4.4.3	Marital status of the respondent.....	31
4.4.4	Education level of the respondent.....	33
4.5	Analysis of objectives.....	34
4.5.1	Influence of MFIs on employment of small scale entrepreneurs.....	34
4.5.2	Influence of MFIs on poverty level of small scale entrepreneurs.....	35
4.5.3	Influence of MFIs on income level of small scale entrepreneurs.....	36

4.5.4	Influence of MFIs on living standards of small scale entrepreneurs.....	36
4.6	Responses from MFIs staff.....	38
4.6.1	Number of clients per staff.....	38
4.6.2	Loan cycle of clients.....	38
4.6.3	General performance of the loan given by MFIs.....	39
4.6.4	Action taken against default.....	40
4.6.5	Economic contribution of MFIs to development of entrepreneurs.....	40

CHAPTER FIVE: SUMMARY, FINDINGS, DISCUSSIONS, CONCLUSION AND RECCOMENDATIONS

5.1	Introduction.....	42
5.2	Summary of the findings.....	42
5.3	Discussion of the findings.....	43
5.3.1	Personal information of the respondent.....	43
5.3.2	Discussion of the objectives.....	43
5.4	Conclusion.....	44
5.4.1	Influence of MFIs on employment of small scale entrepreneurs	45
5.4.2	Influence of MFIs on poverty level of small scale entrepreneurs	45
5.4.3	Influence of MFIs on income level of small entrepreneurs	45
5.4.4	Influence of MFIs on the living standards of small scale entrepreneurs	45
5.5	Recommendations.....	46
5.6	Suggestions for further study.....	47

REFERENCES.....	48
APPENDIX.....	52
APPENDIX 1: Letter of introduction.....	52
APPENDIX 2: Questionnaire for MFI Clients.....	53
APPENDIX 3: Questionnaire for Loan officers.....	58
APPENDIX 4: Krejcie and Morgan table.....	60
APPENDIX 5: Research Permit.....	61

LIST OF TABLES

Table 3.1	Operationalization table.....	27
Table 4.1	Response rate of all respondents.....	30
Table 4.2	Entrepreneurs experience with MFIs.....	30
Table 4.3	Age bracket of the respondents.....	31
Table 4.4	Gender distribution	32
Table 4.5	Marital status of the respondents.....	32
Table 4.6	Education level of the respondents.....	33
Table 4.7	Development of business activities in terms of employment creation.....	34
Table 4.8	Poverty reduction by MFIs.....	35
Table 4.9	Respondents response on increase in business capital.....	36
Table 4.10	Influence of MFIs on improvement of the living standards.....	37
Table 4.11	Number of active clients per staff.....	38
Table 4.12	Loans cycle of MFIs funding.....	38
Table 4.13	Loan performance.....	39
Table 4.14	Action against default.....	40
Table 4.15	Economic contribution of MFIs to entrepreneurial development.....	41

LIST OF FIGURES

Figure 1.1	Conceptual framework.....	20
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ABBREVIATIONS AND ACRONYMS

AMFI: Association of microfinance

CGAP: Consultative Group to Assist Poorest.

GDP: Gross domestic product

IFCN: International finance company

KWFT: Kenya Women Finance Trust

MFB: Micro-finance Bank

MFIs: Micro financial institutions

NGOs: Non Government Organization

ROSCA: Rotating savings and credit association

SME: Small and medium enterprises

SMEP DTM BANK: Smep deposit taking microfinance Bank

SMEP: Small Micro enterprise program

UNDP: United Nation Development Program

ABSTRACT

Following several services and products offered by MFIs to entrepreneurs in several areas of the country, a study was conducted to investigate the influence of MFIs on the development of small scale entrepreneurs in Bungoma County, South Sub County, Kenya. The study was guided by the following research objectives: to determine the extent to which microfinance institutions have influenced the employment of small scale entrepreneurs, to examine how microfinance institutions have influenced the poverty level of small scale entrepreneurs, to assess how microfinance institutions have influenced income distribution of small scale entrepreneurs and to determine the extent to which microfinance institutions have influenced the living standards of small scale entrepreneurs. The researcher used both primary and secondary data. The primary data was obtained from clients and the management of four MFIs namely SMEP microfinance bank, Faulu DTM, KWFT microfinance bank and equity bank. A sample size of 302 was obtained from a total population of 1400. The information was obtained by use of documentation, self-administered questionnaires and interviews. Secondary data was obtained from published materials, which included journals, textbooks magazines, internal reports and newspapers. The findings of the study were analyzed to come up with conclusion from which the researcher drew recommendations. The findings of the study revealed that loans received from MFIs have contributed positively to the four objectives. The research found out that after a period of loan cycle with MFIs, there was an increase in income of the business which necessitates more workforce due to increase in production. Employment of more people in business reduced poverty among communities hence improving the general living standards of people. The findings of the study are will help MFIs management to gain an insight on how they have impacted the development of small scale entrepreneurs. The government too can use the findings to formulate policies that can promote growth of MFIs and entrepreneurs hence leading to better performance of MFIs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In the United States Acción internacional began its micro lending activities in Latin America in 1961 and established an affiliate organization in the United States (Acción Texas, 2007). Furthermore, it reports to have loaned \$42 million between 1994 and 2005 which led to creation of jobs and income generating activities. CGAP report (2011) points out that although the social and economic contexts differ widely across countries, the fundamental purpose of microfinance programs remains the same, to offer small loans and other financial services to low-income people to help them increase their incomes through entrepreneurship and self-employment. According to Yunus,(2006) the birth of microfinance is dated back to 1970s in rural Bangladesh. Dr. Mohammed Yunus was a professor of economics who decided to provide a solution to the poor people through provision of small loans to the poor families. Furthermore, his efforts led to the growths of Grameen bank project that today has more than six million borrowers with several microfinance institutions being established. Rapid growth of the microfinance sector led to the formation of the planet finance, international NGOs that aims at eradicating poverty through developing microfinance, cheston (2009).

According to the board of Governors, (2007) in Europe, Irish Loan Fund system was initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly and spread widely through provision of small loans to the rural with no collateral. Their principal purpose was making small loans with interest for short periods. The concept of the credit union was later developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on money lenders and to improve their welfare. The story of Germany is preceded by the earlier, but sadder, story of the Irish charities which emerged in the 1720s in response to a tremendous increase in poverty. They started with interest free loans which later lost its competitive advantage, which caused their gradual decline, until they finally disappeared in the 1950s (Seibel, 2003). Attali (2000) contends that Micro-finance Institutions (MFIs) are the organizations that offer micro-finance services and products to the poor. He also maintains that

at its lowest level, microfinance sees people through the worst of times as a form of insurance of pooled risk among a group of villagers or neighbors aiming at providing not only credit but savings, insurance and other basic services to the poor. Microfinance plays a major role in development benefiting millions of people especially the poor who are usually susceptible to income shocks, death, illness, natural disaster, or other catastrophes, UNDP (2005). They provide an opportunity for expanding or pursuing new business opportunities that allow poor people to increase or diversify the sources of their income. CGAP report (2011) argues that microfinance can also promote the development of a traditional financial sector by alleviating poverty and deepening the market for more traditional financial services. In addition, MFIs and their clients can lobby for the creation of clearing houses for information on borrowers' credit histories, easing of interest rate controls, greater foreign ownership of financial institutions, and opening local capital markets beyond a country's political elite, among other reforms. Such improvements could strengthen the financial sector as a whole, creating a feedback loop that could serve to lift even more families out of poverty.

History matters (2003) argue that African origin of microfinance dates back to Nigeria to a microfinance revolution, centuries ago. The earliest evidence of financial institutions in Africa dates back to the 16th century to esusu, a rotating savings and credit association (RoSCA) among the Yoruba. Its origin were probably rotating work associations, in which labour as a scarce commodity was accumulated and allocated to one member at a time; and then, with the spreading of commercial transactions, replaced by money, such as cowries, pounds and Naira. Wright et al. 1999; Mutesasira et al. 1999; Barnes et al., 1998) points out that majority of Uganda MFIs clients are women; loans to female clients constitute around 75% of the loan portfolio and 80% of the savings portfolio, MFPED 2000. The researchers further argue that women are thought to benefit the whole family and strengthen them in society to be better loan payers.

Furthermore, (Buckley 1996; Goetz and Gupta 1996; Hul) argue that women are the most beneficiaries from products offered by MFIs, hence they enhance their status financially socially and even politically equip them with skills through training.

The Association of Microfinance Institutions (AMFI) of Kenya is a member Institution that was registered in 1999 under the societies Act by the leading Microfinance Institutions in Kenya to build capacity of the microfinance industry (Omino, 2005). AMFI presently has 62 member institutions serving more than 6,500,000 poor and middle class families with financial services

throughout the Country. The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services AMFI,(2012).According to the National Micro and Small Enterprise Baseline Survey of (1999), there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. According to the Poverty Reduction Strategy Paper (PRSP) of (1999), a large number of Kenyans derive their livelihood from the MSEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term. Mosley (1997) argues that microfinance can also generate important non-economic benefits. For instance, she emphasizes that many microfinance programs are aimed specifically at women with a believe that access to financial services enhances their power and influence in the household; their ability to make decisions over certain purchases and their new status as important household earners has been linked not only to increased bargaining power, but also to a decreased incidence of domestic violence. It is against this background that the researcher would like to carry out a study on the influence of microfinance institution on economic development of small scale entrepreneurs in Bungoma County, Bungoma south sub County.

1.2 Statement of the problem

Since the 1990s, the goals of micro finance for investors have turned from donating to help the poor to investing to help their own financial returns. Based on the above statement, about 70% of the microfinance borrowers have suffered repossessions of their resources especially when they fail to repay in time what they had borrowed. Other critics of micro finance suggest borrowers are being taken advantage of because they are not educated enough to know what to do with the money they borrow Lindsay (2010).

At its initiation, the main objective of MFI was to eradicate poverty and raise the standards of living of people as well as create general sufficient employment (kiyingi, 2000). MFI were assumed to be effective drivers that were to play a role of intermediation of financial resources between the formal institutions, households with low incomes and small scale

entrepreneurs. Unfortunately, they have turned to provide a chance to access credit, that require collateral security, charge high interest rates and impose stringent supervision over loan repayment and savings mobilization that most of the owners cannot meet (MSED, 1999). Consequently, based on small scale trade statistics 80% of the traders who manage to get credit continuously perform poorly and spend even the small return in servicing the credit acquired. Despite of the activities performed by micro finance institutions, over 80% of small scale entrepreneurs still do not perform well. According to the small scale business statistics the creditors do not prosper which shows that the impact of micro finance activities on the economic development of small scale entrepreneurs needs to be investigated.

1.3 Purpose of the study

The purpose of the study was to find out the influence of microfinance institution on economic development of small scale entrepreneurs in South sub-County, Bungoma County.

1.4 Research objectives

1. To determine the extent to which microfinance institutions have influenced the employment of small scale entrepreneurs
2. To examine how microfinance institutions have influenced the poverty level of small scale entrepreneurs
3. To assess how microfinance institutions have influenced income distribution of small scale entrepreneurs
4. To determine the extent to which microfinance institutions have influenced the living standards of small scale entrepreneurs

1.5 Research Questions

1. To what extent does microfinance institutions influence employment rate of small scale entrepreneurs?
2. How do microfinance institutions influence poverty levels of small scale entrepreneurs?
3. How do microfinance institutions influence income distribution of small scale entrepreneurs?

4. To what extent do microfinance institutions influence the living standards of small scale entrepreneurs?

1.6 Significance of the study

This study sort to establish the influence of microfinance institution on the development of small scale entrepreneurs. This information was going to be valuable to prospective customers of microfinance institutions as they are able to know the different players in the market and various products that they offer. The study was to benefit the management and the staff of microfinance institution who would use the study to gain an insight on how they have impacted the economic development of small scale entrepreneurs. This would in turn help them develop modalities to mitigate those factors that adversely affect small scale entrepreneurs and enhance those that promote growth of their microfinance institutions. The government too was to benefit from this study. It is hoped that the government would use the findings of the study to craft appropriate policies that would promote the growth and stability of the microfinance institutions and entrepreneurs. Further the findings would help the Kenyan government development partners, NGOs, Donor communities and other stakeholders to effectively and efficiently target their assistance to the microfinance sector. Moreover, the study highlighted the outcomes and made some useful contribution to the debate of whether microfinance institution has influenced the economic development of small scale entrepreneurs. It summarized the lessons learned from the methodology which was used in the study and the specific findings from the study. It is hoped that this will be useful to other scholars and other researchers in this area of study.

1.7 Basic assumption of the study

The study assumed that the activities of microfinance institutions are steady and the target respondents were to respond willingly to give correct information that gives accurate and consistent results. It was also assumed that the researcher was to have enough financial support to carry out the research in time.

1.8 Limitation of the study

Due to lack of resources, random sampling was used to reach responded hence all items had equal chances of being selected. Other challenges anticipated included lack of cooperation from respondents and low return rate of questionnaires .This was be minimized by proper introduction of the researcher and explaining the significance of the research to the responded. Questionnaires given out were properly tracked to ensure that they are filled and returned.

1.9 Delimitation of the study

The study covered small scale entrepreneurs who have benefited from services offered by microfinance institutions in Bungoma County South sub-County. The findings of the study were limited to small scale entrepreneurs only.

1.10 Definition of significant terms used in the study

1. **Small scale entrepreneur:** This is an individual who either runs, or works in, the small businesses that constitute the informal sector of the economy.
2. **Micro-finance Institutions (MFIs):** These are the organizations that offer micro-finance service and products to the poor
3. **Development:** Development is defined as the process in which something goes through to reach its full capacity or potential
4. **Micro-finance:** This is a term for the practice of providing financial services, such as microcredit, micro savings or micro insurance to the poor or disadvantaged individuals by helping them to accumulate usably large sums of money.

1.11 Organization of the study

Chapter one represents the background of the study, the statement of the problem, the purpose of the study, the research questions, the significant of the study, limitations and the delimitation of the study and the definition of significant terms used in the study.

Chapter two will represents the literature review related to the influence of microfinance institution on economic development of small scale entrepreneurs. These include employment rate, poverty level, income distribution, GDP per capita income, literacy level and the living

standards. The chapter will also look at the theoretical literature, conceptual framework and knowledge gap that the study will fill.

Chapter three will study research methodology which will include research design, target population, sampling procedures, data collection procedures, data collection instruments, reliability and validity of instrument, pilot testing and data analysis

Chapter four will highlight presentation, interpretation, analysis and discussion. The analysis will be based on the six main objectives of the study and its finding.

Chapter five will summarize the findings of the study basing on the four objectives of the study, conclusion, recommendations and suggestions for further research

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examined literature review on microfinance institutions and its influence on the economic development of small scale entrepreneurs. The section also covers the theory related to MSEs in relation to MFI and the conceptual framework and a summary of the literature review.

2.2 The concept of microfinance with reference to small scale entrepreneurs

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998). Atieno (2000) on factors affecting the performance of small business indicated that once a business is established, expansion is hampered by lack of funds and credit. Bank credit is simply not available for small scale operation because they usually don't have securities and administration cost of small loans is prohibitive. According to the Reserve bank of Zimbabwe (2012) the main objective of microfinance is facilitating access to financial services by the poor and marginalized sections of the community. Furthermore, they targets those members of the community that would ordinarily not be able to open a bank account or access loan facilities in the mainstream banking sector because of stringent requirements. Micro-lending has been sold as a practical means to get capital into the hands of small-scale entrepreneurs who can then earn their way out of poverty (Morduch, 2013). Ledger wood and Wright (1999) argue that in addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management. According to them, these financial services commonly take the form of loans (microcredit) and micro-savings, though some microfinance institutions will offer other services such as micro-insurance and payment services, deposit taking, retail financing services, consultancy and training in business management, money transfer, safe custody of valuable items, health care schemes and salary based loan products to catch up with competition. They further identifies MFI target group as self employed low income

entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith among others.

2.3 Theories of MFIs

Baas (1997) and Mbilinyi (2003) have advocated a participatory development approach in the rural development debate. Baas defines participatory institutional development, in its broadest sense as process which mobilizes locally co-ordinate collaborative linkages between these groups and other local and higher level institutions. Since the poor generally lack economic and physical capital, focusing on strengthening their social capital makes sense as it is a pre-requisite for achieving sustainable collective action and useful in acquiring all other forms of capital. Participatory institutional development strengthens localized social capital accumulation processes by mobilizing self-help capacities, progressive skills development, and local resource mobilization (savings) in order to improve the group members human natural and economic resource base and their political power. According to Mbilinyi (2003) participatory institutional development is made of four interrelated cornerstones: Process, Empowerment, and Participation in decision-making, and Networking: This refers to the building-up of collaborative action among locally formed groups and their interaction. Brett (1993) articulates the benefits of participation. It strengthens managerial competence, the motivation and performance of workers, social and political solidarity and the relative position of poor and marginal groups in society.

Transaction cost approach to the theory of the firm was created by Ronald Coase (1937) in his article "The Problem of Social Cost"

“In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on”.

More succinctly transaction costs involve search and information costs, bargaining and decision costs and finally policing and enforcement costs. The transaction cost can be conceptualized as a non financial cost incurred in credit delivery by the borrower and the lender, before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts.

On the other hand the borrower that is MSE for this case may incur some costs ranging from cost associated with cost of screening a group member, cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings (Bhatt and Shui-Yan, 1998). The parties involved in a project will determine the transaction cost rate. They have a sole responsibility to reduce the risk they may come across (Stiglitz, 1990).

The concept of social capital has added a new input in the development debate. The nature of this input is aimed at achieving sustainable development at local decentralized levels. According to Ismawan (2000) the effort to alleviate poverty traditionally has used and was based on natural capital, physical or produced capital and human capital. Together they constitute the wealth of nations and form the basis of economic prosperity. His criticism is that the three types of capital determine only partially the effort to keep poverty at a minimal level but forgets to recognize the way in which the poor interact and organize themselves to generate growth and development. Rakodi (2002) defined social capital as “the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures, and society’s institutional arrangements, which enable its members to achieve their individual and community objectives. For social interaction to be termed “capital”, it must be persistent, giving rise to stocks on which people can draw, even if the social interaction itself is not permanent. The collective resources are built up through interaction with other people outside the families. It includes trust as the main component, co-operative behavior, helpful networks, and willingness to give and take and to participate in issues of common concern. Baas (1998) argues that social capital plays an important role in encouraging solidarity in overcoming market failures through collective action and common pooling of resources. Social capital is used as security in a group credit lending methodology. It is considered by many as the best way to reach the poorest who qualify for microfinance, and evidence indicates that group credit procedures are indeed easier to target at clients taking very small loans. Another potential advantage why social capital has become popular to the rural poor is that the association or trust is neither bought nor sold but freely shared. Social capital is also seen as simultaneously contributing to financial sustainability, poverty targeting and women’s empowerment. However, Baas (1998) argues that group credit has come under criticism in that

the group may share joint liability in the event of one group member's inability to repay is supposed to be covered by others in the group.

The study was based on the game theory approach to lending which involves the concept of group-lending and co guaranteeing mechanism. Unlike other financial institutions which require the existence of collateral as security before granting loans to a client, peer pressure and social selectivity is used to increase repayment rates and hedge against default risk. Several individuals are grouped, where each person receives a specific loan, but still the whole group is responsible for repaying credit. As groups form voluntarily, no group is willing to accept a member whose reputation is questionable and who is likely to take too high risks in investing the loan and risks to be unable to repay by hindsight. In case of Grameen Bank, the sanction for default is lasting credit denial for all group members (Morduch, 1999). By this means, a microfinance institution substitutes collateral with the mechanism of social reputation within a group (Morduch, 1999). This mitigates the risk of default due to adverse selection through asymmetric information in the detriment of the MFI. In addition, group-lending decreases transaction costs, another cause for standard banks to refrain from lending to the poor (Sachs, 2005). Theoretical implications of the benefits of microfinance institution are granted the possibility to access to invest in small businesses. This approach is also interesting to encounter the often assumed insufficient credit worthiness of the poor, which is one of the main arguments to explain why contracts between standard banking institutions and poor people are often said to be not feasible. Yunus argues that one major institution that needs to be redesigned is the financial institution and in fact criticizes that poor people are often not assumed to be credit-worthy (Romanes Lecture, 2008). The design of group-lending by Grameen Bank described above can be formalized by means of a game-theoretical approach which involves a trigger strategy of all players where MFIs and the group cooperate, until one group member defaults. The result is that the MFI denies any further loan to any group member, which is the trigger here assuming that lending is made simultaneously to all group members. The exclusion from further loans is the only sanction, but no repayment claims on the part of the MFI are made. As both scenarios are sensible, lending by microfinance institutions is in fact client based and may improve economic welfare of the poor since the trigger strategies in game theory assume that both players are credible to threaten their counterpart. The game theory approach will form the basis of the conceptual framework for this

study. According to the game theory, from loans provided by MFIs through group co guarantee mechanism, SMEs are able to take loans and ensure prompt payment which in turn will enable them to expand their business and create more income to improve their living standards which in turn reduces poverty among them hence contribution to the large economic development.

2.4 MFIs and its impact on economic development of small scale entrepreneurs

Microfinance institutions offers a range of services to small scale entrepreneurs aimed at contributing to their economic development. Various ways in which MFIs have contributed to the economic development of small scale entrepreneurs have been discussed.

2.4.1 Microfinance institutions and employment of small scale entrepreneurs

In the current political and economic environment, jobs are at the center of political debates in both developed and developing economies (CGAP,2011).There are many expectations that small enterprises can create new jobs, although recent studies suggest that small enterprises contribute more to the employment share in low-income economies than in high-income countries (Ayyagari, Demirgüç-Kunt, and Maksimovic 2012).According to a case study carried out by Pathak and Gyawali (2010),out of 115 respondents, 102 respondents have been taking loan during the last five year for micro business startup. Similarly 93 respondents have created different kinds of business with the help of micro finance program. The study indicates that business startup rate is 80.86 % which shows that microfinance services have contributed towards generating own income from small scale businesses, agriculture and livestock holding thereby reducing the daily wages based labor. Pathak and Gyawali(2010) further argue that Micro enterprises are the main source of self-employment. Their survey has revealed that, this program has created average employment for 1.5 persons from an enterprise such that 35 respondents (30%) have engaged part timely and 104 (90%) have been getting full time employment in different business sector operated through the intervention of micro-credit program.

2.4.2 Microfinance institutions and poverty reduction on small scale entrepreneurs

Ledgerwood (1999) argues that MFI are organized and operated by NGOs with initial capitalization from donors with interest in growth and development of small scale businesses (SSBs) that cannot obtain such from formal financial institutions like banks due to the

characteristics exhibited by such businesses. Ledgerwood further found out that MFI are intended to eradicate poverty through operating different activities that involves lending to individuals or groups of individuals at acceptable interest rates. According to Kiyingi (2000), the main objective of MFI is to eradicate poverty and raise the standards of living of people as well as general sufficient employment. Kiyingi (2000) further describes MFI as effective drivers that play a role of intermediation of financial resources between the formal institutions, households with low incomes and small scale entrepreneurs. Micro- credit can be used to acquire financial assets to expand business capital and generate more profits, working capital, attain productive assets. Savings as a micro finance factor enable people with few assets to save, since they could make weekly savings as well as contribute to group savings, and such savings are mobilized by the MFIs for further lending to other clients and finance small emergencies through holding small amounts held in highly liquid form (Mkpado and Arene, 2007). According to the reserve bank of Zibabwe (2012) report, MFIs are not allowed to take deposits because the size of their capital is not sufficient to act as a buffer for depositors' funds in the event of losses. Only Microfinance Banks (MFBs) registered in terms of the Banking Act are allowed to take deposits as their minimum capital requirement of \$5 million provides a sufficient capital buffer to protect depositors' funds. Further, MFBs are required to comply with strict prudential and risk management requirements.

According to Seers (1979), development is the reduction and elimination of poverty, inequality, unemployment and an improvement in the quality of life within a growing economy. However, Sen (2001) sees development as the enhancements of human capabilities and the removal of all sorts of societal ills such as injustices, prejudices, insecurities, powerlessness/ noiselessness, humiliations and improvements in basic needs. Fagha (2005) argues that development represents an equitable allocation of resources in the social, economic and environmental factors geared towards a sustainable increase in the standards of life. Fagha (2005) further says that Microfinance provides credits for the poor to carry out developmental projects so as to better their lives instead of expecting a trickledown effect which often, does not reach them. He further found out that if the poor are provided with the right resources they definitely will improve the quality of their lifestyles and improve their standards of living.

Even though, there are significant amount of entrepreneurs and microenterprises in Africa, they are in most part found in the informal sectors where resources remained untapped on a larger scale due to several constraints such as poor infrastructure, lack of property rights, lack of capital and technological know-how, lack of social support and most importantly, the lack of freedom (Webster, 1996).He maintains that these entrepreneurs are often ignored by civil servants, politicians and academicians as being backward, lazy and ignorant thereby leaving their talents untapped. According to Desoto (2000) this is further complicated by undocumented property rights which hindrances their ability to obtain loans from banks as these assets cannot be used as collaterals on loans because most of them do not have officially legally registered ownership titles on these assets. Muller (2010) maintains that all these constraints coupled with geographical isolation and other social prejudices prompts them to embrace the informal sector as a survival strategy which involves borrowing money from relatives and friends with astronomical repayment rates making their situation even worse as interest rates sometimes surpasses the actual amount of the money borrowed by the time they finish paying. Given the adverse effects of the formal and informal sectors, Microfinance then emerged as a new credit model to bridge gaps between the rich and the poor.

According to Ledgerwood (1998), by definition micro finance is described as the provision of appropriate financial services to significant numbers of low income, economically active people with an end objective to alleviate poverty. Ledgerwood(1998) further argues that Micro Finance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and financial institutions. Financial services provided by the Micro Finance Institutions (MFIs) may include one or any combination of savings, credit, insurance, pension/retirement and payment services (Chijoriga, 2000).

Improved access and efficient provision of savings, credits and insurance facilities by microfinance can enable the poor to smooth their consumption, manage risk better; built assets gradually develop micro enterprises, enhance their income earning capacity and enjoy improved quality life as an effective poverty reduction strategy (Rubambey, 2001).Mosley (1999) argue 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. However, Mosley (1999) emphasizes that the mechanism through which poverty reduction works varies between

institutions in that 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 labor amongst poor people.

Mosley (2001), in his research on microfinance and Poverty in Bolivia, assessed the impact of microfinance on poverty, through small sample surveys of four microfinance institutions: two urban and two rural, using a range of poverty concepts such as income, assets holdings and diversity, and different measures of vulnerability. According to Mosley (2001) report all the institutions studied had on average, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. The studies revealed also that in comparison with other anti-poverty measures, microfinance appears to be successfully and relatively cheap at reducing the poverty of those close to the poverty line. However, it was revealed to be ineffective, by comparison with labor-market and infrastructural measures, in reducing extreme poverty.

Haddad and Mohindra (2005) argue that there is a growing recognition that poor health is a dimension of poverty; therefore, one potential result of poverty reduction is progress in the health of the poor. Lipson's (1998) review of potentially pro-health PASs included community and micro-enterprise economic development, agriculture and food policies, education policies, macroeconomic policies, and environment or infrastructure investments to improve the supply of safe water and basic sanitation. Health intervention has been an integral part of the MFIs. Different organizations apply different or similar policy to identify the health problems, undertake rigorous experimentation and try to explore and then apply suitable, affordable and culturally acceptable technology (BRAC annual report, 2005). According to BRAC annual report (2005), these objective is achieved by MFIs through funding Water, sanitation and (WASH) to ensure a healthy environment.

Bakhtiari (2006) concluded that micro credit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment particularly in rural areas having poor population. Bakhtiari (2006) maintains that providing poor people the small amounts of credit at reasonable interest rates gives them an opportunity to set up their own business at small scale. Mawa (2008) conducted a research study focusing the issue under discussion and concluded that microfinance is an innovative step towards alleviating poverty.

The author mentions that microfinance facilities provided to the people help them to use and develop their skills and enable them to earn money through micro enterprises. Moreover provision of micro finance helps them to smooth their consumption level and manage unexpected risks.

Gurses (2009) conducted a study in Turkey and mentioned that micro finance especially micro credit is a powerful tool to reduce poverty. Gurses (2009) mentions that one fifth of the population of turkey was at risk due to the poverty although it is not a poor country according to global standards. This is due to the introduction of micro credit by two NGOs—KEDV and the Turkish Foundation for Waste Reduction (TISVA). Moreover, Gurses (2009) mentions that poverty, both in Turkey and all over the world, is not only a function of micro credit but a political problem, and political intervention of the state holds the ultimate resolution to struggle against poverty. Rena, Ravinder and Tesfy, Ghirmai (2006) conclude that micro finance is the founding stone for poverty reduction. Their study shows that there is a fundamental linkage between microfinance and poverty eradication, in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. Rena et al.,(2006) further maintains that previously implemented programs did not produce good results due to the non involvement of the peoples for which the programs was designed (the poor). They suggest that the government poverty alleviation program should be restructured if not redesigned and should be centered on the basic needs‘approach.

2.4.3 Microfinance institution and income distribution on small scale entrepreneurs

Mosley and Hulme (1998) found evidence of a trade-off between reaching the very poor and having substantial impact on household income. They found that program 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. However, the generation of self-employment in the MSEs requires investment in working capital, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans can help the poor to accumulate capital and investment in employment generating activities

(Hossain, 1988). According to Grade (1984), loans enable the individual's member or enterprises to enjoy the benefit of economies of scale and new technology.

Availability of credit to small business and low income households could greatly enhance their economic strength and eventually break the vicious circle of low income – low saving – low investment – low income Yunus (1984). MSEs all over the world are known to play a major role in income generation. URT (2003) estimates that about 1/3 of the GDP originates from MSE sector; they tend to be labour intensive thus creating jobs: the International Finance Company (IFC) of the World Bank estimates that there are approximately 2.7 million enterprises in the country. A large majority of these (98%) are micro enterprises (employing less than 5 people), effective in the utilization of local resources using simple and affordable technology; and complementing large industrial requirements through business linkages, partnerships and subcontracting relationships (Olomi, 2001 and URT, 2003).

According to Akram and Hussain (2011), improvement in living standard of the poor people of the developing countries is achieved by enhancing their income level or purchasing power. They maintain that this phenomenon reduces poverty and causes to achieve poverty alleviation objective gradually thus poverty alleviation and income level enhancement are similar in nature. Waheed (2009) examined the role of microfinance in poverty reduction. Primary and secondary data was used and 68 households were interviewed. The multiple regression analysis was used. The results showed that micro-credit improves income. Chavan (2002) examined the role of micro-credit on poverty reduction by using comparative analysis approach. There was a treatment group (beneficiaries) and a control group, comparison showed the change and increase in the incomes of both groups from 1988 to 1992. The results showed that micro-credit programs and institutions have generated a positive change in the income of borrowers but this change has only been marginal, it means due to their small scale of operations have made minimalist impact on earnings and employment generation for the rural poor.

The protection of low income people against specific perils in exchange of premium against the happening of certain risk has been defined as micro insurance by CGAP - Consultative Group to Assist Poorest (MRF, 2006). Poor people can improve their standard of living through micro-credit and micro insurance (Islam et al., 2006). He maintains that overall micro finance is a very vital tool for poverty alleviation since poor people have to face a loss of risk such as death, crop

failure, fire, drought, theft which make them more vulnerable and their income and living standard cannot be enhanced Ahmad & Naveed (2004) observed the role of microfinance in reducing rural poverty. The study was conducted to evaluate the role of microfinance provided by Khushhali Bank Limited (KBL) for poverty reduction in District Rahim Yar Khan - Pakistan. Correlation analysis was carried out to determine the relationship of microfinance with income, crop production, asset formation, farm expenses and saving. It was found that the microfinance has positive relation with saving, farm expenses, crop productivity, and income and asset formation.

2.4.4 Microfinance institutions on the living standards of small scale entrepreneurs

Zeller and Sharma (1998) argue that microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (1989) indicates that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs. Using a “managerial control” index as an indicator of women empowerment, it came to conclusion that the majority of women did not have control over loans taken by them when married. Meanwhile, it was the women who were the main target of the credit program. The management of the loans was made by the men hence not making the development objective of lending to the women to be met (Goetz and Gupta, 1994). Evidence from an accounting knowledge as an indicator of women empowerment concluded that women are marginalized when it comes to access to credit which explains why there is poor living standard among women (Ackerly, 1995).

Tenaw & Islam (2009) mentioned that micro finance has vital role in improving and maintaining livelihoods of rural people in Bangladesh and Ethiopia. The financial system that was originated by the local population proved useful tool in promoting self help and independency. The main drawback of this local originated financial system was that the rules and regulation was in the hand of originator. The main sector of income in Bangladesh and Ethiopia is agriculture but poor technology, dependent on unreliable climate, poor infrastructure, small and fragile market creates hurdle in the development of this sector. Micro finance is the only method through which these hurdle can be overcome. When agriculture sector become stable in these countries, poverty will be eliminated automatically. So for poverty alleviation agriculture sector is the founder stone and

for agriculture sector development micro finance is a must. Javed et al. (2006) reported that Micro-credit scheme of NRSP was served as a better tool for empowering female. It also helps in uplifting living standard of female community. From a study carried out by Lopa (2009) his analysis of variables showed a positive association between the living standards and source of capital such that when small scale entrepreneurs access capital from financial institution, they invest it proficiently which in turn improve their living standards. According to his research it was found out that the source of capital for a business has an effect on the living standards of an entrepreneur. His findings showed further that a number of entrepreneurs who had accessed capital from MFIs reported an improvement in their living standards. Another important goal of all MFIs is to spread the light of education throughout the society (CIDA, 2002).According to his book, development through this program, along with the health program, indicates human development among the people. Furthermore their effort and mission is to build up a society free of poverty, illiteracy and disease hence expanding education opportunities for disadvantaged children and provide them with necessary technical and financial support.

2.5 Conceptual Framework for the study

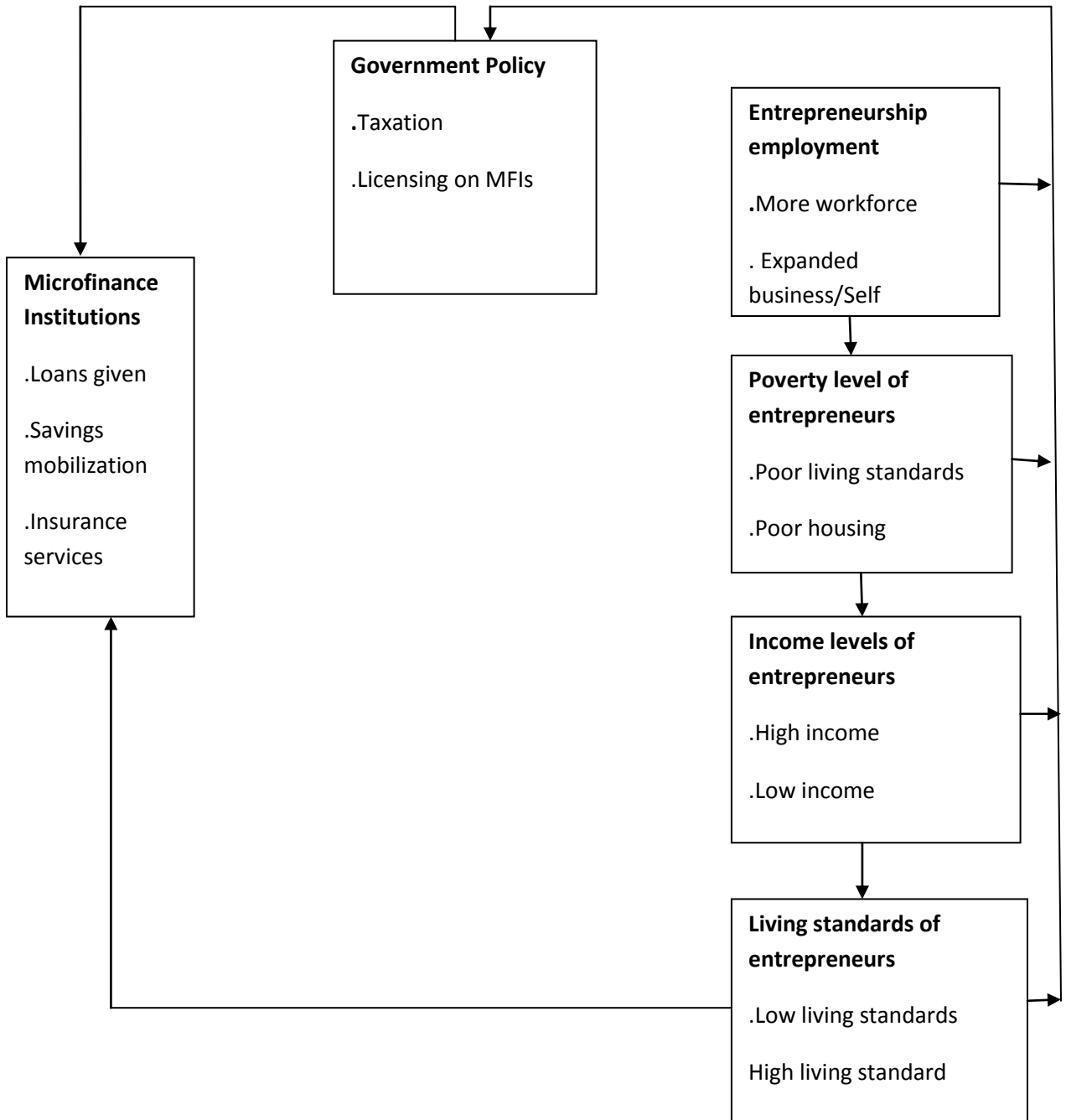
The figure below shows the conceptual framework for the study.

Fig.1. Conceptual framework

**INDEPENDENT
VARIABLES**

**INTERVENING
VARIABLE**

**DEPENDENT
VARIABLE**



2.5.1 Overall Assumption of the Conceptual framework Model

The conceptual framework developed from literature review sheds the light for the methodology of this study. The conceptual framework developed focuses on SMEs who have benefited from MFIs services hence the four main variables namely: entrepreneurship employment, poverty level, income level and the living standards. Loan received from microfinance institutions are invested in the businesses which in turn increases production leading to need for more workforce. When entrepreneurs employ people the poverty level among communities reduces due to increase in income among people. More employment and high income level result in the improvement of the living standards of the community which in turn reduces Poverty. Achievement of both reduced poverty and improved living standards result in the general increase in the economic development of the Country. Government Policy such as taxation and licensing affect MFI and its surrounding to very large percentage. All MFIs are required to obtain license to run their business and in turn they pay tax which is an income to the government. They are regulated by the government under some rules and regulations. These policies also affect the operation of the dependent variables. For instance, taxation and licensing reducing the income level of entrepreneurs which lead to poor living standards and increased poverty. Reduced income on entrepreneurs means that low rate of expansion hence no employment. The information to be obtained from the microfinance institutions and their rural entrepreneur clients will be about their methods and their experiences respectively; in relation to effective service delivery (Rhyne, 2009). Entrepreneurial growth in the County will thus be possible if the micro-finance banks' programs were successful influencing the views of the people and creating a conducive environment for entrepreneurial investment after all.

2.6 Knowledge gaps

Various bodies of literature on MFIs and SMEs practices have been cited emphasizing on the influence of MFIs on economic development of entrepreneurs. However, various deficiencies have been analyzed to be addressed by this study or in the future research. Various scholars have supported the argument that most existing theories on the influence of microfinance institution on the economic development of small scale entrepreneurs are in the context of developed economies hence they may not apply in the developing economies. The other deficiency is the particular dynamics of emerging asymmetric information in emerging economies when

compared with developed markets which calls for consideration of the strategy because of the new foreign markets.

2.7 Summary of Literature Review

The existing literature review pointed out to the entrepreneurial inertia that comes with microfinance organizations initially started with poverty eradication as a main objective. Various scholars have brought forth different perspectives concerning micro credit institutions but all point to their ability to inspire rural entrepreneurial development and Bungoma County is not exempted. This study had to depend a lot on the existing body of literature for the identification of variables as well as for developing a rigorous logical argumentation for the interrelationships among different variables in the contributions of MFIs to entrepreneurial development. The theoretical and empirical literature pointed to practical cases of micro-finance institutions and how they have been influential around the world leading to empowerment in small scale investment. The relationships between the dependent and independent variables indicated the factors that have been important leading to availability of MFIs and consequently influencing entrepreneurial development in general (Gatome et al., 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines in detail the manner in which the study was executed. It highlights the areas of study, the research design, the sampling design and procedure. It also states the data collection methods, the data processing and analysis, which the researcher used.

3.2 Research design

The study used survey research design to obtain information that was used to describe the existing phenomena (Gay Mills & Airasian 2006). The design was also be used to explore the existing status of two or more variable at a given point in time. The design was further preferred because it is suitable for collecting original data for purposes of describing a population which is too large to observe.

3.3 Target population

Mugenda (2000) maintains that a target population is the total population that the researcher specifies in his or her research. The target population for this study involved the small scale entrepreneurs and staff from SMEP Microfinance Bank, Faulu DTM, KWFT and equity bank of which consisted of 1400 respondents that involved 1400 MFIs clients and staff.

3.4 Sample size and Sampling Procedure

3.4.1 Sample size

The sample size of the study was determined using Krejcie table and Morgan schedule which state that a population of not more than 1,400 will have a sample size of 302. Therefore in this case the sample size will be 302.

3.4.2 Sampling Procedures

The sampling procedures involved the following steps:

Proportional sampling techniques was applied to calculate the independent sample size for each MFI to ensure equal representation of business from the MFI selected since each had different number of entrepreneurs involved in business activities. The sample size therefore consisted of 82 clients from SMEP microfinance bank, 68 clients from Faulu Kenya, 80 clients from KWFT, 60 clients from Equity bank, 12 loans officers. Since the loan officers were very critical in the

study as they are the once overseeing the entire process of delivering the MFI services, all the 12 in the population were considered in the study three from each MFI.

Using the sample size, the total number of households accessing and using microfinance services from each MFIs was selected. Households to be studied were selected with random sampling being used to select the required sample size. This however, took into account residence aspects. The sample included about 45 percent of urban based households and 55 percent of rural based households. The selection of households from urban and rural areas was done by giving them equal chances of being included in the sample but basing on the proposed percentages of the quotas (Urban areas 45 percent and rural areas 55percent) and without mixing them.

3.5 Data Collection Instruments

The primary data collection Instruments included; interviews, observation, and questionnaires so as to extract valuable first-hand data from the group of respondents. Secondary sources of data collection involved the documentary reviews of data of previous researches which provided information that was important for making informed conclusions and a recommendation concerning the case study (Robinson, 2002).Data for this study was collected through the following ways:

- i. Documentation: This involved collecting information and data from existing surveys, reports and documents.

- ii. Structured Questionnaires: This was used to collect information from households. Questionnaires were developed to obtain survey data that allowed an understanding of the impact of micro financing services on the economic development of small scale entrepreneurs. A questionnaire was used as an instrument because it is assumed that most of the SME owners are literate. These questionnaires were free from bias and were both closed and open.

- iii. Semi-Structured Questionnaires: This was used to guide dialogue with a range of stakeholders from microfinance institutions and officials who are involved in outreach missions

of spreading microfinance services especially in rural areas and informed people in the areas of study.

3.5.1 Pilot study

According to Crossman (2000), a pilot study is a research project that is conducted on a limited scale to allow researchers to try out survey questions and define research hypothesis. In this study a pilot study was used to check reliability and validity of the instrument and was conducted in Migori County, Awendo Sub County on the respondent not involved in the final study to avoid contaminating the final actual sample.

3.5.2 Validity of the instruments

Data validity refers to the degree to which the result of study represents the phenomenon under Study and therefore the results are accurate, meaningful and free from interference if data is valid (Mugenda, 1999). In data validity, the study mostly relied on the data collection method that brought forth valid data for conclusive analysis and recommendation on the relationship between MFIs and entrepreneurial development. Internal validity refers to the degree to which extraneous factors have been controlled such that a change in dependant variable can accurately be attributed to that of change in independent variable. External validity on the other hand is the degree to which research finding can be generalized to population and environment outside the experimental setting. The questionnaire and interview schedule were given to the University of Nairobi supervisor who was an expert in the field to ascertain the validity.

3.5.3 Reliability of the instruments

An instrument is said to be reliable when it can measure accurately and consistently and obtain same results under the same conditions over time. A test is said to be reliable when it is believed to be stable and trustworthy. Spearman brown prophecy formula is recommended by Garret (2004) as a good measure of reliability of a test. Spearman brown formula is also called split half method. In this method, a test is divided into two equal halves. The first half of the scores will be odd numbered items while the second half will be even numbered items. Roscoe (1969) argues that split half method is used to establish the coefficient of internal existence.

3.6 Data collection procedure

In the study, the data collection procedures involved the formulation and designing of the Questionnaires which were deployed to the respondents as well as planned for the interviews. The data collection procedures in the study involved combination of the questionnaires and interview guides as well as the documentation review which helped the study sharpen the clarity of results, strengthen the validity of findings, and enhance the credibility of conclusions. The researcher first obtained a permit from the Ministry of trade and industry. After receiving a written consent, the researcher proceeded to go to the branch managers of MFIs banks to be involved in the study to seek permission for their clients to be interviewed. With their permission, the researcher was handed over to the loan officers who availed the list of the clients benefiting from their services. The sampled clients and loan officers were then issued with questionnaires which were collected after two weeks.

3.7 Data analysis procedures

Data analysis is the process of bringing order structures and interpretation to the mass of collected data (Marshall and Rossman 1999). Data collected from the questionnaire and interviews were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage. In the study, data was presented using frequency distribution tables and analyzed using the percentages.

3.8 Operational definition of variables

Two variables were considered in this study; the independent variable and the dependent variable. The independent variables were entrepreneurship employment, poverty level, income level and living standards while the dependent variable was the entrepreneurship development. This information is presented in the table below

Table 3.1: Operationalisation table

N o	OBJECTIVE	INDICATORS	VARIABLES	MEASUREMENT	SCALE	DATA ANALYSIS
1	Employment rate	Number of new businesses, Number of business expanded	Independent	Mean & Mode	Ordinal	Quantitative
2	Poverty reduction	Literacy level, prevalence to diseases, poor communities	Independent	Descriptive statistics	Ordinal	Qualitative
3	Income distribution	Good repayment of loans, More business generation	Independent	Mean & Mode	Ordinal	Quantitative
4	The living standards	Ability to afford basic needs such as: food, health & education	Independent	Descriptive statistics	Ordinal	Qualitative

3.9 Ethical considerations

The study observed the ethical issues which were supposed to be followed in scientific research. The study observed honesty where it reported the data collected, results obtained, methods and procedures used without misrepresenting, falsifying or fabricating it. The study also strived to avoid bias in data analysis, interpretation, and experimental design through objectivity as an ethical issue. Integrity was employed for consistency, carefulness where careless errors and negligence was avoided. The data collected in this study was of confidential nature. The study thus protected the confidential information and did not share it other than use it purposely for academic purposes. The respondent's names were not written on the questionnaires and their

consent was sought before administering the questionnaire or conducting interviews. Plagiarism is the use of someone else exact words without quotation marks and appropriate credit, or to use the unique ideas of someone else without acknowledgment. The study empirically acknowledged other people's works through APA referencing style and thus avoiding plagiarism

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study. The findings relate to the discussion, analysis and Presentation as revealed by the field survey conducted by the researcher. The data for the research study was collected from two groups of respondents namely; the small scale entrepreneurs and the microfinance banks' staff using questionnaires and structured interviews guides which were presented, analyzed and then interpreted appropriately. This was important if the study was to achieve the objectives outlined in chapter two, with the findings presented into various sections according to the groups that were interviewed. The first section of the study was to explain the findings from small scale entrepreneurs while the second section explains the findings from the response of the MFIs staff. Both show the reliability of the measuring methods and the response rate the study received during the study. This chapter is organized as follows: the response rate of the respondents, experience of the respondents with MFIs, personal information of respondents which is sub divided into the following themes: age, gender, marital status and educational level, analysis of objectives based on each theme and finally analysis of respondents from MFIs staff.

4.2 Response Rate of respondents

Out of the expected sample of 302 respondents, only 292 accepted to be interviewed and answered the questionnaires. However, 20 respondents of this number gave contracting and inconsistent data which led to the study eliminating them from analysis of the study data. The remaining respondents were thus considered valid, with 260 respondents as MFI clients' respondents and 12 respondents from MFIs staff thus giving a response rate of 90%. The results of the study are presented in table

Table 4.1 showing Response rate of all respondents

Particular	Frequency	Percentage
Smep bank clients	72	26.5
Faulu Dtm clients	58	21
KWFT clients	75	27.5
Equity bank clients	55	20
Loan officers	12	5
Total	272	100

Source: Primary Data

According to table 4.1, a total of 272 people accepted to be interviewed and answered the self administered questionnaires. Those that accepted constituted about 28% KWFT clients, 27% Smep bank clients, 21% Faulu DTM clients, 20% equity bank clients and 5% loan officers. This shows that 85% of the respondents are or have been actual beneficiaries of MFI and this implies a good target group for the study.

4.3 Experience of the respondents with MFIs

Table 4.2 Showing entrepreneurs experience with MFIs

Period	Frequency	Percentage
1-12 Months	40	15
1-3 years	45	17
3-5 years	61	24
5-10 years	105	40
Over ten years	9	4
Total	260	100

From the above table, it is evident that 40% of the respondents had experience of between of 5-10 years, 24% of the respondents had 3-5 years experience, 17% of the respondents had 1-3 years experience, 15% of the respondents had experience of 1-12 months and finally 4% of the

respondents had experience of over ten year. These means that the entrepreneurs with experience of 5-10 years were middle aged who had more responsibilities driving them to entrepreneurial activities and as the age advances there respondents responsibilities reduce influencing a few of these age group to be less involved in entrepreneurial activities.

4.4 Personal Information of the respondents

This section presents the personal information of the respondents. These include age, gender, marital status and educational level. This information is discussed below:

4.4.1 Age bracket of the respondents

The study also examined the age bracket of the clients to know the age group which access microfinance services and why. The table below shows the outcome of the survey

Table 4.3 showing Age bracket of the respondents

Age bracket	Frequency	Percentage
18-25	26	10
26-33	151	58
36-41	65	25
42 years and above	18	7
Total	260	100

From the table above, 58% represented the age bracket of 26-33, 25% represented the age bracket of 36-41, and 10% represented the age bracket of 18-25 while 7% represented the bracket of 42 years and above. These implies that majority of the clients are in their youthful category which involves a dynamic, enterprising and risk taking age. Most of these clients are also driven by high responsibility of family upkeep hence need to grow their business.

4.3.2 Gender Distribution of the Respondents

The study examined the extent to which both men and women used the services offered by micro finance institutions.

Table 4.4 showing gender distribution

Gender	Number	Percentage
Male	29	11
Female	231	89
Total	260	100

From the table above, it is evident that 89% of the clients are female. This is because some of the MFIs like KWFT offer their services to only women while the remaining three MFIs have a small ratio of men. Most of these clients are in groups hence expected to hold weekly, fortnight or monthly meetings which is considered cumbersome by men. As a result of capital provision through micro credit loans from MFIs, more women have become more involved in setting up of small scale businesses hence increasing their percentage. According to Goetz and Gupta (1994), the management of the loans was made by the men hence not making the development objective of lending to the women to be met. However, the results disagree with the two as well as Ackerly (1995) who concludes that women are marginalized when it comes to access to credit which explains why there is poor living standard among women. The results are in conjunction with Javed et al. (2000) who alleges that Micro credit is the best tool for empowering females.

4.4.3 Marital status of the respondents

The respondents were grouped into three categories: married, single and divorced. These were meant to ascertain men, women and youth who access the financial services from microfinance.

Table 4.5 Showing Marital status of the respondents

Status	No	Percentage
Married	161	62
Single	52	20
Divorced	46	18
Total	260	100

According to the table above, 62% are married, 20% are divorced while 18% are single. The married dominated the respondent's base indicating that married people are free to get involved in enterprising activities more than single showing that married people have more responsibilities driving them to get involved into entrepreneurial activities than single people who are still supported by their parents. However, divorced people were less actively involved in entrepreneur activities compared to the rest may be because they didn't have a strong financial support to influence them get involved in entrepreneurial activities.

4.4.4 Educational level of the respondents

The research also sorts to find out the educational level of the respondents to ascertain whether these affected their setting up of the business enterprises.

Table 4.6 showing education level of the respondents

Levi of education	Total no of respondents	Percentage
Degree	8	3
Diploma	23	9
Certificate	26	10
Secondary	117	45
Primary	86	33
Others	0	0
Total	260	100

From the table above, 45 % of the respondents were form four dropout, 33% of the respondents were primary school leavers, 10% of the respondents had at least done a certificate course, 9% of the respondents were diploma holders and finally 3% of the respondents were degree holders. These implies that majority of MFIs clients are semi illiterate who do not have salary jobs nor enough collateral to secure loans from commercial banks hence their only source of securing their financial support is from MFIs. These means that another important goal of all MFIs is to spread the light of education throughout the society (CIDA, 2002). However, the table shows that most degree holders get their financial support from other sources other than MFIs.

4.5 Analysis of the study objectives

This section shows analysis of the study objectives which are divided into the following themes: influence of MFIs on employment of small scale entrepreneurs, influence of MFIs on poverty level of small scale entrepreneurs, influence of MFIs on income level of small entrepreneurs and finally influence of MFIs on the living standards of small scale entrepreneurs.

4.5.1 Influence of MFIs on employment of small scale entrepreneurs

The first objective of the study was to find out whether entrepreneurs have been able to create more employment opportunities after a period of experience with MFIs. In particular, it sorts to highlight the number of new businesses started and those that expanded among the respondents after taking loans from MFIs.

Table 4.7 showing development of business activities in terms of creation of employment

Activity	Frequency	Percentage
Starting new business	80	31
Business expansion	120	46
Others	60	23
Total	260	100

From the table above, 46% of the respondents had established businesses which were undergoing expansion in terms of creation of employment, 31% of the respondents were getting loans to venture into new businesses while 23% of the respondents were neither expanding nor starting new businesses in terms of creation of employment. Therefore these findings agree with the previous study of Pathak and Gyawali (2010) who concluded that microfinance are creating fulltime employment for entrepreneurship. According to Ayyagari, Demirgüç-Kunt, and Maksimovic (2012), there are many expectations that small enterprises can create new jobs, although recent studies suggest that small enterprises contribute more to the employment share in low-income economies than in high-income countries.

4.5.2 Influence of MFIs on poverty level of small scale entrepreneurs

This objective sort to establish the influence of MFIs on poverty level of small scale entrepreneurs. From the questionnaires collected, it was noted that most of the MFI clients are low standards people with 60% staying in their rural but semi permanent houses while 30% staying (urban areas) permanent though rented houses. Only 10% were staying in self owed and permanent houses. Most of the clients in the rural areas use local material for cooking and their main source of water is borehole. This means that majority of low income people depend on MFIs for improvement of their financial status. The table below shows how MFIs have tried to reduce the poverty cycle among its clients

Table 4.8 showing poverty reduction by MFIs

Statements	Rank	Percentage
MFIs helped me to expand/start my business	120	46
MFIs helped me to purchase a plot	5	2
I built a house/renovated my house using MFIs loan	26	10
I have received other benefits other than loan e.g. motorcycle ,water tank	83	32
I purchased household assets from MFI .e.g. gas, modern jiko	26	10
TOTAL	260	100

From the table above, it is clear that 46% of the respondents have expanded their business or started by use of loans from MFIs, 32% have benefited from other income generating activities such as water tank to improve their livelihoods other than depending on MFIs, 10% have built or renovated their houses and purchased households assets from MFIs funding and finally 2% of the respondents agreed that they secured plots from MFIs funding. This research therefore concurs with Ledger wood (1998) who argues that Micro Finance is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and financial institutions. Microfinance therefore is described as the provision of appropriate financial services to significant numbers of low income, economically active people with an end objective to alleviate poverty,(Ledgerwood 19998).

4.5.3 Influence of MFIs on income level of small entrepreneurs

This objective was meant to establish the extent to which loans received from MFIs have contributed to increase in income level of entrepreneurs. In a question to establish what kind of services the respondent had benefited from MFIs, 78% of the respondents confirmed to have accessed business loans, 40% purchased assets while 7% had accessed school fees loan. These shows majority of small scale businesses have benefitted from MFIs to improve their businesses. At least 40% used MFIs proceeds to purchase assets geared towards improvement of their living standards and very few depend on MFIs proceeds to raise school fees for their family members.

Table 4.9 Showing respondent's response on increased business capital

Feedback	Number	Percentage
Yes	169	65
No	81	31
Not certain	10	4
Total	260	100

From the table above 65% confirmed an increase in capital after accessing MFIs loans while 31% felt their capital didn't increase while 4% were not certain. These means that majority of small scale business men depend on MFIs to raise their business capital.31% argue that they didn't depend much on MFIs to raise their business capital while 4% were not able to ascertain how they started their businesses. This therefore implies that MFIs play a vital role in boosting up the incomes of their clients. This is supported by Yunus 1984),who says that availability of credit to small business and low income households could greatly enhance their economic strength and eventually break the vicious circle of low income – low saving – low investment – low income..

4.5.4 Influence of MFIs on the living standards of small scale entrepreneurs

The study went ahead to find out if services offered by entrepreneurs had contributed to their improvement in the living standards. The table below shows the outcome.

Table 4.10 Showing influence of MFIs in improvement of the living standards of entrepreneurs

Statement	Rank	Percentage
My diet has improved and I am able to afford a daily meal	13	5
I secured an insurance/NHIF cover through MFI	29	11
I have acquired several assets during my experience with MFI	18	7
My children are not attending school because of fee	0	0
I get school fees loan from MFI to pay for my children	60	23
I meet my daily cost from my business	144	54
Total	260	100

From the table above, it is clear that 54% of the respondents agrees that they were able to meet their daily business expenses from MFIs funding, while 23% of the respondents accepted that MFIs funding has played a major role in payment of their children's fees. Moreover, 11% of the respondents were in agreement that MFIs funding has saved them great deal in medication.

In addition, 7% of the respondents were in agreement that MFIs funds had played a major role in their acquisitions of assets while 5% dependent on MFIs funding for improvements on their diet and finally non accepted that their children were no longer able to attend school because of financial problems because MFIs funding has helped them to solve these problem The study therefore is in agreement with Tenaw & Islam (2009) who argue that micro finance has vital role in improving and maintaining livelihoods of rural people. The findings after the study revealed that the living standards of the respondents improved. Once the business expands, they is increase in income which can be used to improve the diet of the households. The study supports the previous research conducted by Lopa (2009) which showed that a number of entrepreneurs who had accessed capital from MFIs reported an improvement in their living standards.

4.6 Responses from MFI staff

This section sorts to solicit information on staff response of reception of MFIs funding of small scale entrepreneurs.

4.6.1 Number of active clients per staff

The table below shows the number of active clients per staff based on MFIs funding

Table 4.11 showing number of active clients per staff

Active clients	Frequency	Percentage
1-100	0	0
101-200	0	0
201-300	4	33
More than 300	8	67
Total	12	100

It was noted that 67% of MFI staff have over 300 clients while 33% have clients ranging between 201-300. These shows that MFIs have a good number of clients bearing in mind that only 3 staff from each MFI were interviewed. None had clients between 1-200. These means that MFIs play a major role of funding of small scale business.

4.6.2 Loan cycle of the MFIs funding

The purpose of this question was to find out if most of the clients were MFIs beginners or had stayed in MFI for quiet sometimes. The table below shows the outcome

Table 4.12 showing Loans cycle of MFIs funding

Cycle	Frequency	Percentage
1 st cycle	50	19
2 nd cycle	90	35
3 rd cycle	100	39
4 TH cycle	20	8
Total	260	100

It was noted that majority of the clients were in their 3rd and 2nd cycle of the loan which is 39 and 35% of the respondents respectively in terms of MFIs funding, while 19% of the loan cycle represents new clients who have benefited from MFIs funding and finally 8% are in the 4th cycle who have graduated to bigger loans. These shows that the longer you stay in touch with MFIs the more you benefit because one is able to get security of their in terms of their shares.

4.6.3 General performance of the loan given by MFIs

The respondent were asked to rate the general performance of the loans. This information is rated as per the MFIs to find out the general performance of loans given in different MFIs

Table 4.13 showing loan performance

Statement	Smep	Faulu	KWFT	Equity	Total	Percentage
Clients Paying well	0	1	3	0	4	33
Clients paying fairly	1	2	0	2	5	42
Clients struggling	1	0	0	1	2	16
Loans not performing	1	0	0	0	1	9
Total	3	3	3	3	12	100

From the table above, only KWFT records a good payment record of their clients. The rest of the MFIs are considered to fall in the 2nd category where most of the clients are paying fairly. These means that KWFT have developed a unique strategy of influencing their clients to make their payments timely hence are enabling them to get higher interest timely. However generally, 42% of the respondents confirmed that their loans are being paid fairly well, 33% of the respondents confirmed that their loans were being paid well, 16% of the respondents confirmed that their clients are struggling with their loans while 9 % confirmed that their loans are not being paid. There is therefore a need for MFIs to train their clients before funding to ensure the loans are repaid back timely. Therefore there is need to come up with a mechanism to establish why some clients claim that their clients are struggling with repayment of their loans and this will help them to come up with a corrective measure

4.6.4 Action taken against default

The researcher went ahead to find out the action taken against those not paying loans

Table 4.14 showing action against default

Action	Number	Percentage
Reposes their items	4	30
Give more time to pay	1	10
Conduct training	1	10
Let group members pay	5	40
Others	1	10
Total	12	100

From the above table, 40% of the respondent will enforce the group co guarantee mechanism where the group members will pay, 30% of the respondents agreed that they would repossess the pledged collateral in case of default, 10% would give the clients more time to pay, conduct training of the clients before they are given loans to prevent future defaulting or use other mechanism. However option four only applies in a group setting but where the client is an individual then option one is used. Some loan officers may decide to give the client more time to pay in the case where the reasons behind failure to pay is beyond the client control e.g. where the client business has been destroyed by fire, the client may negotiate with MFIs to look for other sources and pay the loan. Alternatively, option three is used in case where the officer feels the client has ignorantly refused to pay or efforts to repossess the items have not been successful. These may happen the client has either lost or transferred the items used as security hence MFI has no option but to sensitize the client on the important of paying the loan to establish a good record. The fifth option involves mentioned action such as threatening the client to pay, approaching close relatives among others

4.6.5 Economic contribution of MFI to the development of small scale entrepreneurs in Bungoma County

Table 4.15 Economic contribution of MFIs to entrepreneur's development

MFI contribution	Rank	Percentage
Business expansion	4	34
Ability to pay tax	1	8
Increase in income	3	25
Improvement in infrastructure	1	8
Meeting customers' needs in time	2	17
Meeting financial needs in time	1	8
Total	12	100

From the table it is evident that 34% feels that the major contribution of MFI is business expansion, 25% says increase in income, 17% meeting customers' needs in time, 8% said that ability to pay tax, improvement in infrastructure and meeting financial needs. Whereas there are various ways that can assist in gauging performance of the MFI clients it is clear from most respondent that once there is expansion of the businesses, there is obviously an improvement in performance of the business due to boost in the working capital. These is in agreement with Seers (1979) who concludes that development is the reduction of and elimination of poverty, inequality, unemployment and an improvement in the quality of life within a growing economy. Development therefore represents an allocation of resources in the social, economic and environmental factors geared towards sustainable increase in the standards of life, (Fagha 2005).

CHAPTER FIVE

SUMMARY, FINDINGS, DISCUSSIONS, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter discusses the findings of the study, the conclusions and recommendations in relation to the study objectives for better handling of the problems and challenges in the study. The discussion explains the findings of the study in support or in contrast to the Literature after which conclusions and recommendations are drawn.

5.2 Summary of findings

The purpose of the research study was to find out the influence of micro-finance institutions on entrepreneurial growth of small scale businesses in Bungoma County, Kenya. The study sort to find out the influence MFIs to the development of small scale entrepreneurs. Microfinance banks are credited with providing the capital in form of micro-credit loans to small scale businessmen and women. Although there was a slow pick in the people accessing the services of the microfinance banks, the continued strategy of using outreach programs that appeal to small scale entrepreneurs in Bungoma County was praised for influencing development of entrepreneurship. Microfinance institutions have the upper hand in terms of financing small scale business enterprises compared to commercial banks whose loans interest rates are higher and have stringent loan requirements hence making most entrepreneurs to shy away from them. The study therefore is in agreement with Desoto (2000) who argues that loan requirements from commercial banks are complicated by undocumented property rights which hinders the ability of small scale entrepreneurs to borrow as their assets cannot be used as collaterals on loans because most of them do not have officially legally registered ownership titles on these assets. From the data collected and analyzed, the small scale entrepreneurs' response was that they would prefer microfinance banks as opposed to the commercial banks. The findings strongly indicated that the presence of microfinance institutions in Bungoma County had significant impact especially in provision of loans for the entrepreneurs to start or boost their businesses thus leading to increased entrepreneurial growth in Bungoma County. These is in line with (Naoum, 2007) study gave similar findings. The study found out that the influence of microfinance institutions on poverty level was beyond reproach because MFIs apart from loans given to entrepreneurs have

designed other products that target their clients. A client who joins MFI starts with a small loan and grows slowly to a higher level where he can acquire other facilities such as plot, house among others depending on his or her level of commitment. On income level of entrepreneurs, the study found out that many small scale entrepreneurs took loans from MFIs which were used to either start a business or increase the business capital. It was also noted that most of the entrepreneurs had poor living standard with over 50% of them coming from the poor rural side. However, through MFIs they are still able to educate their children and are enlightened to access insurance services which enable them to pay their hospital bills. Some of them are also able to improve on their housing and the household eating habit which is in agreement with Kiyingi (2000) finding, who argues that the main objective of Micro Finance is to eradicate poverty and raise the standards of living of people as well as general sufficient employment to increase their income level.

5.3 Discussion of the findings

5.3.1 Personal information of the respondents

Small scale businesses is an area that requires energetic people and the youth plus the middle aged as the results of the data analysis account for 150 out of 260 respondents which is 58%. This was a group of people that could handle the pressures of the business ventures thus they perfectly handle the pressures of the small scale enterprises. The fact that only thirteen percent (13%) of the respondents have been educated beyond the secondary level indicated that majority of the MFIs beneficiaries have not had education beyond secondary school level as indicated by the seventy eight percent (78%) of the sampled respondents. There is therefore need for microfinance institutions to educate these entrepreneurs before giving them loans. The research findings concur with other related previous studies on microfinance organizations conducted in other rural areas which had significantly led to increased entrepreneurship. Just like when the idea was born of the first community or village bank as indicated in the literature review, many small scale businesses got a big boost by getting loans without major security requirements such as guarantors.

5.3.2 Discussion of the objectives

The findings of the study confirmed clearly that MFIs through loans given have adversely created employment for their clients. It is clearer that a total of 77% of the respondent had

created employment after accessing capital from MFIs. These is as a result of 46% of clients who expanded their business while 31% started new businesses with the loans received. The remain percentage of 23% invested the loans in other activities other than business. MFIs there should come up with mechanism of ensuring that loans received are invested into the business in order to archive 100% objective of creating employment among small scale entrepreneurs. The statistics shows 65% of the respondents confirming that there was an increase in income after a number of cycles of loans from MFI. 31% which represent those who took school fees loans, asset or other facilities that were not directly linked to their businesses. However, these is not the case among all entrepreneurs, some entrepreneurs have been reduced to be poorer by their items being reposed especially when they fail to pay the loans taken. The study concludes that MFIs have improved the living standards of small scale entrepreneurs. It is clear that out of 260 respondents, on is un able to educate their children. 54% of them meet their daily cost from their business with 23% of them are accessing school fees loans from MFIs. It was also noted that 11% of the responded are using NHIF which were given through MFIs. These clearly indicate that MFIs clients experience improved living standards after a period of time with MFIs. Most of the entrepreneurs are able to meet their daily needs, educate their children through school fees loans from MFI and more so improve the status of their houses. Since micro finance institutions are proving important to the less developed societies, it is paramount that various strategies be formulated to pave a way forward for them thus propelling the people from the current status to greater heights. Out of a total of 260 respondents, all of them were able to acquire at least an asset after receiving the loans from MFIs. These was done either direct purchase of the asset using proceeds from business after expansion to purchase assets. Therefore the findings after the study revealed that MFIs had contributed largely to reduction of poverty by giving its clients a chance to acquire other assets apart from business loans. It was clear that although a large percent at of the respondent used their loan in business, others were able to purchase land, renovate/built houses and others were able to acquire assets such as household, water tank motorcycle or vehicle among others.

5.4 CONCLUSIONS

This study was aimed at investigating the effects of microfinance institutions to the development of entrepreneurs in Bungom a County, Kenya. The awareness of the small scale entrepreneurs as

far as the services of MFIs are concerned are quite high but getting the entrepreneurs to fully seek these services many outreach programs have and continue to be tailored so that the entrepreneurs can get to appreciate what MFIs have to offer to them .Micro Financing is becoming increasingly important to poor countries like Kenya as an engine of growth and development and it is therefore important that policy makers accord more attention to it than ever before in order that the current and potential 'beneficiaries' can actually stand to improve on their welfare.

5.4.1 Influence of MFIs on employment of small scale entrepreneurs

It can be deduced that MFI have contributed largely to creation of employment opportunities among small scale entrepreneurs. Most of the entrepreneurs rely on loans as the major source of capital for either business expansion or starting a new business. This has inspired most of them to work very hard in order to repay back the loans and later take other new loans. The small scale entrepreneurs also value the contribution of MFIs towards creation of employment in their operations; many of them feel that has been expansion in their business activities as a result of loans received from MFIs.

5.4.2 Influence of MFIs on poverty level of small scale entrepreneurs

It can be concluded that MFIs have as well contributed positively towards reduction of poverty among their clients. It was clear that MFIs provides other properties and assets in terms of loans which aims at reducing poverty among their clear clients

5.4.3 Influence of MFIs on income level of small entrepreneurs

It was clear that once the business expands through loans received the income from the business increase. This was confirmed by most responds the income rose after a number of cycles of loans from MFI. However, these is not the case among all entrepreneurs, some entrepreneurs have been reduced to be poorer by their items being reposed especially when they fail to pay the loans taken.

5.4.4 Influence of MFIs on the living standards of small scale entrepreneurs

The study concludes that MFIs have improved the living standards of small scale entrepreneurs. Most of the entrepreneurs are able to meet their daily needs, educate their children through school fees loans from MFI and more so improve the status of their houses. Since micro finance

institutions are proving important to the less developed societies, it is paramount that various strategies be formulated to pave a way forward for them thus propelling the people from the current status to greater heights.

5.5 RECOMMENDATION

The study findings yielded the following recommendations in view of the influence of MFIs on the development of small scale entrepreneurs in Bungoma County

1. Small scale entrepreneurs fall under the group of people who are trying to solve unemployment and thus the sector should be given the support it can get ranging from the Government, to non-governmental organization and other donors so that it can create employment and alleviate the masses from extreme poverty
2. Moreover, the government should also partner with the MFIs and conduct civic education to reach out to the small scale entrepreneurs as well as to the potential entrepreneurs to seek the services of microfinance banks as a way of ensuring poverty alleviation in the rural areas. Yunus (2007) points out that MFIs have considerably opened an avenue via which poverty alleviation can be achieved by empowering the poor to self-dependency levels to sustain the basic needs and wants without having to strain.
3. Management of MFIs should emphasize village banking in order to overcome or reduce on the default rate which in the long run destabilizes their income in case of repossession. Such a method creates psychological coercion amongst the clients to pay back the borrowed money. Individual borrowers tend to default a lot which poses a big risk to the organization.
4. The number of MSEs who have embraced insurance and taking school fees loan is quiet low. Therefore a lot of marketing need to be done to increase the update of insurance loans and school fees in order to improve on their living standards. This is critical to entrepreneurs because dipping in the business to pay school fees or cater for illness may eventually lead to collapse of the business.

5.6 Suggestions for further research

1. Further research studies can be conducted and different methods collection used to determine the influence of microfinance institutions on the development of small scale entrepreneurs in Bungoma County. This can bring out a different data on how the entrepreneurial growth as a result of MFIs is achieved and further sustained in small scale businesses.
2. Looking at the sample population the study narrowed down to smaller number of small scale entrepreneurs and MFIs staff. Probably, future research could include a wider sample which would enable the studies come up with different data after all and bring out other informed conclusions and so forth.
3. A study to be done elsewhere on the effect of information technology on MFIs fun

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APPENDIX 1
LETTER OF TRANSMITTAL

PAMELA MUTENYO LUMBASI

P.O. BOX -

BUNGOMA.

30TH MAY 2014.

Dear Respondent,

Ref: Research project

My name is Pamela Mutenyo Lumbasi and I am a Master of Arts (in project planning and management) student at the University of Nairobi, Bungoma Campus. I am currently working on my proposal on influence of micro-finance institutions on the economic development of small scale entrepreneurial-a case of Bungoma County, South Sub- County under the supervision of Mr. Anthony Murunga. Your answers shall be of much assistance to me in compiling data for my research proposal. Please answer the questionnaires as best as you can. The results of this study will be held in confidence and will be combined into a general research proposal. I commit to share the results of the study if so requested.

Best regards,

Pamela Mutenyo Lumbasi

Reg.L50/82194/2012

APPENDIX 2

Questionnaire for MFI clients

QUESTIONNAIR ON THE INFLUENCE OF MICROFINANCE INSTITUTIONS ON THE ECONOMIC DEVELOPMENT OF SMALL SCALE ENTREPRENEURS IN BUNGOMA COUNTY, SOUTH SUB COUNTY

Instructions

Please tick (✓) in the box or write your answer in the spaces below the questions. Section A of the questionnaire is open ended and requires personal information. It contains seven items; please make your correct choice. Section B contains a mixture of both open and closed questions. It requires general information on small scale entrepreneurship. Please answer all questions accordingly.

SECTION A (Personal information)

1. Gender of the respondent

Male Female

2. Marital Status

Married Single Divorced

3. Age brackets

18 – 25 years 36- 41year

26-33years 42years and above

4. Education level

Primary Secondary Certificate

Diploma Degree Others

If others, Specify.....

5. For how long have you dealt with SMEP Bank?

1-12Months 1-3 year 3-5 years

5-10 years

over 10 y

SECTION B

Part 1 Entrepreneurship employment

6. What kind of business activity do you engage in?.....
.....

7. How many times have you taken loans from SMEP.....

8. What did you use the loan for?

Business expansion Starting new business others

If others, please explain.....
.....

9. How many employees did your business have before taking loans with MFIs?

1-3 4-6 7-9 Above 10

11. How many people have you employed since you joined MFI?

1-3 4-6 7-9 Above 10

Part 2 Poverty level

(a) Household level

12. Are you the bread winner in your family?

Yes No

13. How many people do you have in your household?

Adults	<input type="text"/>
Children	<input type="text"/>

14. How many are dependence?.....

15. What is the status of your accommodation?

Rented Owned

Others specify.....

.....
16. What type of house is it?

Permanent

Semi permanent

(b) Utilities

17. What kind of fuel do you use for lighting?

Parafin

Electricity

18. What kind of fuel do you use for cooking?

Paraffin

Electricity

Firewood

Charcoal

Others, Specify.....
.....

19. What is your main source of water?

Tap

Borehole

Part 3 Income level

20. What SMEP Bank products have you ever utilized

Business Loans

Purchase of asset

School fees loan

21. If loan product, what was the purpose of the loan

Debt payment

Purchase of Property

School fee

Housing

Business Expansion

Others

If others, please Specify.....
.....

22. If business, which activity did you engage in?

Specify.....
.....

23. What assets did you have before SMEP Bank loan.....
.....

Value.....
.....

24. About how much working capital did you have before joining MFIs?

Less than Ksh.50, 000 Ksh 500,000-1,000,000

Ksh50, 000-500,000 Above Ksh 1,000,000

25. In total about how much money have you borrowed from SMEP Bank?

Less than Ksh.50, 000 Ksh 500,000-1,000,000

Ksh50, 000-500,000 Above Ksh 1,000,000

26. What achievement have you made since you started dealing with SMEP BANK?

Business Expansion Housing

Acquired Land Acquired Properties

Others, Specify.....
.....

27. What is the Current working Capital of your businesses?

Less than Ksh.50, 000 Ksh 500,000-1,000,000

Ksh50, 000-500,000 Above Ksh 1,000,000

28. In your own opinion, has your business capital grown after taking loans from MFIs?

YES NO Not certain

Part 4 Living standards

(a) Education level

29. How many children do you have.....

Boys Girls

30. How many attends school?.....

31. How many are of age but do not attend school.....

32. Do you pay school fees using loan from MFI?

Yes No

(b) Health and medical

33. Where do you go for treatment when a member of your family fall sick.....

34. Do you afford to pay the medical expenses? Yes No

35: Do you pay the medical bills using Insurance card/NHIF?

Yes No

(c) Consumption Pattern

36. What are the basic food that form your household diet.....

37. Is the diet same as the one you used to have a year ago? Yes No

If No, then how has it changed.....

38. Please fill the table below by ticking either agree or disagree

Statement	Agree	Disagree	Not certain
My diet has improved and I am able to afford a daily meal			
I secured an insurance/NHIF cover through MFI			
I have acquired several assets during my experience with MFI			
My children are not attending school because of fee			
I get school fees loan from MFI to pay for my children			
I meet my daily cost cost from my business			
In case of illness I attend my local hospital for treatment using the Insurance card			

Thank you for your participation

APPENDIX 3

Questionnaire for Loans Officers

QUESTIONNAIR ON THE INFLUENCE OF MICROFINANCE INSTITUTIONS ON THE ECONOMIC DEVELOPMENT OF SMALL SCALE ENTREPRENEURS IN BUNGOMA COUNTY, SOUTH SUB COUNTY

Instructions

Please tick (✓) in the box or write your answer in the spaces below the questions. Section A of the questionnaire is open ended and requires personal information. It contains seven items; please make your correct choice. Section B contains a mixture of both open and closed questions. It requires general information on small scale entrepreneurship. Please answer all questions accordingly.

1. How many active clients do you have that are currently servicing loans?

10-100 101-200 201-300 More than 300

2. In which cycle are the majority of the clients?

1st cycle 2nd Cycle 3rd Cycle 4th Cycle More than 4th

3. How is the general performance of the loan?

Most of the clients are paying their loans well

Most of the clients are paying their loans fairly well

Most of the clients are struggling with their loans

Most of the loans are none performing

4. Approximately what percentages of your clients are not paying loans?

0% 10% 20% 30%

40% 50% More than 50%

5. What action do you take against those clients who are not paying loans

Repossess their items

Give them more time to pay the loans

Conduct training on them

Others

If others please specify.....

.....

.....

6. What is the economic contribution of MFI to the development of small scale entrepreneurs in Bungoma County? Please RANK

Business expansion

Ability to pay taxes

Increase in income

Improvement in infrastructure

Meeting customers' demands on time

Meeting financial obligation in time

TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	373
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	225	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: *N* is Population size

S is sample size

Krejcie, Robert V, Morgan, Daryfe W, *Determining Sample size for Research activities* Educational and Psychological Measurement, 1970.

