ASSESSMENT OF THE RELATIONSHIP BETWEEN BIASHARA PLUS LOAN OF CO-OPERATIVE BANK OF KENYA AND PERFORMANCE OF FUNDED MICRO-ENTERPRISES

By
Alex Mumo Malla

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DECLARATION

This project is my original work and has not been submitted to any other college or university for academic credit. All information from other sources has been duly acknowledged.

Date 24/10/05

Alex Mumo Malla

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This project has been submitted for examination with my approval as the university supervisor.

Date 25/10/05

Jackson Maalu
Supervisor

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DEDICATION

Dedicated to

My parents:

James Thomas Malla

Grace Mapenzi Malla

My wife:

Janet Kajuju

My children:

Esther, Jimmy, Mwende and Nzuki

ABSTRACT

This study sought to investigate the relationship of funding activities on MSEs in a bid to determine the relationship of MFIs' lending to MSEs and entrepreneurs. It entailed finding out whether MSEs on Biashara Plus Loan program actually experience enterprise growth in terms of, among other variables, increase in sales, profits, fixed assets, employment creation and whether their financial requirements surpass those given in the programs and therefore seek finance from formal commercial banks which provide bigger loans than MFIs.

Completely randomised design sampling technique was adopted in selecting the sample. Semi structured questionnaires were developed to help in the data capture. Face to face interviews were also conducted to gauge the overall feeling of the entrepreneurs towards Biashara plus loan initiative. Data analysis was done using SPSS (Statistical Programme for Social Scientists) to generate descriptive statistics much needed in the presentation of the results of the study.

The study revealed that MSEs on Biashara Plus Loan program actually experience enterprise growth in terms of, among other variables, sales, profits, fixed assets and employment creation. Some MSEs grew to levels where financial requirements surpass those given in the programs and therefore interest for financing from formal commercial banks, which provide bigger loans than MFIs. The study findings support the strategy of promoting micro finance as a way of poverty reduction, job creation and development of

diverse sectors. The Government of Kenya and other stakeholders should thus promote micro financing as a form of poverty and unemployment reduction agent by increasing this lending opening to people who cannot access credit from mainstream banks.

Further research has been recommended to gauge the relationship of gender and business performance. In the recent past, it has been observed that many women are entering into small business sector. Gender balance has been pronounced in this section of investment and thus necessitates a study to establish whether or not it is true that businesses run by women are more successful than those run by men of late. This will enable women to be advanced more loans by lenders as they are the most disadvantaged in society in terms of investments.

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ACRONYMS

1.	DFID	Department For International Development
2.	FIT	Foundation for International Training
3.	GDP	Gross Domestic Product
4.	MCU	Micro Credit Unit
5.	MFIs	Micro Finance Institutions
6.	MSC	Micro credit Summit Campaign
7.	MSEs	Micro and Small Enterprises
8.	NARC	National Rainbow Coalition
9.	NGO	Non Governmental Organizations
10.	ROSCA	Rotationary Savings and Credit Associations
11.	SACCOs	Savings and Credit Co-operative Societies
12.	SMEs	Small and Micro Enterprises
13.	SPSS	Statistical Programe for Social Scientists
14.	UN	United Nations
15.	USAID	United States Agency for International Development

CHAPTER ONE: INTRODUCTION

1.1 Background

The Kenyan economy has been on a persistent downward trend with rising poverty levels and a decline in per capita income - USD 311 in 2000, 309 in 2001 to 305 in 2002 (Central Bank of Kenya, 2003).

According to statistics from the Central Bank of Kenya, the poverty levels in Kenya have shot from 52% in 1997 to 56% in 2003 (Financial Standard, 2003) thus presenting a strong case for Micro Finance intervention and improvement. This is to say; they live below the United Nations Stipulated poverty line of less than one dollar a day. Actually less than a dollar a day is an understatement when it comes to the Kenyan situation. Majority of Kenyans live on one meal a day if they can find it. That is a better measurement scale as at August 2004 when the government and international community are calling for food aid to help starving Kenyans that is expected to amount to over Ksh. 7 billion (87.5 million dollars).

According to the Ministry of Planning Economic Survey 2004 Report, the informal sector created about 459 thousand new jobs in 2003 compared to 462 thousand in 2002. This decline in job creation though small is worth noting. The NARC government was elected on a pledge among other things that it would create 500 thousand jobs per year. The target for job creation was the informal sector. But alas, behold the reduction in job creation from the statistics.

According to Inter-American Development Bank President Enrique Iglesias, "Micro enterprises and small and medium-size businesses are the best antidote to poverty," (IDB, 2003).

According to the Kenya Economic Survey (2004), poverty is defined as income of Ksh. 2,648 and Ksh. 1,238 per adult equivalent per month in urban and rural areas respectively. That is to say that poverty in Kenya in UN terms at the exchange rate of August 2004, is income of one U.S dollar a day per adult in urban and half a dollar per adult per day in the rural areas. This is quite a struggle for majority of Kenyans many of whom live in rural areas and support very large families with the same half a dollar per day.

For a long time in Kenya, promotion of the micro and small enterprise (MSE) sector has been duly recognized as a viable and dynamic strategy for attainment of national goals such as job creation, poverty alleviation and development between diverse sectors. These form the cornerstones of a strong national industrial base and domestic production structure that are central to the Kenya Government's vision of achieving newly industrialized country status by the year 2020 (Mullei and Bokea, 1999).

Roughly eighty percent of the Kenya's population lacks access to credit and savings facilities beyond that provided by family and friends. While informal arrangements such as informal rotating credit associations provide some measure of short-term assistance that are inadequate for longer scale programs; on the other hand, long-term indebtedness to local money lenders can entrench rather than relieve poverty. The role of micro finance institutions in providing credit to the informal sector cannot therefore be understated.

Funding of micro enterprises has been of great concern to various agencies in this country. These agencies include the Kenya Government, Non-Governmental Organizations, Donors, Multilateral organizations to mention but a few. To underlie the importance to this statement, the Government of Kenya has documented policy documents in that regard.

Most of the MSEs rely on donor funds, as more often than not they are not financially viable to access commercial funds (Ledgerwood, 1998). MFIs have thrived basically as a result of the formal financial sector shunning informal businesses as they consider them risky ventures.

1.2 Overview of Co-operative Bank of Kenya's role in Micro-financing

The Co-operative Bank of Kenya limited has recently become a major player in the micro-finance industry. Established in 1968 with a prime objective of being a specialist bank for the co-operative movement in the country, the Co-operative Bank of Kenya has responded well to the needs of the co-operative movement that was a strong force at independence. In 1994, the bank realized that it was both crucial and timely to diversify with a view to serving better the changing financial needs of a dynamic economy. The bank converted to become a fully-fledged commercial bank offering a broad range of financial services. This process involved both solidifying and diversifying the customer base to meet the needs of the existing co-operatives customer base, and also innovating new financing products targeted at other sectors of the economy (Marketing Intelligence Magazine, 2003). Over the years, Co-operative Bank has grown to become one of the leading commercial banks in Kenya offering a full range of products through its interconnected and centralized branches spread throughout the country.

The bank's micro finance segment provides credit and other banking services to small business operators or entrepreneurs, a segment that has for long been regarded as unbankable. This initiative has opened doors to those with humble incomes who can now access credit through this channel (Marketing Intelligence Magazine, 2003).

The corporate mission of the Co-operative Bank reads as follows: "The corporate mission of the Bank, as the main Bank to the co-operative movement, is to mobilise financial resources from the co-operative movement, the general public and other sources with a view to providing efficient financial services, technical know-how and a range of other Banking services of high quality to the co-operative sector as well as to other sectors of the Kenyan economy through competent and highly motivated personnel to the satisfaction of various stake holders". Among the key objectives of the bank is to become the leading bank in provision of appropriate financial services to the Small and Micro enterprises on a profitable and sustainable manner. The Cooperative Bank of Kenya, in line with its objectives launched its microfinance program in 1998 and set up a Micro Credit Unit (MCU) to spearhead the Banks penetration into this new market. The Micro-

Credit Unit and the bank in general worked in partnership with the British Department for international development (DFID) and USAID who both provided financial support for implementation of the programme.

As the universe of micro enterprises and poor households in Kenya is quite large, their potential demand for financial services is also large. The Biashara Plus Loan programme, the bank's credit products is geared towards making loans to responsible businessmen and women who own and manage an established, on-going enterprise which can use the funds to expand the existing business line(s) profitably, who are not reliant solely on the Bank's capital for expansion — that is, over time, the businesses will gradually increase their own capital base by retaining profits and those who will pay loan installments on time according to the repayment schedule agreed on with the Bank.

According to Co-operative Bank of Kenya (2002), the Biashara Plus is a credit product specially designed to cater to micro-enterprises. The loan under this program ranges from Kenya Shillings 15,000 to 600,000. The terms of the loan program include: the Bank will only provide installment loans – monthly payments including principal and interest, the installments will be due once a month, on the agreed upon date, the agreed upon date may be 5 days +/- from the day of the month that the loan was disbursed, The agreed upon date shall be reflected in the Letter of Offer and the standing order.

The program also offers working capital loans and investment capital loans. The working capital loans can only be used for purchasing stock/raw materials, or paying various operating expenses associated with the business. Working capital loans carry an initial loan term of up to six months. The investment capital loans on the other hand can only be used for purchasing fixed assets that will be used in the business over a long period of time. They also carry a loan period of up to six months.

The Biashara Loan program's interest regime specifies that loans of KShs 15,000 to KShs 50,000 are charged 3.0% per month, on a flat rate. That is, the borrower will pay a monthly interest equal to 3.0% of the original loan amount until the loan is paid off. Loans of KShs 50,001 to Kshs 300,000 are charged 2.5% per month flat, and loans above KShs 30,000 will be charged 2% flat per Month.

As an incentive to repay on schedule, Cooperative Bank of Kenya offers rebates to borrowers. The borrower is entitled to a 20% rebate of interest paid if all payments are made as scheduled. This effectively drops the interest rate to 2.4% on loans up to 50,000 and to 2.0% on loans up to 300,000. The rebate is payable at the end of the loan period. There are no grace periods offered. The borrowers are also responsible for all the fees that are related to the credit and they must also provide a credit insurance policy for death and disability. Collaterals are not mandatory but maybe required as a borrower's sign of good faith.

1.3 Statement of the Problem

Some researchers (Mutua and Oketch, 1991; Coppers & Lybrand, 1991) on this sector have studied the impact of credit on various economic variables like employment, increase in household income and enterprises' output and influence of credit rationing by MFIs on the operations of SMEs (Rukwaro, 2001).

Despite the micro-finance programs and institutions being increasingly important in development strategies, knowledge about their impacts is partial and contested. From studies done in Honduras (1988) and Dominican Republic (1986), tremendous economic impact of credit programs on MSEs has been recorded in terms of growth in sales, income; number of employees- is it any different locally?

Few studies have been undertaken to assess the relationship of these funding activities on MSEs. In view of the concern stated, it is imperative that a study be undertaken to determine the relationship of MFIs' lending to MSEs. The study entails finding out whether MSEs on Biashara Plus Loan program actually experience enterprise growth in terms of, among other variables, increase in sales, profits, fixed assets, employment creation and whether their financial requirements surpass those given in the programs and therefore seek finance from formal commercial banks which provide bigger loans than MFIs. The study also seeks to find out whether there is an improvement in the relationship between the entrepreneurs with other business stakeholders such as suppliers, creditors, debtors, and Banks resulting from the loans.

1.4 Objectives of Study

The objective of this study was to determine the relationship between Biashara Plus Loan program of Co-operative Bank of Kenya and performance of Micro enterprises and entrepreneurs in Kenya.

1.5 Hypothesis

There exists a significant relationship between Biashara Plus loan program of Co-operative Bank of Kenya and the performance of Micro enterprises and entrepreneurs in Kenya.

1.6 Importance of the Study

This study seeks to answer to some extent the doubts whether there is actually an impact by micro financing programs on poverty reduction and unemployment in the country such as witnessed elsewhere in the world. This study is important to Cooperative Bank of Kenya program managers as an impact assessment of the Biashara Plus Loan program from an external source. Cooperative bank can use the findings of this project to improve or change the program. The study is also important for the promotion of micro financing as a form of poverty and unemployment reduction agent. The findings will be a boost to the efforts of increasing this lending opening for people who cannot access credit from the mainstream banks.

1.7 Definition of terms

Micro finance (MF) – the supply of loans, savings, and other basic financial services to the small and micro enterprises.

Micro Finance Institution (MFI) – an organization that provides financial services to the micro enterprises and informal sector

The Poor – members of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs that live on less than one U.S. dollar per day per adult.

Micro and Small Enterprise (MSE) – Small businesses that have been set up as a result of Micro Finance. They can be formal or informal with one to five employees, engaged in manufacturing, trade or service activities.

1.8 Limitations of the study

Due to high illiteracy levels, questionnaire administration through pick and drop proved difficult and in some cases face to face interviews were necessary to get the information.

CHAPTER TWO: LITERATURE REVIEW

2.1 Role of Small and Micro Enterprises

With reduced opportunities for employment in larger companies and government, attention has turned to self-employment and small firms as important sources of new jobs. In the United States, the smallest firms - those with between one and four employees - created 450,000 jobs in 1995, or 35% of the jobs created in that year. Hardly surprisingly, governments have been keen to help such firms prosper, and a number of schemes have emerged to this end. Governments have a variety of roles to play in supporting entrepreneurship (Arzeni, 1998).

In a World Bank study of lending for small micro enterprise projects, three objectives were cited; creating employment and income opportunities through the creation and expansion of micro enterprises, to increase the activity and incomes of vulnerable groups especially women and the poor and to reduce rural families dependence on drought - prove crops through diversification of their income generating activities were more frequently cited (Webster, Riopelle and Child zero, 1996).

In Kenya, as in many parts of Africa, a burgeoning informal sector has been the response to stagnating employment growth in the formal economy and the downsizing of parastatals and of private companies as they reduce costs in a liberalizing environment. In Kenya, these causal factors are combined with one of the fastest population growth rates in the world, requiring the economy to absorb annually about 500,000 new labor market entrants. It is estimated that today, Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-farm employment seekers, has an employment growth rate of 12-14 percent, contributes 30 percent of total employment and 3 percent of GDP (Riley and Steel, 1999).

According to Riley and Steel (1999), Kenya, unlike most developing countries, has in official development policies recognized informal enterprise as more than a residual employer for the survival of poor households. In its Sessional Paper Number 2 of 1992, Small Enterprise and Jua Kali Development in Kenya, the government identifies the small-scale and Jua Kali enterprise sector for support to assist it to "graduate into the formal sector" and to become a major player in the creation of new jobs and economic growth. The other major benefits enumerated in the paper include: significant contribution to the economy in terms of goods and services; creation of jobs at relatively low capital cost; especially in the fast growing sector; development of skilled and semi skilled - workers who are the base for future industrial expansion; strengthening forward and backward linkages among socially; economically and geographical diverse sectors of the economy; contributing to increased participation of indigenous Kenyans in the economic activity of the country; offering excellent opportunities for entrepreneurial and managerial talent to mature, the critical shortage of which is often a great handicap to economic development; supporting industrialization policies; increasing savings and investment by local Kenyans and encouraging use of local resources, thus leading to effective use of capital; quick adaptation to market changes. Despite the government of Kenya's efforts aided by donor agencies and NGOs, there remain four major constraints that restrain the expansion of the small-scale enterprise sector. These are access to credit, access to land and infrastructure, access to training and technical support and access to technology and information. However despite the recognition at the policy level and knowledge that MSEs play a significant role in the economy, little has been done to remove the constraints that they face.

Recent statistics on the global outreach of microfinance institutions (MFIs) report that as of December 31, 2000, over 30 million families had access to microfinance services, of which more than 19 million qualified as poorest. That is both an encouraging and daunting statistic. Encouraging because the number has increased substantially since 1997 and daunting because there are still 81 million poorest families to be reached before a Micro credit Summit Campaign (MSC) Campaign target of 100 million is achieved (Gibbons & Meehan, 2002).

The special significance of small-scale enterprises is their contribution to poverty reduction in developing countries. The more they provide poor sections of the population with employment, income opportunities and products and services, the greater their contribution to poverty reduction. Promoting small enterprises lays the foundation for a domestic economic structure in which small enterprises can gradually act as suppliers to larger-scale enterprises (GTZ, 1996).

2.2 Types of Financing Available to Enterprises

Kenya has very many MFIs, but their outreach is still limited. A recent survey of micro and small enterprise activities in Kenya (CBS, K-Rep, ICEG, 1999) established the presence of 150 MFIs that target economically active poor. But these institutions have reached only 10 per cent of the economically active poor. About 89.6 per cent of the micro and small enterprises enumerated in the 1999 survey have never accessed financial services from any source. Up to 95.8 per cent of the initial capital investments in micro and small enterprises are finance from proprietor's own savings and gifts from friends and relatives. Often assets are sold to raise the start up capital. The main limitation from this source of financing is the amount, which is usually small and not sufficient for business expansion. Because of the mean capital invested in micro and small enterprise is relatively small, profits generated are also low. A major part of the profits is appropriated as salary to the proprietors, thus leaving a very small amount to be ploughed back into the Business. In the absence of external funding for business growth and expansion, lack of adequate working capital is ranked as the second most pressing constraint by 18.4 per cent of the micro and small enterprise enumerated in the 1999 survey

Furthermore as much as 87.8 percent of business expansion is financed from own capital and gifts from friends. There are several other sources of finance for enterprise growth and development. The informal sources of finances include the Rotationary Savings and credit Associations (ROSCAs), Women Groups, and Moneylenders. The ROSCAs receive loans from NGOs and they in turn lend to their members. The repayments are made to the group and the group then repays the NGO. The women group on the other hand has its members contribute certain fixed contributions per month and the pooled amount given to one or members in turn as loans.

All the above sources of loan funds have the limitation of the loans size available and subject to the entrepreneur meeting the terms and conditions before they can qualify for the funding.

The formal sources of funding include commercial banks, Savings and credit Co-operative Societies, (SACCO's) non-bank financial institutions such as building societies. These provide clients with various loan facilities subject to meeting specified term and conditions, which many MSE's are not able to meet. The commercial Banks credit facilities have tended to be fairly stringent and therefore many micro and small enterprises have not been able to access funding. The Banks have also looked at the micro enterprises as a high risk and unviable sector for lending to. The SACCO's serve mainly their members with a common bond such as employees of the same organizations or farming community in the same geographical location. These again have had limited access to enterprises as many entrepreneurs do not belong to the common bond to which the SACCO serves. Micro financing on the other hand is the provision of financial services specifically to MSE's therefore making the products accessible to them. This is becoming a major source of financing of enterprise in Kenya. MFIs approaches to providing credit in Kenya include group based minimalist credit schemes, lending to individuals, lending to community based enterprise and integrated credit models.

2.3 Impact of Micro Financing

Impact assessment focuses on the outcomes of interventions rather than inputs and outputs. The primary goal is of impact assessment is to measure outcomes as accurately as possible the outcomes arising from the interventions while understanding the process that brings about changes. In other words impact assessment answers the question what changes have occurred that can be attributed to the intervention. A number of studies have been carried out to ascertain the impact of credit programs on MSEs. Some of the variables that have been investigated are indicators of change on the enterprise increased or improved production, fixed assets, working capital, inventory, credit availability and its use, level of purchases and sales, net profit, organization of the work place - adequacy of arrangement of the work place, locale improvement, additions to the work place that enhance productive capacity (Otero, 1989).

According to Wright (1998), in the last ten years, Microfinance, the provision of savings and credit services to the poor, has grown to become a much-favored intervention amongst international development agencies. There is scarcely a multi-lateral, bilateral or private development donor organization not involved in the promotion (in one form or other) of a Microfinance programme.

When examining the income impacts of Microfinance programmes, it is important to recognise that there is a significant difference between “increasing income” and “reducing poverty”. Despite the prevalent emphasis on raising incomes as the central objective of development programmes, the two are not synonymous. Clearly, the use to which income is put is as important in determining poverty and welfare as the level of income itself - increased income can be (and often is) gambled away. It is also important to recognise that poverty is neither linear nor static, and that today's not so poor may well be tomorrow's poorest - and vice versa. It is for this reason that the poor place so much emphasis on diversifying their sources of income - it reduces their exposure to catastrophic income loss (Graham, 1998).

According to the Foundation for International Training (FIT) (2002), one of the most enduring programming approaches to poverty reduction is through small and micro enterprise (SME) development. Throughout the 1990s the international community, inspired largely by the success of initiatives such as the Grameen Bank and ACCION, promoted micro lending as a critical tool to enable people living in poverty to create sustainable livelihood opportunities (FIT, 2002).

Effective SME development and credit programs create the conditions that expand opportunities for individuals, families and communities. The core principle of SME programming is that by supporting entrepreneurship, development agents can reduce poverty by expanding employment and income generation opportunities (FIT, 2002).

Microfinance also helps safeguard poor households against the extreme vulnerability that characterizes their everyday existence. Loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods. The availability of financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps, or events, such as a flood or a death in the family that can push a poor family into destitution (CGAP, 2003).

According to Ledgerwood (1999) the goal of MFIs as development organs is to service the financial needs of unserved or underserved markets as a means of meeting development objectives. These development objectives are to empower women and other disadvantaged population groups, to create employment, to help existing businesses grow or diversify their activities and to encourage the development of new businesses.

Packer and Torres (1994) noted that MSEs require finance to enable them make payments for services, license fees, working capital requirements, and as business capital both initial capital to start up and additional capital to be injected into the business. Mutua and Oketch (1995) observe that most of the beneficiaries of loans from MFIs used their first loans to finance working capital (55.3%), while 10.6% used their first loans to acquire fixed assets. The authors further noted that an increasing amount of second, third and subsequent loans are seemingly used to buy fixed assets such as land or to build houses (for personal use) or business premises.

CHAPTER THREE: METHODOLOGY

3.0 Research Methodology

This chapter discusses the way in which the study was undertaken and how data was collected. It focuses on the following sections: Research design, sampling method, data collection and data analysis.

3.1 Research Design

This study used interview survey method of data collection, as it is the most suitable technique for gathering information for large samples bearing in mind the homogeneity of the sample.

3.2 Population

The population of the study was the 500 MSEs and entrepreneurs who had benefited from the Biashara Plus Loan from Cooperative Bank of Kenya in Nairobi by December 2003.

3.3 Sampling frame

A list of all the Biashara Plus loanees in Co-operative banks Kariobangi and Kawangware agencies was drawn. The locations were purposely selected since they had a large number of borrowers engaged in diverse business.

A random sample of 50 entrepreneurs from the list was studied using systematic sampling technique. From the list of Biashara Plus loan beneficiaries of the Cooperative Bank, every tenth entrepreneur in the list was selected as a study respondent after a random start.

3.4 Data Collection

The study used both primary and secondary data. The primary data was collected by using a semi-structured questionnaire. The primary data obtained from MSE's and entrepreneurs included the background (name, location and ownership), sources of funds, amount of loan taken, and number of employees. A combination of drop-and-pick method and personal interviews of data collection data was used. The secondary data was obtained from the records of the Biashara Plus Loan program at the Cooperative bank. This included the loan applications, Loan appraisals, Account analysis, financial analysis and other correspondence in the customer file.

3.5 Data Analysis

The data collected comprised of both qualitative and quantitative forms and these were analyzed according to type.

3.5.1 Quantitative Data

Data was analyzed using SPSS computer package. Descriptive measures were used to organize and describe characteristic of the sample. These were mainly frequencies, mode, mean and percentages.

3.5.2 Qualitative Data

Qualitative data in the form of words was transformed into notes by coding data into common themes. Patterns were then consolidated to form concepts. Inferences and conclusions were then drawn from findings which was analyzed using descriptive statistics i.e. mode, mean, frequencies and percentages.

Descriptive statistics enabled the researcher to describe the distribution of the various variables in the study.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.0 Introduction

As discussed in chapter three, primary data was collected using semi-structured questionnaire (from MSE's and entrepreneurs) using both drop-and-pick method and personal interviews method of data collection. The data collected was analyzed using SPSS (Statistical Package for Social Scientists) to generate frequency tables, charts and descriptive statistics. The following discussion illustrates the findings.

4.1. General characteristics of the respondents.

4.1.1 Age of the business.

The research examined the number of years that the businesses had been operating prior to getting the loan. The purpose was to establish whether the Biashara plus Loan consider the age of the business before granting loans. This data was captured from both secondary data sources as well as from interviews. Majority of the businesses surveyed had been operating for over six years, 42% of the sample, as depicted from *Table 1.* 30% were between five and six years old. Cumulatively, 72% were five years and over. Only 4% were between one and two years old.

The Co-operative bank lends to businesses that have operated for at least three years, for they believe that most small businesses fail within the first three years of operation due to various factors. Majority of the firms surveyed here were past that stage, (Table1).

Table 1: Number of years in business

	Frequency	Percent
Under 3 Years	2	4.0
3Yrs - 6Yrs	12	24.0
6Yrs - 9Yrs	15	30.0
Over 9Yrs	21	42.0
Total	50	100.0

4.1.2 Gender of entrepreneurs.

Gender was studied to establish whether there were biases to any particular gender in the programme. Most of the business entrepreneurs were male as seen from Table 2; they constituted 54% of the sample while female entrepreneurs were 46%. The relationship of business survival and gender is however beyond the scope of this study and hence will not be discussed in detail.

The Biashara Plus Loan provided equal opportunities to both male and female to access credit. There was no gender base discrimination. The criteria to access loans were in the banks view assessment of the entrepreneur's ability to repay and use the loan to expand the borrower business.

Table 2: Gender of entrepreneur

	Frequency	Percent
Female	23	46.0
Male	27	54.0
Total	50	100.0

4.1.3 Size of enterprise

The study sought to establish the size of the enterprise through the measure of the number of employees in the businesses prior to and after financing. The objective was to establish whether indeed the businesses experienced growth in terms of expansion and hence recruitment of more employees. Table 3 shows that majority of the businesses were small as 84% of the respondents had less than 10 employees prior to loan financing and 86% after financing, Only 16% had more than 10 employees and of those only 2% had over 30 employees.

In absolute terms nine or 18% of the businesses had no employee other than the owner before financing compared to five or 10% after financing. Eight businesses or 16% of the sample had more than ten employees after financing compared to seven or 14% prior to financing. There was an indication that businesses in the sample employed more staff to support growth in business. This tends to support the notion that indeed micro-financing was an effective strategy toward employment creation.

Table 3: Number of Employees

	Before Financing		After Financing	
	Frequency	Percent	Frequency	Percent
Only Self	9	18.0	5	10.0
Less than 10	33	66.0	34	68.0
10 - 30	7	14.0	8	16.0
30 - 40	1	2.0	3	6.0
TOTAL	50	100.0	50	100.0

4.1.4 Type of business ownership

The study examined the type of ownership of the sample to establish whether any particular form of ownership was preferred and if so the reasons why. It also sought to establish if the ownership structure changed as a result of subsequent loans. It was found that majority of the businesses were sole proprietorships, 68%, with 12% being partnerships and 20% limited liability companies. The big proportion of sole proprietorships suggested the need for independence by entrepreneurs and the relative ease of registration of the businesses. None of the businesses change the type of ownership as a result of the loans (Table 4).

Table 4: Business ownership

	Frequency	Percent
Sole proprietorship	34	68.0
Partnership	6	12.0
Limited company	10	20.0
Total	50	100.0

4.1.5 Assistance in starting the Business

The source of funding for the initial capital was from the owners themselves, family and friends at 48% of the respondents, from Saccos 20% and 18% from MFIs. The Banks and informal money lenders was not common and was only 2% for each.

Table 5. Assistance in starting the Business

	Frequency	Percent
Self, family and friends	24	48
Sacco	10	20
Roscas and women groups	5	10
Money lenders	1	2
MFIs	9	18
Banks	1	2
Total	50	100

4.1.6 Type of products/Services

The Businesses studied were engaged in diverse actives ranging from buying and selling cereals, printing and stationery, hotels, hardware, dealers in new and second hand clothes and shoes, garages and manufacturing concern. The majority of the business 28% were engaged in the motor industry or auto garages, 22% in new and second clothes and 14% in manufacturing (Table 6).

Table 6. Type of product/services

	Frequency	Percent
Cereals	4	8
Printing	2	4
Hotels	4	8
Hardware	2	4
Salon	2	4
New clothes/shoes	11	22
Used clothes/shoes	1	2
Auto Garage	14	28
Welding	3	6
Manufucturing	7	14
Total	50	100

4.2 Business Operation before and after Financing.

90% of the borrower applied the loan funds to their businesses. The other 10% used the loan funds in other purposes. However they also claimed they injected funds from elsewhere into their businesses thereby explaining the business growth.

Table 7. Usage of loan

	Frequency	Percent
Invested in other businesses	2	4
Invested in this business	45	90
Used it in other family responsibilities	3	6
Other uses	0	0
Total	50	100

4.2.2 Number of Biashara Plus Loans obtained

This was studied to show repayment progress, general perception of loanees and number of loans obtained by individual business. Cumulative, 48% of the respondents had obtained more than five loans with 4% having had obtained eight loans, 8% seven loans, 22% six, and 14% five. 14% had obtained two loans, while 18% had obtained three and four loans (Table 8).

Table 8: Number of Biashara plus loans obtained

	Frequency	Percent
Two	7	14.0
Three	10	20.0
Four	9	18.0
Five	7	14.0
Six	11	22.0
Seven	4	8.0
Eight	2	4.0
Total	50	100.0

Repeat loans are attributable to the benefits obtainable and are clear indicators that the programme was useful and well utilized by the entrepreneurs.

4.2.3 Relationship with other stakeholders after financing

The respondents indicated improved relationship with the various other business stakeholders. 80% of the respondents recorded improved relationship with their suppliers, 17% remained the same while only 3% deteriorated. Customer relations improved by 55%, while 44% remained the same and 1% deteriorated. There was a most significant improvement in relations with creditors with 95% improving, 5% remaining the same and none deteriorated. Obviously the relationship with the bank improved significantly at 78% with only 28% remaining the same. Overall the relationship between the businesses and their various stakeholders improved as they were financially better off and were able to meet financial obligations as they fell due (Table 9).

Table 9: Relationship with other stakeholders after financing

	Improved	Same	Deteriorated	Total
Suppliers	80	17	3	100
Customer	55	44	1	100
Creditors	95	5	0	100
Debtors	48	45	7	100
Banks	72	28	0	100

4.2.4 Fixed assets

Thirty-nine respondents or 78% of the sample indicated that they had increased the level of their fixed assets meaning that they had used part of the loan proceeds or profits to buy fixed assets. The assets bought ranged from business assets such as machinery, equipments as well and personal household asset such furniture, electrical appliances and so on. The remaining 11 respondent indicate that despite generation of business profits they did not necessarily increase fixed assets opting to plough back the funds into the business or out right consumption.

Table 10: Fixed assets

	Frequency	Percent
Improved	39	78
Remained the same	11	22
Total	50	100

4.2.5 Sales level before and after Biashara Plus Loan

Pre and post financing sales levels were studied to establish whether business sales volume increased as a result of the Biashara loans granted. Before financing, 30% of the respondents were seen to be making sales up to Kshs 200,000.00 per month. After financing, however, no business fell in this category. Eleven firms or 22% of the sample had sales between Kshs.200,000/= and Kshs. 400,000/= before financing compared to eighteen firms or 36% of the sample after financing. Firms making sales of over Kshs. 500,000/= after financing were twenty one or 42% or the sample as compared to fifteen or 30% before financing.. The mean sales of the businesses was Kshs 285,100.00, with the majority (modal class) making over Kshs500, 000.00 monthly. After financing, 42% were making sales above Kshs50, 000.00. This indicates a growth of well over 140% in profitability (Table 11).

Table 11: Sales levels before Biashara Plus Loan financing.

KSHS '000	Before Financing		After Financing	
	Frequency	Percent	Frequency	Percent
0 - 100	11	22	-	-
100 - 200	9	18	-	-
200 - 300	8	16	12	24
300 - 400	3	6	6	12
400 - 500	4	8	11	22
Over 500	15	30	21	42
Total	50	100	50	100

4.2.6 Working capital

Nearly all businesses, 98%, had invested most of its loan money to improve on their working capital, only 2% had remained with the same working capital (Table 12). Naturally the fact that the sample chosen from the banks existing customers who were still active in the loan programme meant that the sample was biased towards the more successfully MSEs. The tendency of successful MSEs was to invest the profit to grow their businesses rather than to consumption

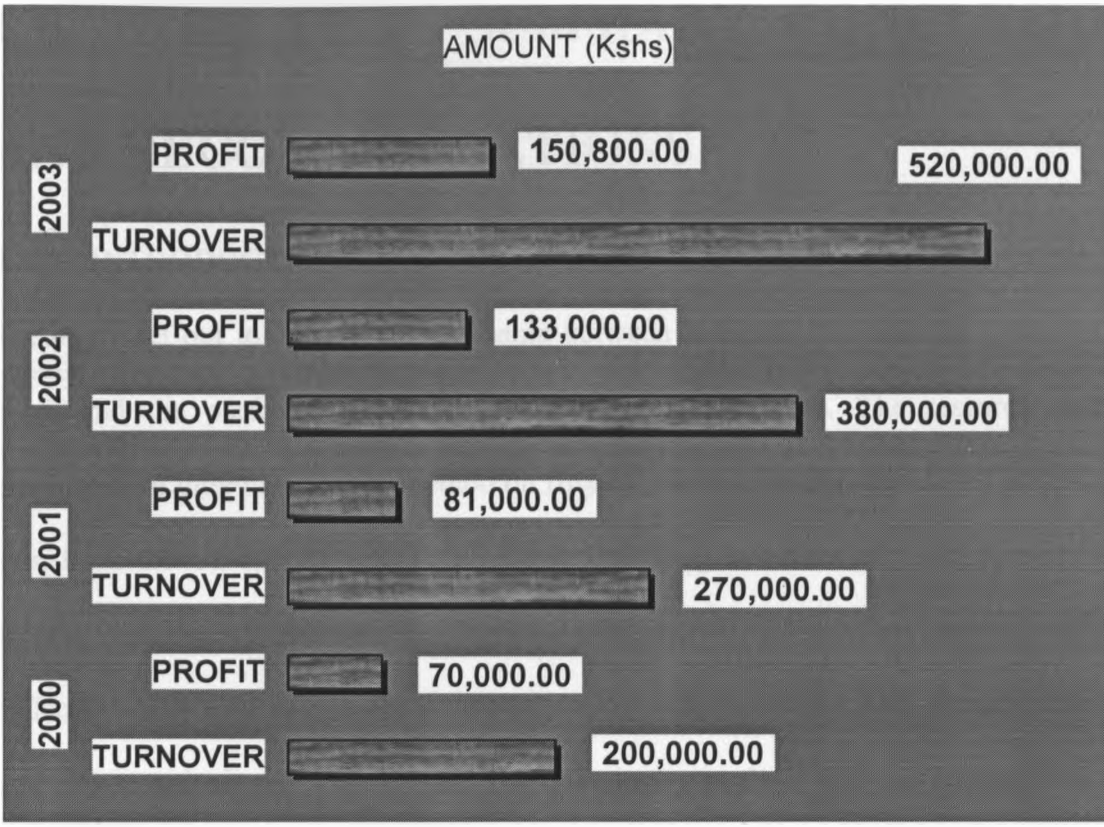
Table 12: Working capital after Biashara Plus Loan.

	Frequency	Percent
Improved	49	98
Remained the same	1	2
Total	50	100

4.2.7 Profitability before and after financing

The profitability levels before and after the loans were studied to determine whether business profitability increased. The average monthly profitability for the firms studied increased progressively each after the Biashara Plus Loan, from Kshs 70,000.00 in the beginning of the year 2000 to Kshs 150,800.00 by the end of 2003. This represents a growth of 260% over the four years. The loans clearly had a positive impact on the profitability of the MSEs studied business growth. The turnover levels were also compared with the profitability levels to see whether the profits increased proportionately to the levels in sales. The profits over the period under study ranged between 28% - 35% of the gross turn over. The performance of the sample MSEs studied is above the performance of the typically MSEs since the Bank has a bias in identifying the high potential one to qualify for the facilities. The bias in selection is that the MSEs must have operated profitably for at least three years and was able to repay a six months installment loan. So for the MSEs that qualify for the bank loan Kshs. 600,000 over a maximum period of 12 months must make a profit of over Kshs. 50,000.00 to be able to repay the loan together with interest and still have sufficient funds for operations.

Fig 1: Growth in turnover and profit per month



CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The study set out to asses the relationship between Biashara Plus loan of Co-operative Bank and the performance of the funded micro-enterprises. The research method employed the interview survey method on fifty MSEs that had received the Biashara Plus loan from the Co-operative Bank of Kenya operating in Kariobangi and Kawangware areas of Nairobi. A combination of drop-and-pick method and personal interviews of data collection was used while the secondary data was provided. Both quantitative and qualitative analysis were carried out. The quantitative analysis that was applied from the secondary data and the questionnaire-based survey compared changes in sales, profits, employment and other relevant variables.

5.1 SUMMARY OF FINDINGS

The respondents were MSEs in Kariobangi and Kawangware that had been in operation for more than three years and had received the Biashara Plus loans from the Co-operative Bank of Kenya. The research exposed that, majority of the entrepreneurs were male (54%) and females (46%), an indication to gender imbalance in opportunities in business. This attribute did not constitute the objective of the study and thus will not be discussed further. The MSEs were engage in varied business ranging from cereals, printing, hotels, hardware, clothes and shoe dealers, and auto garages to manufacturing among others

The majority of the MSEs studied were sole proprietorships (68%), partnership 6% and limited liability companies 10%. The reason given for this trend was that the sole proprietorships were relatively easy to register and that most owners preferred independence in business decision making which the sole proprietorship allows.

Most entrepreneurs had not received funding from the traditional suppliers of credit to the MSEs such as donors, government, NGOs, MFIs and other informal programmes such as Roscas and women groups. This again support the common knowledge that despite heavy funding and a lot of effort towards this sector, little has been achieved given that over 80% of the Kenyan population has no access to credit.

The initial capital for most of the MSEs studied was from diverse source. From Owner's resources, family and friends at 48%, while Saccos at 20%, Roscas and women groups 12%, MFIs 18%. The informal moneylenders and Banks were not common sources of financing at 2%. The funds available from these sources are often inadequate and have other undesirable strings attached to them. Most business expressed that access to funding for business start up and/or business expansion was a major constraint to enterprise development

The Co-operative Bank of Kenya limited has demonstrated that commercial banks can indeed provide financial services to the low-income people and MSEs. Further as the Bank limits its loans up to Kshs 600,000.00 to the MSEs without tangible collateral, it may explore the possibility of increasing this limit to the borrowers who have consistently demonstrated discipline in loan repayment. Currently, borrowers are forced to purchase property, which they do not necessarily require, to serve as security for the commercial loans. This doesn't make sense as the MSEs would as well use that money to expand the business.

From the research, it is worthwhile noting that servicing of the loans is very good. Over 90% of the MSEs had obtained repeat loans after successful repayment of the previous loans. This demonstrates that Biashara Plus borrowers' view the loan as having positive impact on their businesses otherwise they would not take repeat loans. Further contrary to what skeptics believe, MSEs are capable of taking up commercial loans and repay them on due dates.

5.2 CONCLUSIONS

On the basis of the outlined findings, the following conclusions were drawn.

There was a significant relationship between the Biashara Plus loan of the Co-operative Bank of Kenya and the performance of the funded micro-enterprises. The funded MSEs under the Biashara loan programme of the Bank experienced improvement in specific performance indicators. There was a significant increase in sales by 140% and profits by 210% while 78% of the respondents increased their fixed assets, 98% their working capital and most increased the number of employees.

The MSEs increased their level of operations and were able to purchase more stocks and generate larger sales volumes. Others were able to expand production capacity as a result of purchase of Business assets that generated more goods for sell. The increased sales generated high revenues, which in turn translated to higher profit levels for many of the enterprises.

The Co-operative Bank identification, selection and loan appraisal for borrowers under the programme ensured that the more successful MSEs are chosen. This bias therefore means that the performance of the MSEs studied is above the average industry performance. The sample studied may therefore not be representative of the less successful entrepreneurs operating in Kenya.

The majority of the respondents improved their relationships with their suppliers, creditors, debtors, customers and the Bank after the loans. Their financial status improved and they could meet financial obligations as they fell due and were more credible to their business associates.

MSEs studied increased both turnovers and profits of the MSEs. Whilst there was evidence that some entrepreneurs increase both business and personal assets there was no solid indications that by the mere fact that there was an increase in incomes this lead to poverty reduction. It can be debated that the increase in income can be gambled, misused and thereby not bring about poverty reduction. Poverty reduction is not necessarily a function of increased profitability or increased income level of the household. However, evidence in terms of employment of people who would otherwise not have had income can be advance for the proponents who support the debate that microfinance supports poverty reduction.

It is clear that the Biashara plus loans were not the only reason behind the improved performance of the business studied. However, the respondent acknowledged that the loans had the greatest impact in bringing about the improved performance.

This study agrees with other studies carried out in the Honduras (1998) and Dominican Republic (1996) that microfinance can have positive impact on economic variables of funded MSEs. The promotion of microfinance as a strategy towards achievement of development objectives such as poverty reduction and job creation is worth pursuing. The study also lends it support for the Government, donor, NGOs, MFIs initiative in promoting MSEs as a means for poverty reduction and employment creation.

In conclusion, we accept the null hypotheses and conclude that, there exists a significant relationship between Biashara Plus loan program of Co-operative Bank of Kenya and the performance of Micro enterprises and entrepreneurs in Kenya.

5.3 RECOMMENDATIONS

The MSEs play a significant role in the economy but face numerous challenges. The government, donors, NGOs, MFIs and many other organizations have invested a lot of resources; financial, time and efforts but little has been achieved by way of access to credit. Perhaps it is time that micro-finance is commercialized on a full profit basis rather than on social responsibility basis.

5.3.1 Commercial banks should be encouraged to explore new ways to serve MSEs on a profitable and sustainable manner. They should start mobilizing funds from the public and lend the same back; this could provide the much-needed solution particularly as donor fatigue in financing programmes that are otherwise not achieving much penetration takes the center stage. The case for the Co-operative Bank Biashara Plus provides an excellent example that it can be done.

5.3.2 The government, donors, NGOs and other stakeholders may need to reexamine their roles and type of assistance that have yielded to little achievement by way of access to credit. Perhaps the creation of a more favourable environment for the MSEs to thrive and removal of other constraints such as providing access to land and infrastructure, access to training and technical support, and access to technology and information.

5.3.3 The Co-operative of Kenya should carry out an external evaluation on a national level to determine the overall performance of it microfinance programme to gauge it profitability, customer acceptability and how it could be improved with a view to scale up operations.

5.4 RECOMMENDATIONS FOR FURTHER STUDY

5.4.1 A study to establish whether or not there is a relationship between gender and business survival and performance should be carried out. The study would be important to determine whether any gender based discrimination existed and affirmative actions (if any) needed to be taken to bring about equal opportunities for men and women in enterprise development. This study will enable the government to develop policies that enhance gender equality. The study could also help in eliminating bias based on gender by the providers of credit.

5.4.2 Further studies should have larger sample to include pipeline sub-sample to establish whether those entrepreneurs who did not take any loan, performed differently from those that did.

5.4.3 Further research should be carried out on other lending institutions that offer credit to micro and small enterprises to determine whether they experienced similar results with those studied in this project.

5.4.4 There is need to carry similar studies out in other geographic locations of the Co-operative Bank to determine whether different locations will affect the enterprises differently.

5.4.5 Further research should be done at the programme level to establish the quality and quantity of services, beneficiary satisfaction, and financial self-sufficiency and programme efficiency.

5.4.5 Further research should be conducted at the institutional level to establish the success of implementing the programme with regard to institutional objectives, structure, financial management and customer satisfaction.

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APPENDIX 1:

QUESTIONNAIRE

This questionnaire is for academic purposes only. All the responses will be kept anonymous.

A: Background of Study

1. Name of organization…………………………………………………

2. What were you doing before starting the business?

- Unemployed ☐
- Employed ☐
- Another business ☐
- Farmer ☐

3. How old is your business?

1. Less than 3 year ☐
2. 3 – 6 years ☐
3. 6 – 9 years ☐
4. Over 9 years ☐

4. Gender of entrepreneur?

1. Male ☐
2. Female ☐

5. How many employees do you have?

1. Only myself ☐
2. Less than 10 ☐
3. 10 – 20 ☐
4. 21 – 30 ☐
5. 31 – 40 ☐
6. 41 – 50 ☐
7. Over 50 ☐

6. Tick the form of ownership

1. Individual ☐
2. Enterprise ☐

7. Location of business?

1. Kawangware ☐
2. Kariobangi ☐
3. Ngara ☐
4. Kamukunji ☐
5. Other (Specify)…………………….. ☐

8. What was your level of profits per before you took Biashara plus Loan?

1. Less than 50000 ☐
2. 50001 – 100000 ☐
3. 100001 – 150000 ☐
4. 150001– 200000 ☐
5. 200001 – 250000 ☐
6. Over 250000 ☐

B. Financial Matters

9. How is your business financed? Tick as many as appropriate

1. Micro Finance Institution (MFI) loan ☐
2. Business income ☐
3. Friends & Relatives ☐
4. Others (specify) ☐

10. For how long did the business operate before you received a loan from the MFI financing the business?

1. Under 6 Months ☐
2. 6-12Months ☐
3. 1-2years ☐
4. 3years & over ☐

11. How many MFIs are financing your business? Please tick whichever is applicable.

1. One ☐
2. More than one ☐

12. How many Biashara loans have you taken so far?............................

13. In a scale of 1- 3 where 1 implies Improved, 2 implies remained the same and 3 imply Worsened, Please indicate here below how your status has changed since you received you first loan.

1. Fixed Assets ☐
2. Working Capital ☐
3. Personal Income ☐
4. Personal Needs ☐
5. Personal Spending ☐
6. Business Expenditure ☐
7. Property ☐
8. No of Friends ☐
9. Trips to the bank ☐
10. Others (specify ☐

14. How many years has the business operated since you received your first loan?

Less than 1 year ☐

1-3 years ☐

3-5years ☐
Over 5 years ☐

15. Please give the following information relating to your business after you took Biashara Plus Loan

1. Sales (maximum per year) KSh.-------------------------
2. Total cost of fixed assets KSh.--------------------------
3. Net income (maximum per year) KSh.------------------
4. Number of employees------------------------------------
5. Space occupied by business (Square feet)--------------
6. Savings held KSh.--

16. Do you consider the Biashara Plus Loan(s) as the sole reason for the change in your status and your business?

1. Yes ☐
2. No ☐

17. How did you utilize the loan?

1. Business expansion ☐
2. Other family activities ☐
3. Paying business debts ☐
4. Others ☐

18. How did you invest the loan funds?

1. Paid rent ☐
2. Bought raw materials/stocks ☐
3. Bought machinery/Equipments ☐
4. Other non business activities ☐

19. If no, what other factors do you attribute to the change?

1. ....
2. ....
3. ....
4. ....
5. ....

20. What impact would you say that Biashara Plus loan has had on you and your business?

1. Very great Impact ☐
2. Great Impact ☐
3. No Change ☐
4. Less Impact ☐
5. No Impact ☐

21. Indicate in the table below how the business has been performing before and after the loans.

ITEM	BEFORE LOAN KSHS.	YEAR 1 KSHS	YEAR 2 KSHS	YEAR 3 KSHS	YEAR 4 KSHS
SALES					
COST					
INCOME					
EXPENSES					
PROFITS					
STOCK					
TOTAL ASSSETS					
TOTAL LIABILITIES					
OTHER					

22. Indicate the number and type of employees before and after the loans.

TYPE OF EMPLOYEES	BEFORE LOANS	AFTER LOANS
PART TIME		
FULL TIME		

23. Rate your relationship with the following after loans.

RELATIONSHIP	IMPROVED	SAME	DETIORATED
SUPPLIERS			
CUSTOMER			
CREDITORS			
BANKS			

24. Have you cleared servicing your Biashara Plus Loan?

1. Yes ☐
2. No ☐

25. If no, what's your next action?

5. Take another one ☐
6. Planning to take another bigger one ☐
7. Self sufficient now don't need a loan ☐
8. Assessing myself ☐

Thank you for your cooperation and assistance.