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EFFECTS OF MICRO FINANCE INSTITUTIONS SERVICES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN BOMET COUNTY

[1]Dorah Chepkorir Moluche, [2]Dr. Kepha Ombui

[1]Student in Masters in Business administration, Jomo Kenyatta University of Agriculture and Technology, School of Entrepreneurship, Procurement and Management, P.O Box 62000-00200 Nairobi, Kenya
[2]Lecturer, Jomo Kenyatta University of Agriculture and Technology, School of Entrepreneurship, Procurement and Management, P.O Box 62000-00200 Nairobi, Kenya

Abstract: **Many small business enterprises (SBEs) in Kenya borrow capital from the microfinance institutions to enhance the operation of their businesses. The study was examining the effects of Micro finance institutions services on the growth of small and medium enterprises in Bomet County. It was guided by the following objectives: To determine the effect of loan disbursement on the growth of small and medium enterprises in Bomet County; To assess the effect of training on the growth of small and medium enterprises in Bomet county; To establish how savings affect the growth of small and medium enterprises in Bomet County; To establish the effect of technology on the growth of small and medium enterprises in Bomet County. The number of micro-finance institutions in Kenya continues to grow rapidly .However; their wide presence does not correspond with the growth of small and medium enterprises in Bomet County. This research adopted a descriptive research design. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The research population consisted of 350 registered SME's in 5 sub counties in Bomet County. Sampling methods will be used to select 183 small medium scale business enterprises. Primary data was collected using structured questionnaires based on the research questions administered by the researcher. The study adopted descriptive research design. Data was analyzed by use of quantitative methods. Descriptive statistics was used to analyze data including frequencies and percentages and results displayed in tables. Inferential statistics, correlation and regression analysis was also be used.**

Keywords: **small business enterprises (SBEs), microfinance institutions, businesses.**

1. INTRODUCTION

Background of the Study:

The concept of micro-finance emanates from the broader area of finance which refers to funds or resources acquired and applied by firms to achieve their objectives. The term was derived from micro-credit which means extremely small loans given to impoverished people to help them become self-employed, Loth R. (2002). Micro financing functions include offering financial assistance, advisory services, training and encouraging operation of small business development services, encouragement of savings and supervision as well as monitoring the people to whom they give loans.

Webster (2007) defines the term micro to mean small, tiny or trivial. Micro-finance describes the range of financial products such as micro-loans, micro-savings and micro-insurance products that micro-finance institutions (MFI's) offer to their clients. Micro-finance began in 1970's when social entrepreneurs begun lending money on a large scale to the working poor, Grameen Bank (2007). Therefore, micro-finance is the provision of financial services to low income clients or solidarity lending groups including consumers and the self-employed who traditionally lack access to banking and related services.

Micro finance services have become significantly important globally and more preferably at national levels in developing countries. Microfinance has evolved as an economic development approach intended to benefit low income men and women (Ubom, 2003).According to Asiama (2007)

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. Across developing countries, small enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services (Ngugi&Kerongo, 2014).

Small scale enterprises comprise 99% of enterprises in the OECD economies and create 50– 75% of value added in these countries (OECD, 2010). The existing literature reveals that small scale enterprises play an important role in the sectors of economy all over the world as they account for nearly 99% of the

Growth of Small and Medium Size Enterprises in Bomet County:

SMEs are an integral part of the Kenyan economy just like for the many other developing countries since 85% of the Kenyan work forces are directly or indirectly employed by the SMEs (Mwewa, 2013). SMEs bring about diversity in the economy and in the process help build a socially stable society while at the same time promoting private sector development. SMEs cut across all sectors of the economy (basic production, manufacturing, and services) and can be in any form of ownership: sole proprietorship, partnerships, or private limited companies. Some are located outdoors with little or no capital while others are more formal and operate in market stalls and shops (Munoz, 2010).

In Kenya, most enterprises are owner- managed or largely controlled and run as a family business and mostly have limited capital base and the technical skills and capacity of those running the business is also limited (Karanja, 2012). Majority of the businesses in Bomet county fall under the SME category and are spread across the county with a good percentage of them being sole proprietorships and family-owned and run businesses.

A study carried out by Ongolo & Awino (2013) in the counties of Bomet, Kiambu, Homabay and Kwale found out that the major challenges encountered by SMEs across the four counties were attributed to limited access to finance despite the existence of various financial institutions meant to cater for SMEs financing in the country.

Bomet County has got branches of some of the leading banks in Kenya which include Kenya Commercial Bank, Barclays Bank, Equity Bank, Cooperative Bank of Kenya and Family Bank. It also has got Micro Finance institutions such as Faulu Kenya and Kenya Women micro finance bank (KWFT), other financial services offering institutions such as Savings and Credit Cooperatives, insurance firms, a branch of the Kenya Industrial Estates among others. Ongolo&Awino (2013) attribute these challenges faced by SMEs to the stringent conditions set by financial institutions on the SMEs before they can access financial support. Andoh & Nunoo (2011) also see the critical need of promoting a favorable environment for the development of SMEs in both developed and developing economies because of the huge contributions that the SMEs have in the economy.

In Bomet county, Small and medium enterprises continue to fail from the problems that microfinance institutions claim to offer solutions to. A survey by Kenya National Bureau of statistics, (2007) indicates that three out of five SME businesses fail within the first few months of operation. On other hand Ubom,(2003) claims that Microfinance institutions offer business solutions to small and medium enterprises by providing savings and credit , insurance , payment services , social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Studies by Amyx ,2005 ; Mcgrath 2002 ; Oketch 2000) indicate that SMEs fail as a result of challenges such as inability to provide quality services , lack of adequate finances and poor management skills. This would sound ironical owing to the view that it is the same problems that microfinance institutions are strategically focused on addressing. A gap in the reviewed literature exists as far as addressing the effect of microfinance institutions on growth and development of SMEs is concerned. The aim of this study is therefore to establish the effect of microfinance institutions on growth of SMEs with focus on Bomet County.

2. LITERATURE REVIEW

Economic Theory of Micro Finance:

The economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity. On the other hand, micro-finance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default. Among micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default. Economic theorists have been intrigued by

Grameen‘s contracts, and there has been an outpouring of research, beginning with Stiglitz (1990), on how joint liability works. In addition, the bank uses an unusual repayment schedule: where Repayments usually begin just a week after the initial loan disbursal and continue weekly after that; this makes the contract look much closer to a consumer loan than a business loan and changes the nature of the risk that the bank is taking on—and the service that it is pro-viding. Beyond these economic mechanisms, Grameen has found that not only does having a customer base that is 95 percent female improve social impacts, but it may also reduce the financial risk for the bank. While traditional banks have historically lent nearly exclusively to men, women make up the bulk of Grameen borrowers and they are often more reliable customers than their husbands (Khandker 1998)

Games Theory of Microfinance:

The microfinance games theory supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves .It is based on Grameen lending model of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly.

The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network. Ledge wood (1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts .Gruber (2005)

The Uniting Theory of Micro-Finance:

The Uniting Theory of Finance focuses on joint liability. This is where a group of borrowers are held jointly liable for one another‘s repayment and this serves as the key to high loan recovery rates. Ghatak and Guinnane (1999), from the various theories review, came up with key mechanisms through which repayment rates and the welfare of credit-constrained borrowers could be improved through joint liability.

These all have in common idea that, the joint liability can help alleviate the major problems facing lenders for example screening, monitoring, auditing and enforcement by utilizing the local information and social capital that exists among borrowers. Joint liability can be interpreted in several ways which can be grouped into two, under explicit joint liability, when one borrower defaults loan repayment, group members are required to repay instead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all defaulting group.

Under implicit joint liability, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract doesn‘t specify this punishment. Group Joint liability concept can work better than the banks for two reasons.one close –knit community members may have more information about one another than the outsiders. Two, Banks may have limited sanctions against poor people who default on a loan. Thus for these reasons, institutions that give proper incentives to poor people to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than conventional banks.

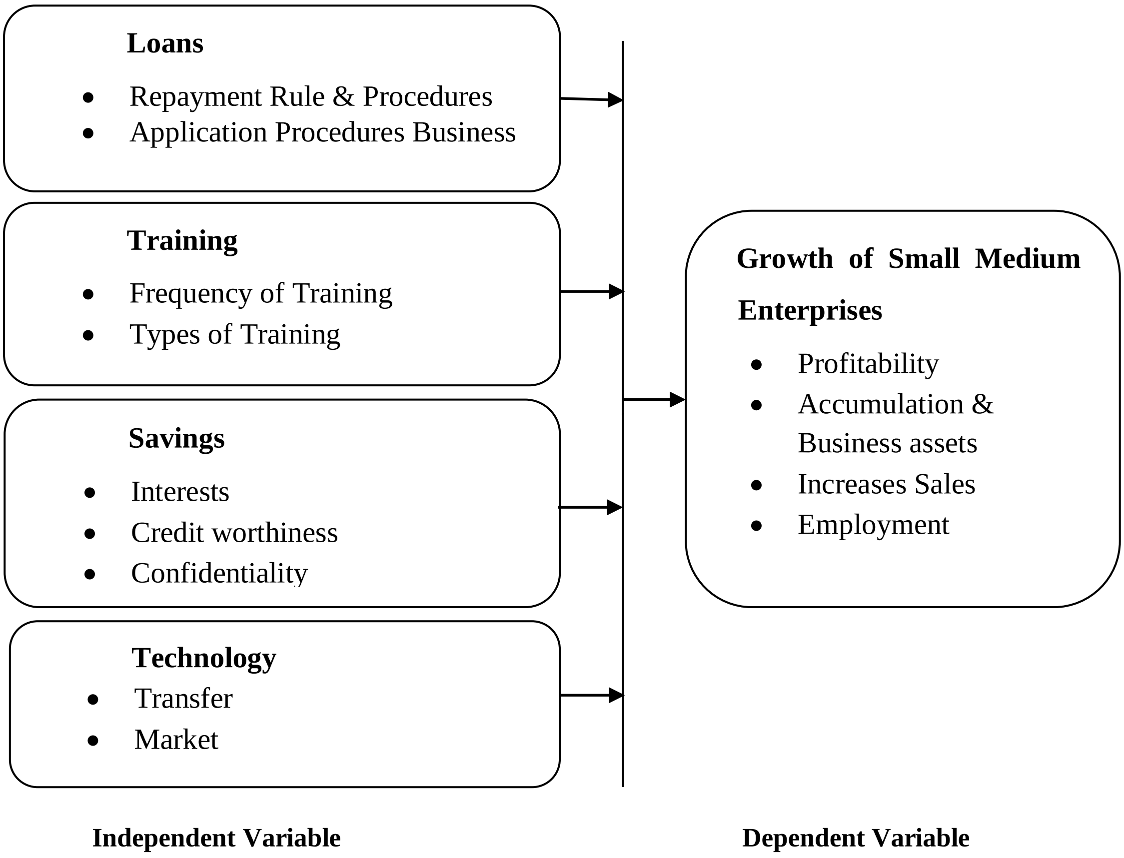
Poverty Eradication Theory:

The role of micro finance has been fully recognized and appreciated as a global phenomenon of poverty alleviation, poverty eradication and wealth creation among the poor people in its plan of action, member states, were required to set up national proactive micro credit forums in their respective countries.

There have been two different schools of thought on who is to be targeted by MFIs between the poor and the poorest. The first school of thought believes on targeting the poor and the reason for this being that the poor are most likely to have income-generating activities, thus their loans will more likely lead to creation of jobs and the benefits will obviously trickle to the poorest and in this case the MFI is seen to expand its financial services, thus reducing poverty on a larger scale. Diop, Hillenkamp&Servet, (2007, pp. 33) criticizes the above strategy of the first school of thought and says that the redistribution by the creation of jobs or consumption does not necessarily benefit the poorest

To achieve its role as a tool to reduce poverty, MFI needs to promote productive activity, spur self-employment and income generating activities. This as a result is predicted to spur consumption, stimulating local economies and reducing general poverty reduction of both in the household and in the community. Based upon this argument, the first logical assessment is to analyze the impact of microfinance on borrower income. Increasing Income through Self-Employment .Employment creation may require small working capital and their other sources of income may be too meager for them to raise investible surplus on their own. Thus according to Wahid (1994), credit facilities to the poor can help them to raise their own capital leading to improved living standards through income generated investments

Conceptual Framework:



3. RESEARCH METHODOLOGY

Research Design:

According to Mcmillan and Schumaker (2001) a research design is a plan for selecting subjects, research sites and data collection procedures to answer the research questions. It is the conceptual framework within which research is conducted and constitutes the blueprint for the collection of data and the analysis thereof of the collected data. Primarily a descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. The study adopted a descriptive research design.

According to Cooper (2003), a descriptive study finds out, who, what, where, and how of a phenomenon which is the aim of this study. In addition a descriptive study is concerned with finding out the what, where and how of a phenomenon (Ngechu, 2004), thus, this approach was appropriate for this study, since the researcher intended to collect detailed information through descriptions and this was also useful for identifying variables and hypothetical constructs. The goal is to provide a clear understanding of effects of Micro finance institution on the growth of small enterprises in Bomet County.

Target Population:

According to Frankel and Wallen (2000) a population refers to the group to which the results of the research are intended to apply. They stated that a population is usually the individuals who possess certain characteristics or a set of features a study seeks to examine and analyze. Kumekpor (2002) emphasized this by defining a population as the total number of all units of the issue or phenomenon to be investigated into which is “all possible observations of the same kind .This was conducted across the five sub counties in Bomet County targeting 350 SME's which comprises of (12) sme's ;Barbershops, Groceries, Boutiques, Wholesalers, Hardware shops, Electronics shops, Distributors, Restaurants, Milk bars Chemist and Agro vets registered with the County Government in the department of trade as at 2016.

4. DATA ANALYSIS, FINDINGS AND DISCUSSION

The Microfinance Institutions Used for Acquiring Loans:

The researcher sought to establish the MFIs used by the SMEs in Bomet County to acquire loans from the MFIs. The response was presented in table below

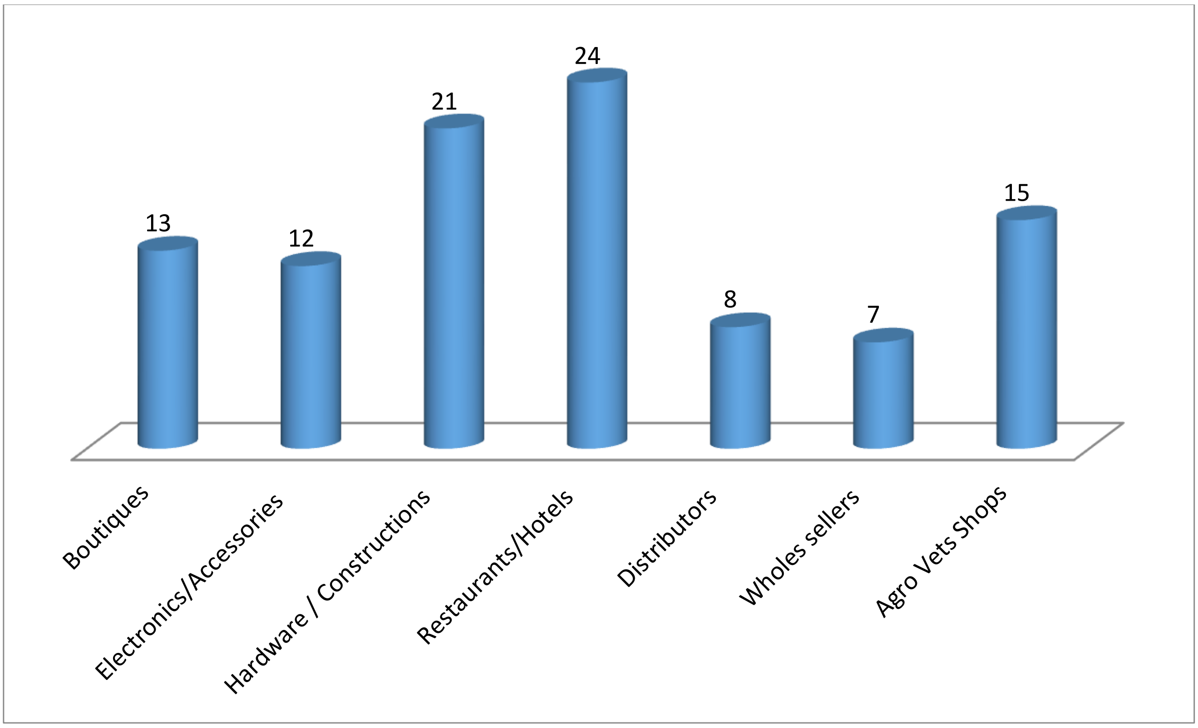
The Microfinance Institutions Used for Acquiring Loans:

The Microfinance Institutions Used for Acquiring Loans	Means score	St Dev
Faulu Kenya	2.88	1.318
Kenya Rural Enterprise Programme (K-rep)	2.64	1.438
Kenya Women Finance Trust (KWFT)	2.64	2.087
Small and Microfinance Enterprise Programme (SMEP)	2.49	3.673
Platinum Credit	1.69	0.766

With the availability of several credit facilities in Microfinance Institutions the SMEs in Bometwere able to get loans from Platinum Credit at a means score of 1.69, Kenya Women Finance Trust (KWFT) provided credit facilities to the respondents at a means score of 2.64. Kenya Rural Enterprise Programme (K-rep) provided the SMEs with loans at a means score of 2.64, Faulu provided loans to the respondents at a means score of 2.88 and finally Small and Microfinance Enterprise Programme (SMEP) provided loans to the respondents at a means score of 2.49.

Types of SMEs in Bomet County:

The last item on the demographics was asked on the type business the respondents engaged in. Their response was present on figure 4.2.

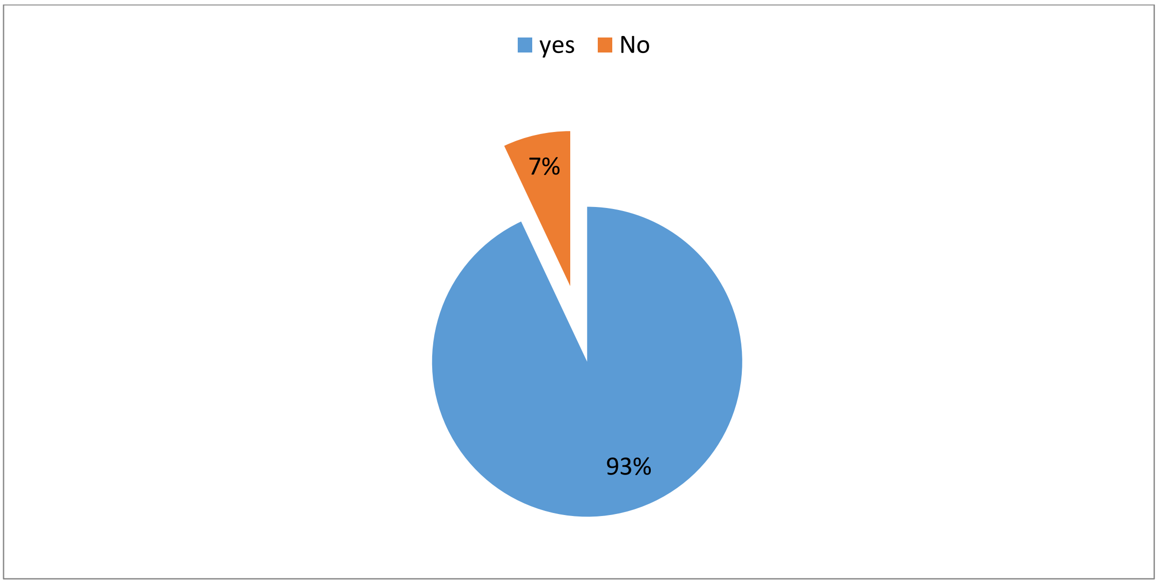


The findings show that most of the SMEs in Bomet town are Restaurants/Hotels at 24%. They were followed by the hardware's / Constructions materials shops at 21%. Then the Agro Vet shops rated at 15% while Boutiques were rated at 13%, Electronic and their accessories shops were rated at 12% with distributors rated at 8% and wholesalers at 7%.

Loan:

Having an Account:

The first item here sought to establish whether the respondents holds bank accounts with the MFIs in Bomet County. The response was presented in figure below



The figure shows that nearly all the respondents had bank accounts which were also active at 93% while only 7% indicated that they did not have bank accounts.

Borrowing Funds to Finance Businesses:

Then the research sought to find out if the respondents had borrowed funds from the MFIs to fund their businesses. The response was presented in table below

Borrowing Funds to Finance Businesses:

Borrowing Funds to Finance Businesses	Frequency	Percentage
Yes	95	74
No	5	26
Total	**128**	**100**

The results shows that most of the respondents indicated that they have borrowed from the MFIs to fund their businesses at 74% response rate while those who have not borrowed to fund their businesses were ranked at 26%.

Preferred Sources of Funding:

The researcher further told the respondents to indicate their preferred sources of funding. The response was presented in table below

Preferred Sources of Funding:

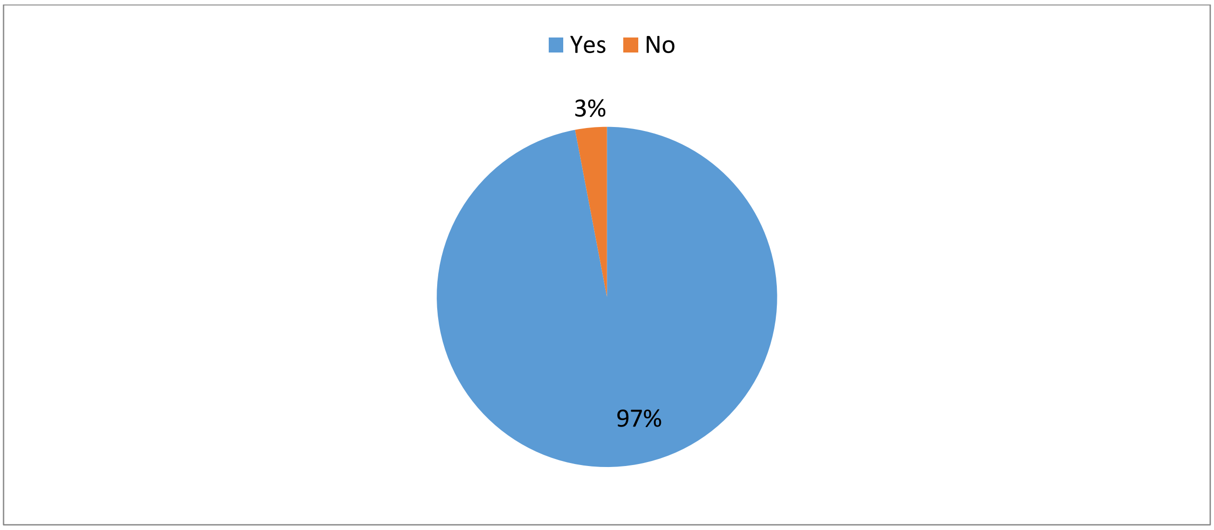
	Funding Source	Mean	St Dv
(a)	Banks	3.62	0.052
(b)	Micro – Financial Institution	3.08	1.598
(c)	Friends & Relative	3.05	1.535

From the table, banks were the most preferred source of funding at a mean score of 3.62 st dv of 0.052 because they are considered very secure and scrutinize eligibility criteria extensively before giving out their loans. They were followed by the MFIs at a mean score of 3.08 st dv of 1.598. While loans and contributions from friends and relatives was ranked least at a mean score of 3.05 st dev.1.535. This implies that banks and MFIs are most preferred methods of funding SMEs in Bomet County.

Got the Loan from the Financier:

The study sought to establish if the financier was able to give the loans requested by the respondents. The response was presented in figure below

Got the Loan from the Financier:



The results shows that most of the respondents were able to get the funds they were seeking from their financiers at 97% with only 3% indicating that they were not able to get funding from the institutions due to lack of meeting some of the laid down criteria and requirements before the loans are given.

Challenges for Accessing Funding by SMEs:

For those who indicated having challenges of access to the funds provided by MFIS, the researcher sought to find out their reasons. The results were presented in table

Table Challenges for Accessing Funding by SMEs

Challenges for Accessing Funding by SMEs	Mean	StdDev
Insufficient collateral	1.46	0.100
Business proposal not acceptable	1.23	0.842
Poor documentation	1.02	0.699
Previous credit record	0.79	0.541
Lack of financial statements	0.7	0.459
Own contribution too small	3.08	0.598

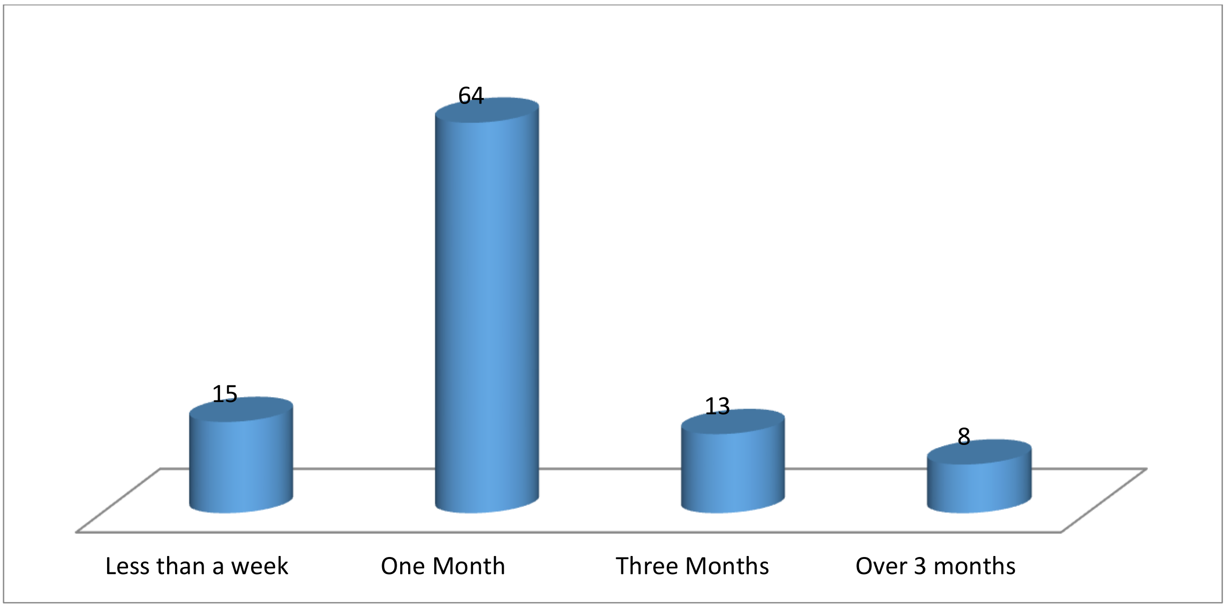
The respondents indicated that they had challenges because they did not have all the collaterals at a means score of 1.46 stdev 0.100. They also indicated that their business proposals were not acceptable at a mean score of 1.23 stdev 0.842. Others also said that they didn't have the right documentation at a mean score of 1.02 stdev of 0.699. Further the other source of difficulties experienced by the respondents was their previous credit history at a mean score of 0.79 stdev of 0.541. Then those affected by lack of financial statements and having very little contributions in the MFIs were rated at mean scores of 0.7 and 3.08 and stdevs of 0.459 and 0.598.

Meeting the Conditions for the Loans:

All the respondents who indicated that they have received their loans from the MFIs said that they were able to get the amounts applied for except in few instances where the amount was reduced because their savings with the institutions were not sufficient.

Duration of Getting the Loans:

Then the study sought to establish the duration it took to get the loans applied for. The response was presented in figure below



The findings show that most of the respondents at 64% indicated that they took one month to get their loans processed by the MFIs. They were followed by those who indicated that it took them 1 week to process their loans and another 13% showed that it took three months to process their loans with the

5. CONCLUSIONS AND RECOMMENDATIONS

On the effect of loan disbursement on the growth of SMEs in Bomet County, the study concluded that they are very flexible and easily accessible to the SMEs, the take very short time to process with very few collaterals required when one is seeking for funding. This had encouraged the respondents to borrow frequently from the MFIs in Bomet County in order to growth and expand their businesses. Due the training services provided to the SMEs by the MFIs in Bomet County they have experienced improvement in areas like branding of their products, have been able to open more branches of the same, have increased their stocks at means score of 3.08, have been able to improve on their marketing activities at a means score of 2.92 and cash management.

The findings show that savings come with good interest, the savings aids them to get loans for their businesses, their savings enabled them to get business loans, they are able to save severally for payment of bills only, savings assist in stocking of the business while others said that they save less and spend more on household, that their savings determined the amount of loan received. The findings show that most of the respondents felt that the use of technology has enhanced the chance of acquiring credit. They were followed by those who indicated that availability of credit has enhanced NPD. Then the respondents indicated that technology has enhanced operational efficiency for SMEs. The respondents also said that advancements in technology has enhanced credit access.

On the regression model results the study found that the independent variables - loan disbursement, training, savings and technology explain 57.5% of the variability of the dependent variable ie growth of small and medium enterprises in Bomet County. The ANOVA test showed that loan disbursement, training, savings and technology strongly affect growth of small and medium enterprises in Bomet County. The study concluded that training had the greatest effect on the growth of the SMEs at 0.253; technology was the second at0.205, and savings was the third at 0.219. 219 while loan disbursement was least at 0.010.

Recommendations:

Based on the findings the study recommends that:

Since the MFIs seem to have adjusted well with the SMEs in Bomet County, they can be a great source of strength for others who are coming up in the County and other counties for similar or other assignments. Further, because the study found that most of the respondents are people who have a lot of experience on SMEs, they can be a good pillar for young entrepreneurs either way for they can be used to help them in adjusting to the challenges that might arise in their work environment. The government should also document a policy framework targeting financing of SMEs in the County and other national corporations.

Suggestion for Further Studies:

The fact that most of the respondents are women needs to be researched on in order to find out why more and more women are participating in SMEs compared to men. A similar study should also be done to find out how Kenyan SMEs deal with the challenges in their environment. Further, because most of the respondents are women, it is important to carry out a study to establish the strategies they employ in order to survive in SMEs environment. A similar study should also be carried out targeting SMEs in other parts of the country.

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