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CONTENTS

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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

ACKNOWLEDGMENTS

REFERENCES

APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

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WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AN INVESTIGATION INTO THE IMPACT OF MICROFINANCE LOANS ON PERFORMANCE OF SMALL BUSINESSES: A CASE STUDY OF MERU SOUTH DISTRICT-KENYA

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ABSTRACT
Access to financial services by self-employed persons in small business enterprises is one of the limiting factors that inhibit growth and development of these small businesses. The problem of accessibility is created by s lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restricting credit for specific purposes. For small business enterprises, reliable access to short-term credit and small amounts of credit is more valuable and appropriate in credit programs aimed at such enterprises. High interest rates charged on loan by lenders make small businesses unable to borrow. Hence, there is a need to look for better ways to provide financial services to these small businesses whose collateral base is limited. In this study, microfinance loan (microcredit) is seen as a way to facilitate economic activities through creation of a financial market for small businesses. Provision of financial services to the small businesses will enable them to start economic activities. The objective of this study was to derive the relationship between provision of microfinance loans to small businesses and their performance in relation to their sales. The researchers used both primary and secondary data for the investigation. Descriptive and inferential statistics were used to analyze the study findings. Efficient service delivery, lower savings, low interest, simple interest rates, loans to poor people and easily accessed makes MFI more popular. Indeed, those small businesses that were able to obtain MFI loans reported increased sales revenue.

KEYWORDS
Business, Loans, Microfinance, Performance.

INTRODUCTION
BACKGROUND TO THE STUDY
The world's poor have little access to the financial products and services that help those in the developed world bridge the gap during rough times. According to a study conducted in Kenya in 2006, about 6.5 million out of the 17.4 million adult Kenyans are unserved by financial system, while Microfinance Institutions (MFIs) and SACCOs take care of some 1.3 million people. In many cases, mainstream commercial banks are the main available sources of capital. They provide loans to smooth incomes during rough times or help individuals improve their small businesses. But they do so at exorbitant interest rates. The lack of adequate credit facilities in Kenya's rural areas is a significant obstacle to building rural financial market.

The Kenya Government has since the early 1990's shown an interest in the development of small business enterprises. It has been aided by donors such as the World Bank, UNDP, USAID, the European Union, Ford Foundation and CIDA. In a survey carried out in rural Indonesia, Mosley (1996) reports that as many as 70% of the households interviewed borrowed from informal lenders. These informal alternatives exist in such forms as family loans, savings clubs, money lenders and merry-go-round. They are usually limited by amount, rigidly administered or available only at exorbitant interest rates. Access to financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps or events such as floods or death in the family events that can push a poor family into destitution. Those promoting microfinance for women see it as initiating a virtuous upward spiral of economic, social and political empowerment. Microfinance programmes have generally targeted women as clients. Women have proved to be more financially responsible. The expansion of credit programme for women in Africa dates back to the mid - 1980s but increased dramatically in the late 1990s and into the 21st century.

LITERATURE REVIEW
According to Sebta and Gregory (1996), microfinance is a small-scale financial service to clients that are economically active in various urban and rural areas. According to them, microfinance has been proven to be effective in fighting poverty by providing entrepreneurial activities and financing small businesses in both urban and rural areas. Microfinance activities are also associated with initiatives that results in a positive impact on social and human development, for example, studies have found they lead to positive changes in micro-enterprise output, assets, employment and income. In addition to these effects on the entrepreneurial activity of the poor, microfinance is being attributed to positive effects on issues such as household income, savings, children's education, health and nutrition and women's empowerment (Sebsta & Gregory, 1996).

While microfinance is not a panacea to eradicate poverty, Juan Somavia, Chile's Permanent Representative to the United Nations stated at the micro-credit summit in February 1997 that it is "a new and already tested tool for discovering new solution to an old and intractable problem". He adds that; what I like most about micro-credit is that it builds on age-old human instinct: the need to believe in ourselves and use our imagination to dare take risk all in pursuit of the most worthwhile of all causes - the advancement of yourself and community. According to a survey carried out in Asia, Zeller and Sharma (1998), there are lessons that can be learnt from studying the relationship between the informal lenders and their poor clients. These include the following: First, a credible long-term relationship is key to enforcing loan repayment. The borrower will repay the loan if he or she expects to be able to borrow again in the future. Second, financial services should be tailored to the demand of the borrowers, for example farm loans that can only be used for seeds or fertilizer reduce the flexibility of household to make the use of loan, for example a farmer needs working capital to plant the seeds. More so decision making on loans granted should be made at the local level and institutions out to have clear plans for loan recovery before lending begins. Lastly, saving services should be provided and incentives for managers of rural financial programme should be built into the programmes.

INNOVATIONS KEY TO FINANCIAL SERVICES FOR THE POOR AND SMALL BUSINESSES

Recently, microfinance institution designed to serve the poor, such as the Grameen Bank in Bangladesh, have received wide attention, but these institutions depend on subsidies from national governments and international donors. Zeller & Sharma (1998) argue that these subsidies represent good investments of public funds on two accounts; they enable services, to be offered that the market place is not willing to provide on its own and they have been proven in the growth of small businesses and alleviate poverty.Although excessive government interference and rigid regulations have suppressed innovations in financial services, liberalization of financial markets alone has not been able to trigger the kind of innovation that reduces transactions costs for the poor. Rural financial markets in developing countries have inherent problems that make investment risky and costly, clients are too scattered, rural clients all want to borrow at the same time (in the pre-harvest season) and to save immediately after the harvest and the poor own few assets to secure loans. Private sector financial institutions are reluctant to take on these risks.

MICROFINANCE LOANS AND WOMEN'S EMPOWERMENT

The expansion of credit programmes for women in Africa dates back to the mid - 1980s but increased dramatically in the late 1990s and into the years after 2000. From 1950s poverty - targeted credit become an established part of many large - large scale agricultural programme. In Zimbambwe, Cameroon and elsewhere saving clubs and credit unions were set up for women and men by missionaries' (Mayoux 1998). By 1980s, gender lobbies within some governments and aid agencies were attempting to increase women's access to credit and savings within this wider context of poverty – targeted microfinance to start and expand small businesses. It is further assumed that support for female entrepreneurs will increase women's employment more generally tapping underutilized resources for economic development, Downing (1991).

Although access to microfinance from Kenya rural enterprise programme (K-Rep) and Care Kenya, for women has been made possible through different programmes, evidence indicates there are still continuing widespread barriers to women's access in many programmes. This is partly because of regulations in many mixed-sex programme e.g collateral requirements or targeting of services to particular activities where men predominate or have an advantage and/or opposition of female programme members ACORD (1996). Even in women only or women targeted programme women were being prevented from participating because of opposition from husbands and/or requirements for husband's signature in loan application (Kamaragi, 1997).

THE MILLENNIUM DEVELOPMENT GOALS (MGDs)

Nine years ago, leaders from 189 countries agreed on a vision for the future. They agreed to create a world in which developed and developing countries work in partnership for the betterment of all. This vision took the shape of eight millennium development goals which are providing countries around the world with a framework for development goals. The MDGs are drawn from the action and target contained in millennium declaration that was adopted by 189 nations and signed by 147 heads of states and governments during the UN millennium summit in September 2000. The eight MDGs include eradicating extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS malaria and other diseases, ensure environmental sustainability and develop global partnership for development.

Annual report (2007) from Department for International Development indicates that progress towards the MDGs has been significant since the year 2000 but unequal across the world. It indicates that China for example has made huge strides in many of the goals although child mortality and combating HIV and other diseases remain a challenge. This report indicates that there is a general progress in some goals but lagging in majority of the goals. Sub-Saharan Africa is particularly off track to meet any of the targets by 2015.

CONCEPTUAL FRAMEWORK

Microfinance loans to small businesses increase the capital for the business. This will give the business more cash flow which enables them to buy in bulk, thus able to get quantity and cash discounts. These discounts that are offered to the business are extended to the consumers by giving them lower price which lead to more sales for the business which lead to increase in sales turnover and thus more profit for the business. More sales for the business lead to increase in sales turnover and thus more profit for the business and business expansion.

Micro-finance loans increase capital for small businesses.

Microfinance loans (financial services from MFI given to small businesses not exceeding Ksh 100,000).	⇒	Sales performance, the nature of sales after the loan, Used to measure the performance of the loan to small businesses.

Source: Researcher (2012)

SIGNIFICANCE OF THE STUDY

This study will assist various stakeholders, in policy formulation and implementation in financial framework for provision of credit facilities to small businesses. These include; microfinance institutions, government in financial framework to provide credit facilities and other money lending institutions concerning the need to adopt and put emphasis to small lending on small businesses for economic development.

LIMITATIONS

i. Microfinance is not very well-developed and thus the respondent were scattered. This made it impossible to reach some respondents.
ii. There was refusal by some respondents to give information concerning their businesses and income which biased the sample in a way that is not readily evident.
iii. High illiteracy levels affected the quality of data collected.

STATEMENT OF PROBLEM

Financial services are not adequately available in Kenya (Kimotho, 2007). Non-availability is further compounded by interest rates charged on loans by the main stream commercial banks. Second, the poor who need financial services more usually have no collateral which is a necessity to borrow loans from the mainstream banks. The result is inadequate financial services for small businesses and insufficient credit facilities that are important for economic development. Inadequate availability of credit facilities from financial institutions inhibits growth and expansion of small businesses. Microfinance loans may be a way to bridge this gap by providing finances to the small businesses in the rural areas. The study therefore aimed at investigating the impact of microfinance loans on the performance of small businesses and hence the general economic development of the country.

OBJECTIVES OF THE STUDY

The purpose of this study was to find out whether there is any correlation between provision of microfinance loans to small business and their performance.

SPECIFIC OBJECTIVES

i. Establish the nature of correlation between level of sales and MFI loans.

ii. To find out the correlation between sales and MFI.
iii. To find out the amount of variances in sales explained by MFI loans.

RESEARCH QUESTIONS

i. What is the nature of correlation between sales and amount of MFI loans?
What is the correlation coefficient between MFI loans and Sales?
ii. What percentage of sales variances is explained by MFI loans?

RESEARCH METHODOLOGY

The research adopted a descriptive design to investigate the casual relationship between variables and give additional information concerning variables of interest. The study targeted all small business owners who had acquired loans from Kenya Rural Enterprises Programme (K-Rep) in Meru South District, a microfinance institution. Systematic random sampling method was used to select forty one respondents interviewed in the study. The research instrument used in the study was structured open and closed-ended questionnaire comprising a series of questions dealing with some psychological social, educational topics.

PILOT STUDY

The research instrument was presented to establish their validity and reliability. The researcher sought expert advice from the supervisor. Any ambiguities detected in the questionnaire were corrected before actual administration to the sampled respondents.

VALIDITY

Orodho (2004:184) defines validity as the degree to which a test measurer what it purports to measure. Mugenda and Mugenda (1999:99) quoting Gay (1982) define validity as the degree to which results obtained from data analysis actually represent the phenomenon under study.

RELIABILITY

Mugenda and Mugenda (1999:95) posit that reliability is a measure of degree to which a researcher instrument yields consistent results or data after repeated trials. Reliability of the research instrument was assessed using the split half method whereby the test was divided into two equivalent halves and score of one half correlated with those of the other half (Koul, 1984).

DATA COLLECTION

Primary data were collected using a questionnaire. The questionnaire was administered by the researcher with the help of research assistants. Both open-ended and closed-ended questionnaires were used so as to capture a wide variety of information from respondents. Secondary data was sought from the available research reports and other documented sources kept by microfinance institutions.

DATA ANALYSIS

Descriptive and inferential statistics were used. These were used to describe and summarize the basic features of the data in the study, whereas the inferential statistics were used to infer the sample results to the population. The statistical Package for Social Science (SPSS) and Microsoft Excel were used to analyze the data to obtain frequency tables, percentage frequencies, mean, range, pie charts and bar graphs. Open-ended questions were coded by grouping responses according to recurring themes.

DATA ANALYSIS AND PRESENTATION OF FINDINGS

INTRODUCTION

This study probed the impact of microfinance loans on the performance of small businesses in Meru South District.

EDUCATION LEVEL

More than half of the respondents 22(53.7%) had attained secondary of education, 4(9.8%) above secondary, 14(34.1%) primary and 1(2.4%) non-formal education. Mean level of education = 2.71, Range = 3, Median = 3.00, SD = 0.680) (Fig. 4.1)

EDUCATIONAL LEVEL

TABLE 1

Education level	No. of respondents	% percentage
Non-Formal	1	2.4
Primary	14	34.1
Secondary	22	53.7
Post secondary	4	9.8

The respondents operated diverse types of businesses ranging from grocert 8(19.5%), hotel/kiosk 6(14.6%), hardware 1(2.4%), butchery 2(4.9%), farming 6(14.6%), shop 6(14.6%) saloon 3(7.3%), shoe maker 1(2.4%), jua kali 2(4.9%), mechanics 2(4.9%), photography 1 (2.4%), boutique 1 (2.4%), transport 1 (2.4%) and bar/restaurant 1 (2.4%) (Table 2).

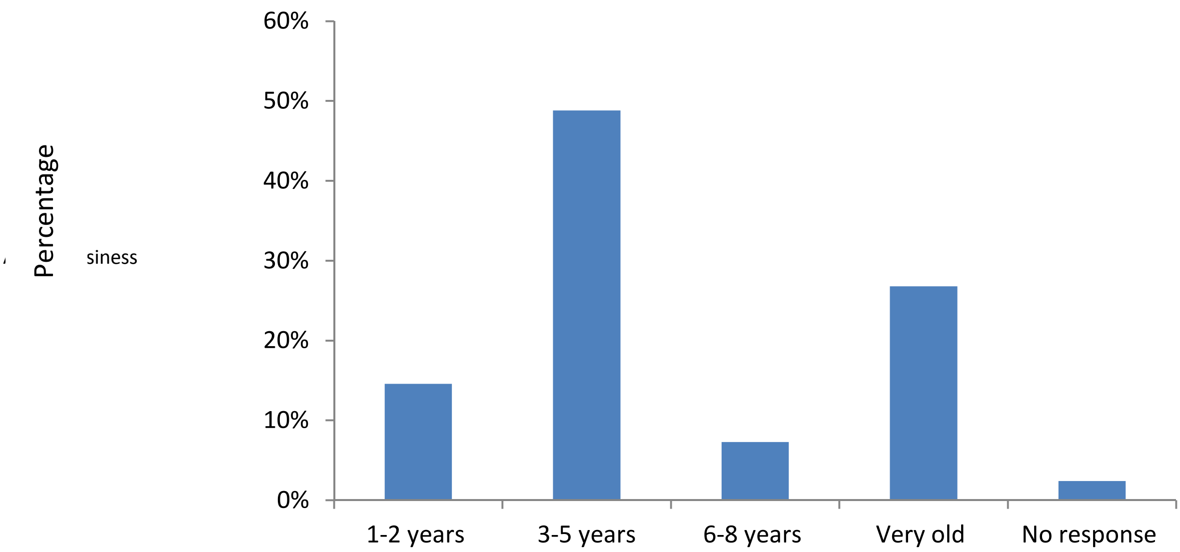
TABLE 2: TYPE OF BUSINESS

Type of business	Frequency	Percent
Grocery	8	19.5
Hotel/Kiosk	6	14.6
Hardware	1	2.4
Butchery	2	4.9
Farming	6	14.6
Shop	6	14.6
Saloon	3	7.3
Shoe maker	1	2.4
Jua kali	2	4.9
Mechanics	2	4.9
Photography	1	2.4
Boutique	1	2.4
Transport	1	2.4
Bar/restaurant	1	2.4
Total	41	100.0

Nearly half of the businesses 20 (48.8%) had operated for 3 – 5 years while the rest 6 (14.6%) 1.2 years, 3 (7.3%) 6-8 years, 11 (26.8%) very old and 1 (2.4%) did not comment (Fig. 1).

AGE OF BUSINESS

FIG. 1 AGE OF BUSINESS

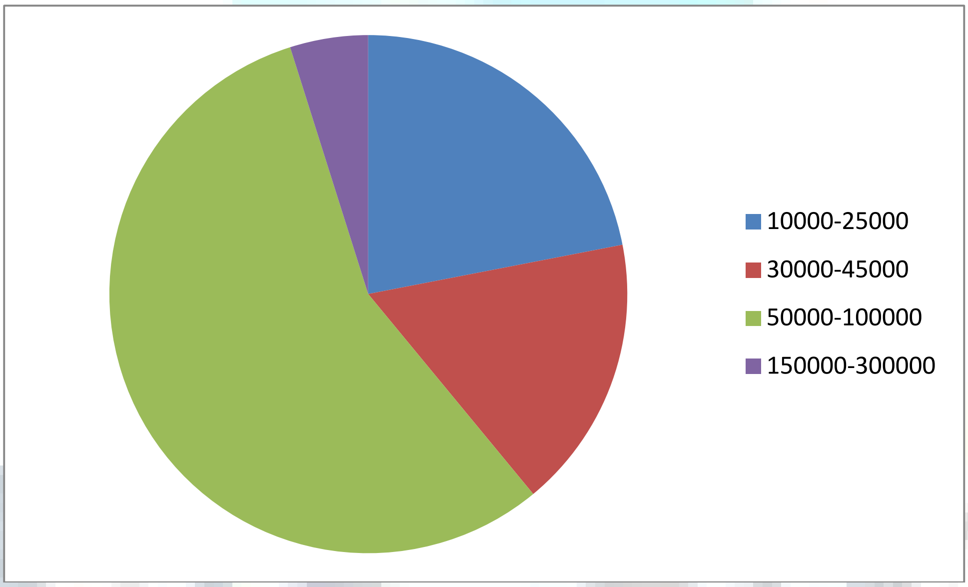


The Nature of Correlation Between Sales and MFI Loans

More than fifty percent of the respondents 23 (56.1%) indicate that they had borrowed between 50,000 – 100,000 from MFIs, 9(22%) borrowed between 10,000 – 25,000, 7 (17.1%) borrowed between 30,000 – 45,000 while only 2 (4.9%) had borrowed between 150,000 – 300,000 (Table 3).

TABLE 3: BORROWED MONEY

Borrowed money	Frequency	Percentage
10,000 – 25,000	9	22.0
30,000 – 45,000	7	17.1
50,000 – 100,000	23	56.1
150,000 – 300,000	2	4.9
Total	41	100.0



Most of the respondents 29 (70.7%) indicated that they used borrowed funds from MFIs primarily on regular and constant part of personal/business financing, 5 (12.2%) spent it on cyclical personal/business financing, 5 (12.2%) spent on seasonal personal/business financing while the rest 2 (4.9%) used it on non-spontaneous needs (Table 4).

TABLE 4: PRIMARY USE OF FUNDS

Primary use for funds	Frequency	Percent
Regular personal/business	29	70.7
Financing	5	12.2
Cycling personal/business		
Financing	5	12.2
Seasonal personal/business		
Financing	2	4.9
Non-spontaneous needs		
Total	41	100.0

Majority of the respondents indicated that the loans they obtain from MFIs always required collateral, 2 (4.9%) said occasional collateral, 7 (17.1%) non-collateral loans and 1 (2.4%) did not comment (Table 5).

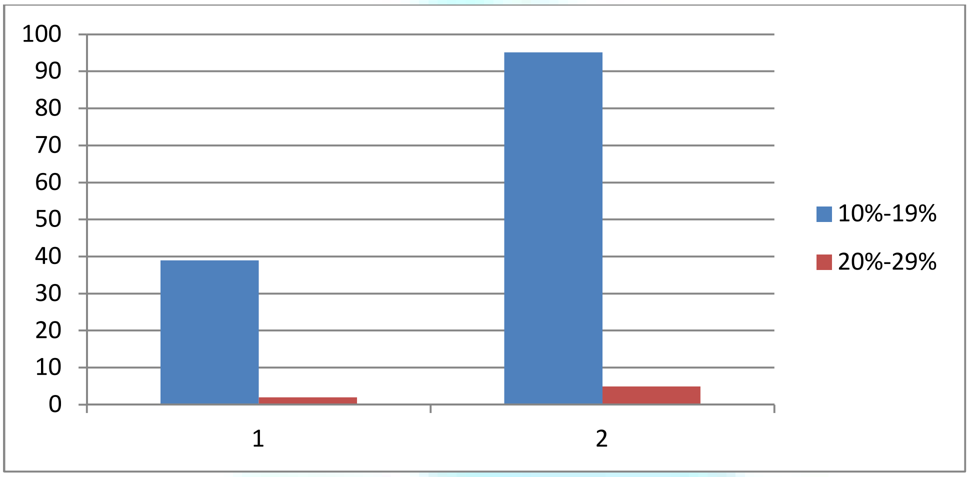
TABLE 5: COLLATERAL LOANS

Collateral loans	Frequency	Percent
Non-collateral loans	7	17.1
Occasional collateral Loans	2	4.9
Always required Collateral loans	31	75.6
No response	1	2.4
Total	41	100.0

Most of the respondents 39 (95.1%) estimated their annual interest rate on loans obtains from MFIs at between 10% - 19.9% while the rest 2 (4.9%) said it was between 20% - 29.9%) (Table 6).

TABLE 6: ESTIMATED ANNUAL INTEREST RATE

Estimated Annual Interest Rate	Frequency	Percent
Between 10% - 19%	39	95.1
Between 20% - 29.9%	2	4.9
Total	41	100



Fifteen (36.6%) of the respondents indicated that what they liked most about MFI financing is efficient service delivery, 3 (7.3%) said weekly payments/short period, 8 (19.5%) lower savings/low interest, 2 (4.9%) simple interest rates, 2 (4.9%) loan poor people, 2 (2.9%) high interest rate and 9 (22%) easy access than banks (Table 7).

TABLE 7: LIKED THINGS ABOUT MFI FINANCING

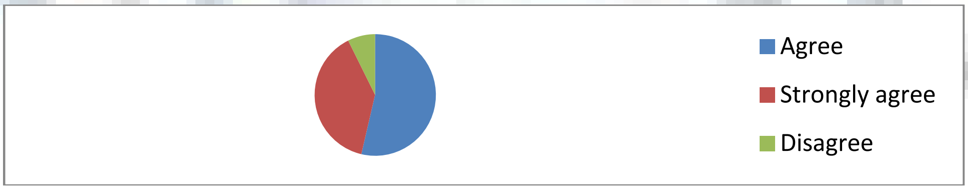
Liked things about MFI financing	Frequency	Percent
Weekly payments/short period	3	7.3
Lower savings/low interest	8	19.5
Efficient service delivery	15	36.6
Simple interest rates	2	4.9
Loan poor people	2	4.9
High interest rate	2	4.9
Easy access than Banks	9	22.0
Total	41	100.0

Twelve respondents indicated that what they dislike most about MFI financing was weekly meetings and payments, 9 (22%) high interest, 4 (9.8%) no individual loan, 4 (9.8%) group guaranteeing/forfeiture, 3 (97.3%) delay of cheque processing, 2 (4.95%) lower grace period/lower savings while 4 (9.85%) had nothing to complain about MFIs.

The amount of Variances in Sales Explained by MFI Loans

More than half of the respondents 22 (53.7%) indicated that sales revenue of their business increased after MFI loan, 16 (39%) strongly agree while 3 (7.3%) strongly disagree (Fig. 4.5).

	No.of respondents	% percentage
Agree	22	53.7
Strongly agree	16	39
Disagree	3	7.3
	41	100



SUMMARY

This study examined the impact of microfinance loans on the performance of small businesses in Meru South District using descriptive study design. Data was collected from both primary and secondary sources. Primary data were collected using self-administered questionnaires. Secondary sources included libraries and other documented sources kept by microfinance institutions. Data were analysed using Statistical Package for Social Sciences (SPSS) to obtain frequency tables, percentage frequencies, mean, range, bar graphs and pie charts. A sample of forty one respondents operating diverse types of businesses participated in the study.

The study established that more than fifty percent of the respondents had borrowed between Kshs. 50,000 – 100,000 from MFIs. It emerged that most of the respondents used borrowed funds from MFIs primarily on regular and constant part of personal/business financing. Majority of the respondents indicated that the loans they obtain from MFIs always required collateral and attracted an annual interest rate at between 10% - 19.9%. MFI financing is liked because of efficient service delivery, weekly payments/short period, lower savings/low interest, simple interest rates, loans to poor people and easily accessed compared to Banks. Some respondents dislike MFI financing because of weekly meetings and payments, high interest, no individual loan, group guaranteeing/forfeiture, delay of cheque processing and lower grace period/lower savings. Overall, more than half of the respondents indicated that sales revenue of their business increased after MFI loan.

CONCLUSION
Access to capital for startup and expansion is extremely important for small business in Meru South District. Micro-Finance Institutions (MFIs) have emerged valuable sources of capital especially for those segments of the society that are locked out by mainstream banks on claims of being uncreditworth. Indeed, those small businesses that were able to obtain MFI loans reported increased sales revenue. Therefore, more efforts are required to enable more people to access MFIs credit facility in Meru South District.

RECOMMENDATIONS
Based on the findings the following recommendations can be made;

1 There is need to bolster the coverage of MFIs in Meru South District.
2 The interest rates charged by MFIs should be reduced to encourage more people in Meru South District to obtain MFI loans.
3 Collateral should be discouraged as a basis for awarding MFI loans.
4 The Public should be sensitized on the availability of MFI loans.

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