EFFECTS OF MICROFINANCE CREDITS ON SMES IN NGONG OF KAJIADO COUNTY IN KENYA

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ABSTRACT

Microfinance refers to financial services, such as credit and savings which give people an opportunity to borrow and invest. Microfinance institutions have contributed quite a lot to the Kenyan economy by creating employment opportunities, training entrepreneurs, generating income and eventually reducing poverty by financing various businesses owned by low income households. This study looks at the effects of credits advanced to the SMEs in Ngong by considering 33 respondents who were selected by stratified sampling techniques based on the type of microfinance institution. Descriptive research design was used in the study. Questionnaires were used as the main instruments of data collection. The data collected were processed and analyzed using statistical package for social science (SPSS), and the findings were presented using charts and tables. The study results revealed that the amount granted was adequate and necessary for SMEs. The results further revealed that loans advanced contributed to the growth of the businesses and also led to employment creation. Since credit was found to influence growth among the SMEs, the MFI should provide more formal credit facilities under favorable conditions along with training on financial management.

***Key Words**: microfinance, credit, poverty reduction, entrepreneurship, microfinance institutions*

Introduction

Robinson (2001) defines microfinance as a small-scale financial services that involve mainly credit and services to the poor. Kagwe (2008) argues that globally microfinance is providing an avenue for the poor to enrich their livelihoods and to have a greater impact on their countries economic growth. According to Aidan (1999), one of the oldest micro-credit organization providing small loans to rural poor was the Irish loan fund system initiated in early 1700's by

Nationalist Jonathan swift. The fund gave small short term loans to the poorest in Ireland who were not being served by the commercial banks. In 1864 Fridrich Wilhelm Rraiffeisein of Germany founded the first rural credit targeting the poor farmers.

According to Guntz (2011), the Indonesian people's Credits Bank which opened in 1895 became the largest microfinance system in Indonesia. According to Atieno (2001), the Kenyan microfinance sector began in the late 1960's with a few NGOs that set pilot program providing donor funded credit services ,some of which have evolved and become commercialized self sustaining and hugely profitable organization. Further argues that microfinance was becoming Kenya's most accessible and affordable financial services. Osoro & Muturi (2013) in their study, on the role of micro financial institutions on the growth of SMEs in Kenya concluded that provision of credit helps the growth of SMEs.

Study's Main Objective

The main objective of this study was to determine the effects of microfinance credit on SMEs in Ngong of Kajiado County in Kenya. The specific objectives were to determine the amount granted its adequacy and its effects.

Literature Review

Theoretical Framework

Grameen Social Business Model: A Manifesto for Proletariat Revolution

Rashidul Bari (2011) details how Yunus developed the idea of microcredit and social business and places them within the context of economic theory and provides a scientific underpinning for why he believes these two concepts can change the course of economic, and human development.

The author further claims that Grameen Bank (GB), founded by Muhammad Yunus, provides developmental tools to poor people, especially women. The work proposes two theories to explain the influence of Grameen Bank. Firstly, microcredit spurs entrepreneurship in people living in poverty and secondly Social Business (SB), offers a new dimension for capitalism.

Bari (2011) suggests that microcredit and income have a positive linear relationship because income tends to increase when the poor have been granted access to social business organizations like the Grameen Bank. The author shows how these two concepts have gone from being theory to inspiring practices adopted internationally by universities (such as Glasgow University), entrepreneurs (such as Franck Riboud) and corporations (such as Danone).

Yunus claims to demonstrate that the Grameen Bank and social business can harness the entrepreneurial spirit to empower poor women and alleviate their poverty. The author stresses that microcredit is just an economic theory that does not work unless one tries hard enough.

The Grameen model works very well for the poor and especially the women who may not be able to access loans from banks. These actually reduce the level of poverty and also empower women who may have remained neglected in the society.

Empirical review

Microfinance Institutions and Credit Provision

There is widespread agreement that finance is conducive for growth (Levine, 1997). Cross country Growth regressions provide robust evidence for a positive impact of finance on growth and development, even if the debate on causality is still ongoing (Beck, 2008). Muktar (2009) argues that finance is a precondition to the growth of enterprises and therefore it is very essential in a business.

A study carried out in Machakos Municipality of Machakos District in Kenya revealed that MFIs play a major role in credit provision to the MSEs, and this credit has contributed a major part in the growth of the business in terms of asset base, level of stocks, services and the number of employees the business can sustain. It also indicated that the credit services in businesses which do not show increased profitability, changes in stock levels and services are used to sustain the business and avoid possible collapse (Musyimi & Munyao, 2012).

Brown, Earle & Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales.

Surveys conducted in Asia, South America, Caribbean region, and in Africa indicated that microfinance institutions have contributed a great deal in poverty eradication. The poor people have significantly been able to access friendly micro-credit loans and have ventured in entrepreneurial activities. In addition to earning a profit, sustainable micro-finance providers are in a better position than their subsidized peers to expand their operations and share of the market (Ogbor, 2009). Santem (2010) argues that through the provision of credit, MFIs will stimulate and create opportunities for the poor to set up small businesses.

According to Kevan & Wydick (2001), the provision of credit to the poor increases capitalization of business, employment creation, and long-term income growth. According to Muktar (2009) Agriculture and microenterprises in Nigeria contributes immensely to job creation, and are of particular interest to all Microfinance Bank in rural areas. Microfinance banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by microfinance banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbing, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming.

In Nigeria, credit has been recognized as essential tool for promoting SMEs and poverty alleviation. About 70% of the population is engaged in the informal sector or in equity agricultural production (Yaqub, 2010). According to concept paper from Ministry of Agriculture, irrigation and livestock in Kenya (2009), Improving farmers, traders' and agribusiness access to credit is essential to accelerate growth in the agriculture sector. This is especially true for those farmers whose crops is produced on seasonal basis or the products that take several years to reach maturity (horticulture and livestock products)

A major barrier to rapid development of the SMEs sector is a shortage of both debt and equity financing .Accessing finance has been identified as a key element for SMEs to succeed in their own drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Idowu, 2010). Oni, Paiko & Ormin, (2012) assessed the contribution of micro finance (MFIs) to sustainable growth of small and medium scale enterprises (SMEs) in Nigeria. Their research revealed that MFIs does and could contribute to the sustainable growth of SMEs in the country.

Bharti et al. (2006) made a study on the Microfinance and sustainable micro entrepreneurship development. They found that Microfinance plays an important role in microenterprise development. Microenterprise needed not only credit but they also needed a variety of other services for its growth and development.

According to Okurut, F.N., M.Banga. & A. Mukungu (2004), the professed goal of microcredit is to improve the welfare of the poor as a result of better access to small loans. Diagne & Zeller (2001) argues that lack of adequate access to credit for the poor may have negative consequences for various household level outcomes including technology adoption, agricultural productivity, food security, nutrition health and overall welfare.

Rhyne & Otero (1992) argued that financially sustainable MFIs with high outreach have greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor. Both the World Bank (2002) as well as the Beijing Platform for Action of 1995 (BPFA, Women and Poverty) have recognized women's access to financial resources as an important strategy for poverty reduction and donors have increasingly directed microfinance services to women.

Giving women access to working capital should help mobilize women's productive capacity to alleviate poverty and maximize economic output (Cheston & Kuhn, 2002). It also gives them the opportunity to make a 'proper' economic contribution to the household and through this enhance their sense of self-worth (Kabeer, 1998).

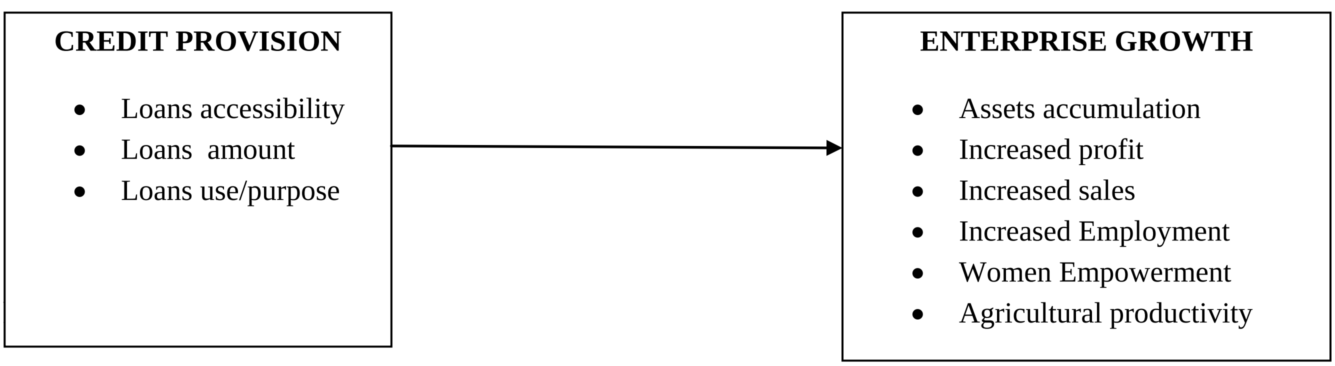
International Labor Organization in Geneva (2006) stressed that Microfinance services lead to women's empowerment by positively influencing women's decision-making power and enhancing their overall socio-economic status. By the end of 2006, microfinance services had reached over 79 million of the poorest women in the world. As such, microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihoods and better working conditions for women.

The MFIs have been of great importance in East African nations especially for women engaged in the coffee sector by providing financial services and boosting their earnings and empowering the women in the rather patriarchal society (Basu, et al, 2009).

Conceptual framework

The focus of this particular research study is to determine the relationship between credit and Small and medium Enterprises (SMEs).The conceptual framework shows the independent variable which is credit and the dependent variable is the enterprise growth.

Independent variable *Dependent variable*



Source: Authors'

Figure 1: Conceptual Framework

Research Methodology

This research study used a sample of SMEs of Ngong in Kajiado County. The population was divided into several strata based on the type of Microfinance Institution and a sample of 35 respondents was selected.

Results of the findings

Amount granted by MFIs to SMEs

The research sought to establish the amount granted by MFIs to the various SME to expand their businesses .This was necessary in finding out if the amount granted was adequate for the operations of their businesses. The minimum amount granted by MFI to respondents was, Ksh. 10,000 and the maximum was Ksh. 500,000.The mode of the amount granted was Ksh.150,000. The mean amount granted as loans to the respondents was Ksh.131454.5455.The findings from the study revealed that the amount applied for loans from the various MFIs was on average Ksh.131,454.5 and the amount used for start- up capital was on average Ksh 94,636.4.The amount granted was found to be adequate for start up of businesses. That shows that the amount given by MFIs, was adequate and necessary for SMEs.

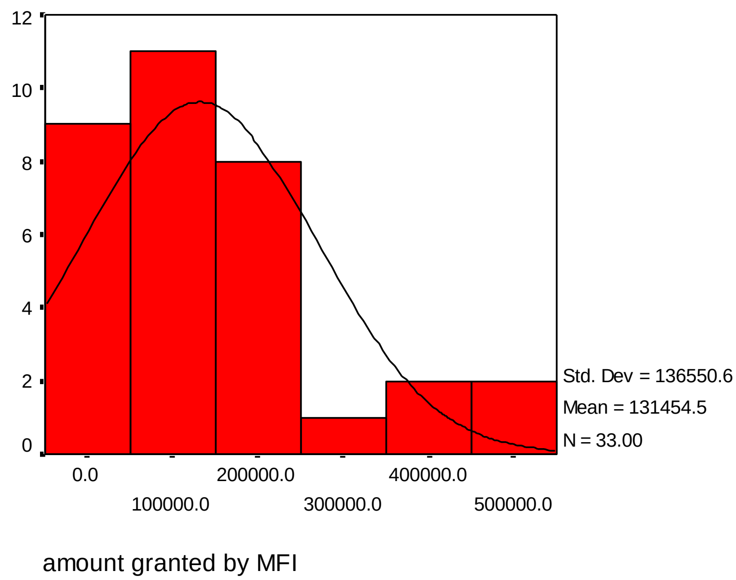


Figure 2: Amount granted by MFIs

Loans applied and amount granted to SMEs

The research sought to establish if the amount granted to SMEs was equal to the amount applied for from the various MFIs. The findings established that 72.3% of the total respondents answered yes that the amount granted by the MFI was equal to the amount applied for, while 27.3% of the respondents denied the fact that the amount granted by the MFI was equal to the required amount. These finding clearly confirms that the MFIs plays a major role in satisfying the financial needs of the SME’s in Ngong. The findings also establishes that majority of SMEs were satisfied with the amount granted by the MFIs.

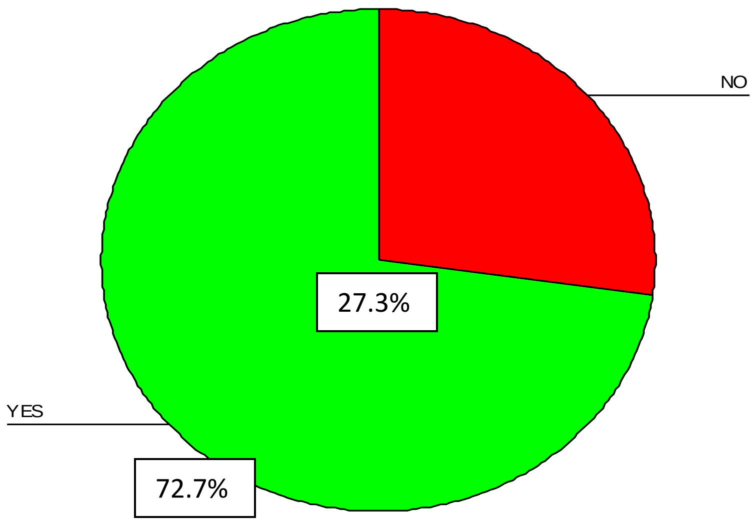


Figure 3: Adequacy of Amount Granted

Loans advanced, business growth and employment

The research sought to record the response on the question, Did the loans advanced assist in business growth? 75.8% of the respondents agreed that the advanced loans helped in the business growth.21.2% were neutral on whether the loans advanced helped in the business growth and 3% disagreed that the advanced loans assisted in the growth of their businesses .The study confirmed that the majority of the respondents were in agreement that credit advanced to them by the various MFIs played a major role in growth of their various business ventures.

The study further revealed that there was a very strong relationship between the rate of employment and credit advanced to SMEs. The data analyzed showed that the rate of employment rose from a mean of 2.09 employees per SME to a mean of 3.48 employees per SME within a period of four years .The reasons cited by the SMEs for this increased number of employees include increased business activities (increased assets. investments, output, net sales) that required more human capital to manage. These findings highly supported Kevan and Wykick (2001) that provision of credit to the poor increases capitalization of business, employment creation and long-term income.

Sources of start- up capital

The study sought to find out the various sources of start- up capital of the various business enterprises. Savings was the dorminant source of start up capital amongs the respondents with 75.8% of the total respondents.12.1% of the respondents had relatives contributing start up capital for their business.In total 81.9% used equity financing as opposed to 6.1% who used debt financing.

The government also assisted some enterpreneurs in financing their their enterprises with3% having received starting capital from the government financing intiatives such as youth and women enterprise funds.From the findings only 6.1% sourced from commercial banks. This is due to strict conditions attached to the borrowing terms by commercial banks.The availabilty of both debt and equity financing will eventually lead to the growth of the business enterprises. These findings support Idowu (2009), who observed that a major barrier to rapid development of the SMEs sector was a shortage of both debt financing and equity financing.

Purpose of the credit sought

The research sought to establish the purpose or the main aim for seeking credit from various MFIs. Expansion of the business was the main aim why most of the respondents sought credit from the MFIs as reflected in the table below with those who sought to expand their businesses at 75.6 %.This strongly suggests that most of the respondents wanted to expand their businesses. Other respondents wanted change from one type of business to another, others sought to pay personal expenses (paying various bills.)

Conclusions and Recommendations

From the findings of the study Credit was found to influence the growth of SMEs. This study therefore recommends that more formal credit facilities be availed to SMEs by the MFIs under favorable conditions to enable more SMEs access the credit facility. The government should Strengthen and build the capabilities of institutions that generate and implement programs for SME development

The GOK should review the existing lending policies and regulations to make it easier for SMEs to access funds from the state through various initiatives sponsored by the government by relaxing the existing strict conditions required .The study also recommends that there is need to train the SMEs on how to utilize the loans granted by the MFIs to avoid misuse of the funds

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