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Effects of lending on Growth of Micro Finance Institutions West Pokot County, Kenya

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Abstract: **The study objective is to establish the effect of microfinance institutions lending on the growth of Small and Medium Enterprise in north rift. Stratified random sampling technique was used to select a total of 60 SMEs that constituted our sample size from infinite population of small and medium sized enterprise. Data collected from the questionnaire was analysed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentages. It was found out that MFIs lending affect the growth of small and medium enterprise in North rift and have positive relationship. The study recommends that there is a need for the government and other partners to facilitate the accessibility of credit in Small and Medium Enterprises to the Microfinance Institutions.**

Keywords: **Growth, Lending, Microfinance Institutions, Small and Medium Enterprise.**

1. INTRODUCTION

More than one out five people in the world about 1.4 billion people are regarded as living in poverty. In Africa, the figure in proportion to the world's figure is even higher. Having been in existence over the last twenty years, microfinance is seen as one of the most effective tools to fight poverty in Africa. (Biekpe, 2007).This demonstrates the significance of microfinance as a potential tool for poverty alleviation. Notably, increased attention has been paid in recent years to what microfinance entails, its objectives, its successes and limitations and its linkage to poverty alleviation. Microfinance evolved as an economic development approach intended to benefit low income men and women (Ubom, 2003).Microfinance thus entails the provision of credit, savings, and other basic micro-financial services to the poor and lower income clients, who do not have access to credit from conventional banks (Robinson, 2001). Microfinance is thus recognized as one of the tools that enhance the capability of the poor to engage in sustainable productive activities, leading to poverty reduction and improved social welfare (Adjasi& Coleman, 2006). In general, Microfinance refers to loans, savings, insurance, and other financial products targeted at the low-income populous (Reno-Weber, 2007). The development of microfinance sector in Africa is greatly attributed to international organizations as most of them are donor funded, whilst a few are operated independently. Most of the clients that Microfinance tends to are those with limited or no access to formal financial institutions. Those who patronize Microfinance are largely from rural areas that have many self-employed individuals as either farmers, traders or service providers (Reno-Weber, 2007). In most urban areas, microfinance clients can be shopkeepers, taxi drivers and street vendors (Reno-Weber, 2007). Moving away from small business owners, microfinance includes services to individuals looking for loans for school fees, home improvements, funerals, weddings, and other personal accommodations. Microfinance has been recognized by countries all over the world since the early1980s as a way to stimulate economic growth and provide financial opportunities to individuals of extreme poverty (Aubuchon &Sengupta, 2008).

Statement of the Problem:

Although microfinance has been present in Kenya since the late 1990s, this sector has fallen short on achieving widespread outreach and sustainability, hence compromising on client impact. Despite the rapid growth of MFIs in other Counties in Kenya, the same has not been realized in West Pokot Sub County. This study, therefore, sought to conduct an

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objective investigation into the factors that have influenced the growth of MFIs in West Pokot Sub County thereby an understanding of these factors and their influence on growth of MFIs will enable policy makers, the centralized government and the communities to develop policies favor this growth.

Overall objective:

The overall objective of the study was to establish the effects of lending on the growth of microfinance institutions in West Pokot County.

Specific objectives:

To investigate the extent to which lending regulations influence the growth of microfinance institutions in West Pokot County.

2. LITERATURE REVIEW

The concept of micro credit became prominent in the 1980s, even though it has been in existence long before then in Bangladesh, Brazil and a few other countries (The Microfinance Gateway, 2005). The recent decade has however seen an increasing interest in microfinance and it is regarded as one of the promising tools to address poverty in the developing world (Carlton et al. 2001). Ahmed (2005) notes that for Africa to move forward with economic development and poverty alleviation, it is essential that it progresses swiftly with the integration and transformation of its microfinance industry. For that reason there is a greater need to embrace microfinance as one of the developmental tools. In Kenya, Microfinance institutions are generally regarded as institutions that mainly offer microcredit or micro lending to both employed and unemployed people. Carlton et al., (2001) state that MFI clients tend to cluster around the poverty line and most beneficiaries of the MFI services are neither poor nor affluent and tend to come from households that usually meet their daily needs. In addition, the JCC study (2006) points out that microfinance clients are typically the informal sector and registered micro-entrepreneurs. On the contrary, the clients of microfinance in Kenya include individuals with full-time jobs, government officials and those that do not have access to commercial banks .However, in order to serve the poor clients, it is necessary to classify them based on their level of poverty instead of treating them as an undifferentiated, homogeneous group. The segregation of the poor will ease the burden of the poor in terms of repayment especially because most MFIs require sustained, regular repayments which can prove to be challenging to households with seasonal or variable income, which is normally the case with the poor (Davis 2005).

Conceptual framework:

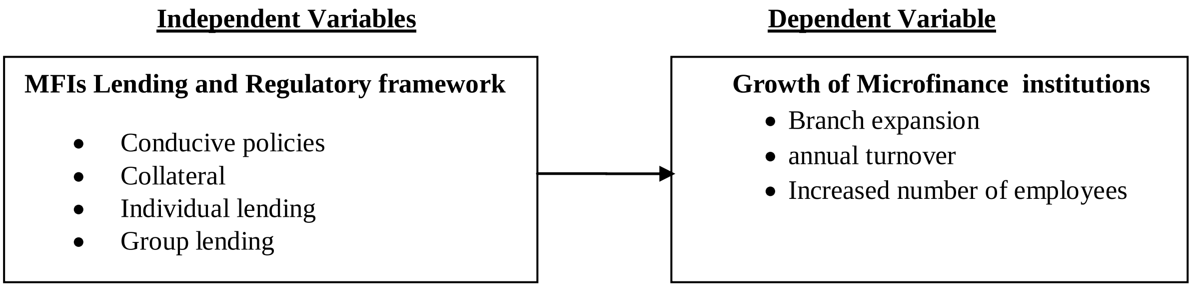

Figure 2.1: Conceptual framework showing relationship between variables

Regulatory framework and growth of microfinance institutions:

A conducive policy, legislation and regulatory environment, and institutional capacity are prerequisites to a thriving microfinance sector development. The stability of financial and other markets enables micro enterprises and consequently microfinance services to become viable (Ledgerwood, 1999). The financial policies coupled with a relaxed regulatory environment for microfinance have resulted in tremendous growth and spread of microfinance in Ghana (Adjasi et al. 2006).Regulatory approaches of microfinance range from self-regulation in which the industry develops its own supervisory and governance bodies to full regulation through existing laws specific to MFIs. The aspect of regulation of the microfinance sector should be observed within the broader developmental agenda that recognizes the significance of the sector in reduction of poverty and contribution to wealth creation. The primary responsibility of government in fostering successful microfinance is to: Establish appropriate regulations that permit institutions to change interest and

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fees needed to cover all costs and to return profits, Provide effective, appropriate supervision of institutions supplying microfinance, educate the bureaucracy and the public about the new microfinance and its importance for the economy and for development. (Moyo, 2008:39)

Governments that understand the social and economic benefits that the country can derive from sustainable microfinance will be better equipped to guide the political processes required for its implementation. As regulators, governments can similarly be a role player in contributing to microfinance sector development through the implementation of appropriate regulatory frameworks (Robinson 2001).

3. RESEARCH METHODOLOGY

The study used survey design to examine the factors influencing the growth of microfinance institutions in West Pokot County. The study targeted both formal and informal microfinance institutions operating in the West Pokot County. The sampling frame for the study was drawn from the population of residents in West Pokot Sub-county and the Microfinance Institutions Operating in West Pokot County. This study sampled population required to provide information for the study. Only those formal Microfinance institutions which have been in operation for more than two years before the onset of county government were studied, also, the study only focused on informal microfinance institutions which are registered with the county government. In this study the sample size will be determined using the formula $N= (z/m)^2$ p(1-p) where, N is the sample size, Z is the z value of 1.96 for 95% confidence level, M is the margin of error of 0.05, P is the estimated value of respondents who will respond in a given way to a survey question in this case 50% or 0.5. Therefore N= 372 for this study. Structured questionnaire was used to collect background information of the financial system in place, accounting procedures and policies, budgets and the internal controls in place.

4. DATA ANALYSIS, RESULTS AND DISCUSSION

Effects MFIs Lending on SMEs Growth:

On a five-point linker scale (1-Strongly disagree, 2-Disagree, 3- Natural, 4-Agree 5- Strongly agree) respondents were requested to indicate their responses to statements posited by the researcher in the respect to SME growth and MFI lending. The means and standard deviations were generated as tabled in table 4.5 below.

Table 4.5 Effects of MFIs Lending on SMEs Growth

Statement	N	Mean	SD
Micro finanace institutions funds the profitability of small and medium enterprise	50	4.94	0.398
MFIs contributed to increased numeneurs starting new venture	50	4.33	0.511
SMEs increase their productivity through funds from MFIs	50	4.12	0.461
MFIs provide lending to the entrepreneurs of SMEs	50	4.23	0.419
MFIs provide only group based funding	50	2.76	0.508
MFIs are reluctant to support poor people who want to expand their businesses	50	4.16	0.551

Findings from table 4.5 above present generally high agreement levels with the statements posed by the researcher as indicated by the high means. Respondents strongly agree that Micro finanace institutions funds the profitability of small and medium enterprise, MFIs contributed to increased entrepreneurs starting new venture, SMEs increase their productivity through funds from MFIs, MFIs provide lending to the entrepreneurs of SMEs and MFIs are reluctant to support poor people who want to expand their businesses as indicated by mean scores of 4.94, 4.33, 4.12, 4.23 and 4.16 respectively while they disagree that MFIs provide only group based funding. Another notable observation is that most MFIs are seen to prefer individual lending to group lending (X =2.76, S.D=.508). This is normally associated with high loan defaulting among group loanees as compared to individuals who can be traced easily for repayment.. It can however be concluded that MFI loans lead to the improvement in productivity among the beneficiary SMEs, as well as profitability and the high number of entrepreneurs starting up new ventures.

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5. CONCLUSION

The study has established the effect of microfinance institutions to the growth of Small and Medium Enterprise. It can also be concluded that most of the requirements as collateral for loan application cannot be afforded by most SMEs, hence opting for cheaper sources of capital hence the low adoption of the loan services by MFIs. Other challenges causing low adoption of the loans include: the long time taken processing loans, stringent repayment terms and the high transaction costs. MFI loans can be said to lead to the improvement in productivity among the beneficiary SMEs, as well as profitability and the high number of entrepreneurs starting up new ventures.

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