

DETERMINANTS OF GROWTH OF MICROFINANCE ORGANISATIONS IN KENYA.

(A CASE STUDY OF SMALL MICRO ENTERPRISE PROGRAMME – SMEP, VOI.)

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ABSTRACT: *The main objective of this study was to determine the key factors that determine the growth of the microfinance institutions. The target population was the people that participated in these MFI's which in many cases were found to be women groups, middle and low income earners in Voi, however concentration was mainly on the individuals / groups that were registered with the SMEP in Voi. The method used for this research was exploratory survey. Data collection methods such as questionnaires, observation and interviews were used. Sampling technique was used and results analyzed qualitatively and quantitatively in terms of descriptive statistics. Pie charts, bar charts and frequency distribution tables were incorporated in data presentation. Finally, conclusion on the factors determining the growth of microfinance institutions in Kenya were arrived at and areas for further research pinpointed. Recommendations for better operation and handling of the microfinance were noted.*

KEYWORDS: *Microfinance institutions, exploratory survey, sampling, descriptive, earners*

INTRODUCTION

In many countries in Africa, the informal financial sector co-exists with the formal financial sector. The informal financial sector is, however, viewed to be larger than the formal financial sector. Despite this fact, measures of monetary policy are directed to the formal financial sector because the informal financial sector is not clearly defined. This leads to the ineffectiveness of monetary policy and hence a need to create an understanding of the informal financial sector. Microfinance organizations are the most prevalent in developing countries, and participation in MFO's is costly. For example there is the opportunity cost of time spent attending meetings. Moreover, members suffer from the risk of default from other members - which could eventually lead to the breakdown of the MFO -, saving with MFOs is less flexible than saving on their own as the MFO saving rate is likely to differ from their optimal saving rate.

Despite all these costs, these groups enjoy popularity which proves that it must be beneficial to their members, who, in are need of a saving device, and are ready to pay for it. This brought the question as to why individuals would decide to join a MFO instead of saving on their own. Knowledge of the motives for joining MFOs would be very useful in design for microfinance products for this population and growing. If they were to be effective, they must be meeting the motives which the targeted people have.

This study built on the knowledge of MFOs motives. Researchers on MFOs have attributed MFO participation to lack of access to formal savings and credit markets. They ignored the

impact of such factors as individual investment factors, motivation for personal involvement, education level and utilization of loans on MFO participation. This study looked upon the studies of MFO participation by including those factors which had been ignored and assessing their impacts on MFO growth.

Objectives of the Study

The general objective of this study was to find out the factors that “To determine the growth of micro finances in Kenya”. Despite the participation of the low income earners and so called “Poor” in MFOs, these organizations continue to thrive despite the challenges that they surround them, e.g. High rate of defaulters.

Specific Objectives

The study was to focus on the following specific objectives: -

- (i) To determine the extent to which the amount of individual investment influence the growth of these MFOs.
- (ii) To verify how the level of education for the participants influence the growth of MFOs.
- (iii) To establish how the utilization of loans received by individuals / Group are used in relation to growth of the MFOs.
- (iv) To find out how the participation rate of individuals/ Groups in MFOs affect growth rate.

Research Questions

Drawn from the above objectives, the study was seeking to answer the following questions:

- (i) How does the amount of investment influence growth?
- (ii) Does the level of education of the participants influence growth?
- (iii) How does utilization of loans received enhance growth of the MFOs?
- (iv) Does the number of participants either individual or group influence the growth of MFOs?

Justification of the Study

As highlighted, one of the key roles microfinance had to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This was their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centres while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFOs were to fill this void they must reach the rural poor.

The study is of significant to a number of organizations namely the government, research institutions and development organizations.

The Scope

The focus of his study was the poor or low income earners in our Kenyan society. The study was limited to the population in Voi town with special reference to SMEP – Voi. We were going to target the groups which benefit from this organization.

Limitations of the Study

The data was to be collected on only one location in the urban area representing the status in Kenya making it difficult to replicate it in other areas of the country. However, it was an important step in comparing the result.

Availability of respondents: There were problems of availability of respondents especially in the urban areas who were out in their workplaces during the day though the researcher was able to capture quite a majority of them, though it made the research process expensive and time consuming.

Respondents' fatigue: During interviewing of the SMEP staff it was evident that some of the respondents were feeling like they are being disturbed and like too much information was being sought from them. It took time convincing for them to give the information.

Suspicion: Some respondents were unwilling to give information due to the feeling that information about finances was personal and the suspicion that the information given could be leaked to others. The researcher had to assure them that any information will be to their benefit and that it will be treated with absolute confidence.

LITERATURE REVIEW

Microfinance Organization (MFOs)

Microfinance, according to Otero (1999) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define Microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.”

MFOs are found worldwide and in countries with vastly different levels of economic development. Ardener and Burman (1995) document the prevalence of MFOs in Asia, Latin America, the Caribbean, and Africa. MFO participation is particularly high in Africa. Estimates suggest that in 1986, 50% of the adult population in the Congo belonged to a MFO, while participation ranged from 50 to 95 percent in many rural areas in Liberia, Ivory Coast, Togo, and Nigeria (Bouman 1995). In 1992, membership in MFOs in Cameroon was estimated at 80 percent of the adult population (Bouman 1995) and in several villages in Nigeria in 1987, adult membership was found to be 66% of the population. In sample of 115 households in central Kenya showed that 45% were participating in a MFO (Kimuyu 1995). MFO participation is not limited to developing countries. While MFOs are often found in economies where formal credit markets are thin or non-existent, they are also found in more developed economies among sub-groups who have been traditionally excluded from mainstream financial services, as well as among individuals who have reasonable access to formal banking institutions. MFOs have been reported among employees of the IMF (Ardener 1995) and among bank employees in Bolivia (Adams and Canavesi 1992) and Ghana (Aryeteey and others 1997). In countries such as Taiwan with relatively well functioning credit markets, as many as 80 percent of adults are estimated to belong to MFOs (Besley and Levenson 1996).

While the popularity of Christmas clubs has declined, 10 million Americans still belong to such savings clubs (Laibson, Repetto, and Tobacman 1998). In addition, there are numerous savings commitment technologies available to middle and upper income consumers in the U.S., including IRA's, defined contribution plans, and pensions. Over two-thirds of U.S. household assets in 1994 were held as illiquid assets (Laibson 1997) such as pension funds and life insurance reserves.

Savings commitment technologies are receiving increasing attention as a mechanism for increasing savings among the poor since low-income Americans generally have little access to the institutional savings mechanisms available to their middle- and upper-class counterparts. For example, the savings discipline inherent in a Christmas club is being harnessed a century later as part of a “faith-based savings” movement among U.S. churches in low-income urban neighborhoods. Many churches now run savings circles that meet on a weekly basis. Participants report that the regular weekly meeting with church peers provides the discipline to save and to avoid trivial expenditure (Tripoli 2000). The shows essences of MFO, in addition, programs such as the Earned Income Tax Credit (EITC) may promote savings and asset accumulation by the poor because the credit is normally received as a deferred lump sum after taxes are filed (Smeeding, Phillips, and O’Connor 2000). Similarly, individual development accounts (IDA’s) are increasingly being used to provide poorer Americans with a savings commitment technology similar to an IRA: withdrawals from IDA accounts are limited to specific purposes and participants must often commit to a pre-arranged level of savings (Stegman 1999).

Conceptual framework

The above review of literature had suggested that the growth of MFOs was determined by individual, social, as well as economic factors. Some of the variables that were used in the study include:

Independent and dependent variables

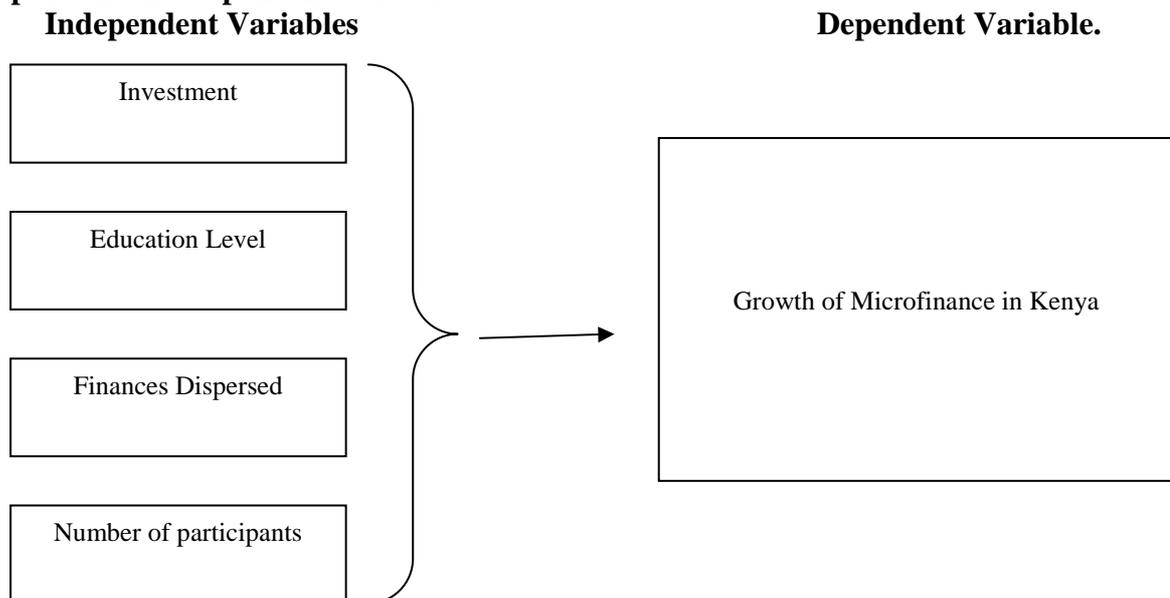


Fig 1: Conceptual model depicting factors with potential influence on participation in MFOs

Theoretical Review

Microfinance refers to all types of financial intermediation services (savings, credit funds transfer, insurance, pension remittances, etc.) provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed (Robinson, 2003). Effective, long-term provision of these services occurred through microfinance institutions that adhere to the key principles endorsed by the Consultative Group to Assist the Poorest (CGAP) and its 28 member donors, which were further endorsed by the Group of Eight leaders at a Summit on June 10, 2004. The fourth key microfinance principle states that “Microfinance can pay for itself, and must do so

if it is to reach very large numbers of poor people. This report focused on this fourth principle by empirically estimating the financial sustainability of selected microfinance institutions in Namibia's formal sector.

The importance of the informal financial sector gained prominence following the works of Mckinon (1973) and Shaw (1973). They argued that restrictive government financial policies shift the allocation of investible funds away from the market and make this a function of government.

This happened as governments try and manage credit allocation through subsidies interest rates ceilings and direct intervention. As interest rates are kept artificially low, often in times of high inflation, the demand for loans raised. At the same time, formal lenders would find the depressed normal rates unattractive as they are unable to adjust their cost structures adequately to meet the official standards. In attempting to cut back on supply, the shifting of loans to their least risky clients was expected to lead to many of the rationed out clients spilling over to informal sources of finance. The existence of the informal financial sector is thus a reaction to policy distortions or financial repression. Since the informal sector was not subject to regulation, it was more efficient than the formal one. The remedy for this relative inefficiency of the formal credit market may be seen in financial liberalisation. This view, however, did not reflect the situation in Kenya and less developed countries because despite interest rate liberalisation, the informal financial sector continued to thrive.

The other view, supported by Adams 1992, Wai 1992, was that the informal sector had a comparative advantage in some market segments notwithstanding financial liberalization. They argue that while it was costly for formal institutions to acquire information, informal agents could utilize local personal information resulting in monopoly power. Moreover, weak legal systems inhibit contracts enforcement, which resulted in credit rationing of potential borrowers without collateral. Informal agents could fill such market segments and collateral could be replaced by reputation, group responsibility and inter linked transactions. Several researchers (Aredo, 1993, Chandavaskan, 1985, Miracle et.al 1980, Bouman and Houtman 1988) supported this view of the informal financial sector having certain advantage over the formal sector. The average scale of operation and cost of lending and recovering, they argued, was small; there was freedom of entry and exit and it was freed from Central Bank counters, information gathering was kept to the minimum while trust and firsthand knowledge of a participant are important and the purpose is for both consumption and investment).

Despite being in existence for a long time, MFOs became subjects of formal analysis recently following the pioneering work by Besley, Coate and Loury (1993). Since then several researchers have developed interest in the area.

RESEARCH METHODOLOGY

This section presents the methodology that was used to design and analyze the data derived from the study. It includes research design, the target population, sampling and sample size, data collection procedure and data analysis and presentation.

The study area was Voi town. The choice of this area was because it was accessible to the researcher, the organization SMEP had been there in existence for over seven years. The

town is mostly a business town; it harbored many of low income earners who deal with various types of businesses.

The rationale for selection of this area was that being a town, it was likely to give a fair representation of the various ethnicities of people in Kenya as it's a cosmopolitan town. Secondly having a slum area, such as Tanzania and Maweni the residences of these areas, majority of the population were likely to be excluded from formal financial institutions due to lack collaterals formal knowledge on financial institutions and merger resources. They were therefore likely to be using informal channels of finance.

Research design

The research design was a plan and structure of investigation so conceived as to obtain answers to research questions (Crewell, 1994). It expressed the structure of research problem- the framework, the organization, or the configuration of the relationships among variables of the study- and the plan of investigation used to obtain empirical evidence on those relationships (Adams and Schvaneveldt, 1991). In recognition of the fact that no single design exists in isolation, Sanders et.al (2003) postulate that combining different designs in one study enable triangulation and increase the validity of the findings but this was not be used in our study as one design would give us the findings.

The research design that was used for the purpose of this study was explorative design, this seek to explore the participation rates of MFOs, the determinants of participation, reasons for participation, and the outcome. The study took a case study approach. Data was collected from a micro - organization based in Voi called SMEP.

Population under study

Our target population was residents living and conducting business in Voi. Voi town had approximately a population of 100,000 living within and in the surrounding. The study was narrowed down to specifically to the individuals who are registered with SMEP organization and compares various factors that lead them to be involved with SMEP.

Sampling Procedure

Sampling Frame

Sampling is a process of selecting a sample from a population. Voi town was the main area where the study is concentrated.

Sample size

The sample size for this study will be 100 respondents who were selected by simple random method from the study population. According to Bartlett, J. E, the sample size of a statistical sample is the number of observations that constitute it. It was typically denoted n , a positive integer or a natural number. For purpose of this study the following formula used to

determine the sample size.
$$n_f = \frac{n}{(1+n) \frac{1}{N}}$$

Where: n_f = the desired sample size (when the population is less than 10,000)
 n = the desired sample size (when the population is greater than 10,000)
 N = the estimate of the population size.

Sampling procedures:

There are two different types of sampling procedures that is **probability and non-probability**. Probability sampling methods ensure that there is a possibility for each person in a sample population to be selected, whereas non-probability methods target specific individuals. For this study the researcher used simple random sampling. In simple random sampling each item in the population has the same probability of being selected as part of the sample as any other item.

Data Collection Procedure**Data Collection**

Data collection methods such as questionnaires, observation and interviews were used. The study used both primary and secondary sources of data.

Secondary Data

This comprised mainly desk review of published information on informal finance in general and MFOS in particular. It was collected from libraries and the Internet. It assisted the researcher in identifying relevance of the variables to be used in the data collection. Data from SMEP was also used.

Primary Data

This was collected using questionnaires, interview and observation. The data was collected by the researcher. Data was collected on the four variables to be specific. Data on individual characteristics included age of the respondent, their levels of education, marital status, gender and their occupations.

The process of implementing the survey involved a number of separate activities. Walking from one customer to another administering questionnaire. They were classified according to the type of respondent, either male or female. Also the researcher conducted face to face interviewing of the respondents.

Pre-testing the questionnaire

The purpose of pre-testing was to determine if questions are properly worded and if they would be understood by the respondents. In order to achieve this, a detailed pilot exercise was conducted to test the questionnaire. A trial interview was conducted among a few respondents. The respondents were selected in areas other than the selected ones.

Questionnaire administration

After pre-testing the data collection commenced immediately. Respondents who were already involved in the pilot testing were not repeated.

Data Processing and Analysis

Data analysis was a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information suggesting conclusions, and supporting decision making.

After the data was collected various methods of data analysis were used. Data was analyzed both qualitatively and quantitatively using packages such as SPSS, spreadsheets e.g. excel and use of statistical diagrams such as pie charts, bar charts, graphs etc.

Presentation of findings

Data was presented using Pie charts, bar charts and frequency distribution tables also be incorporated in data presentation. A project report drafted outlining the observation suggestion and conclusions of the whole project. The variables were the reference point in order to find out if our objectives had been achieved from conducting this study. Finally, conclusion on the factors determining the growth of microfinance institutions in Kenya were arrived at and areas for further research pinpointed.

RESEARCH FINDINGS AND DISCUSSION**Introduction**

This section gives a detailed analysis of the data collected and presents the findings. The data is analyzed and presented in form of frequency tables and percentages. The first section presents an analysis of the respondents and business profile in frequency tables and percentages. The second part presents an analysis of the personal character and personal attribute.

Demographic Profile

Table 1 illustrates the demographics of the respondents, who participated in the survey. 100 entrepreneur respondent to our questionnaire.

Table 1 response rate

Response	Frequency
Response	100
No Response	35
Total	135

Back ground of the individual/group

This section focuses on quantitative analysis of the background of the individual/group. It captures the marital status, age, if the individual/group has had any form of training in SMEP and the rate of knowledge on SMEP. The findings are summarized in tables and figures below.

Demographic profile of Marital Status

In this section, data on the marital status was captured. The respondents were required to indicate the marital status as Single, Married, widowed and Separated or divorced and others. Percentages have been used to analyze the data. Findings are presented on figure 1. It shows that of the surveyed respondents 54.0% of them are married, 38.0% are single, 6.0% is widowed, 2% is divorced and 0% belonged to others. This is an indication that the Married and the single people are the ones actively involved in the investment of MFI's.

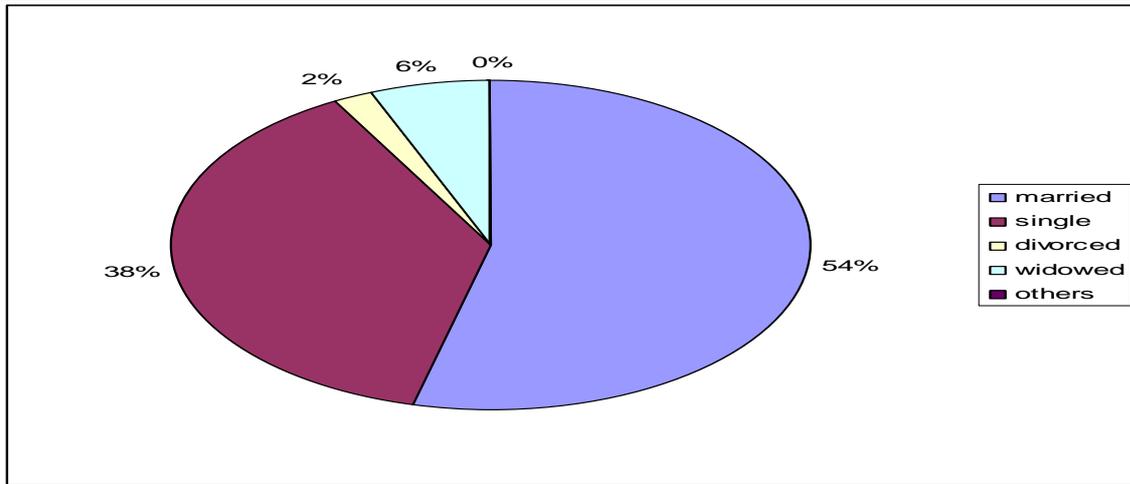


Figure 1 Marital status

Demographic profile of Gender

In this section, data on the gender was captured. The respondents were required to indicate their gender as male or female. Percentages have been used to analyze the data. Findings are presented on figure 2, shows that of the surveyed respondents 60.0% of them are males while 40% of them are females. This is an indication that the males are the ones actively involved in the investment of SMEP.

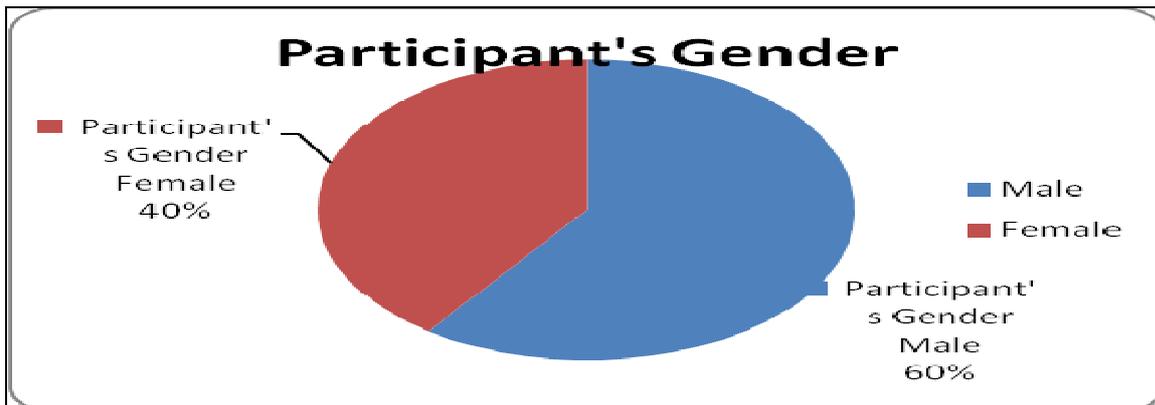


Figure 2 Participant's Gender

Demographic profile of Age

In this section, data on the age was captured. The respondents were required to indicate their age. Their age was categorized into groups which they belong to from 21-30 years, 31-40 years, 41-50 years and above 50 years. Percentages have been used to analyze the data. Findings are presented on figure below that of the surveyed respondents 32% are of the age between 21-30 years, 46% are of the age between 31-40 years, 21% are of the age between 41-50 years and 9% are above the age of 50 years. This is a clear indication that the youth of the nation are more involved in the Microfinance institutions sector than any other age group. This has made the industry to grow very fast due to the demand that the youth are putting on the sector in demand for the latest upcoming microfinance institutions with the best offers.

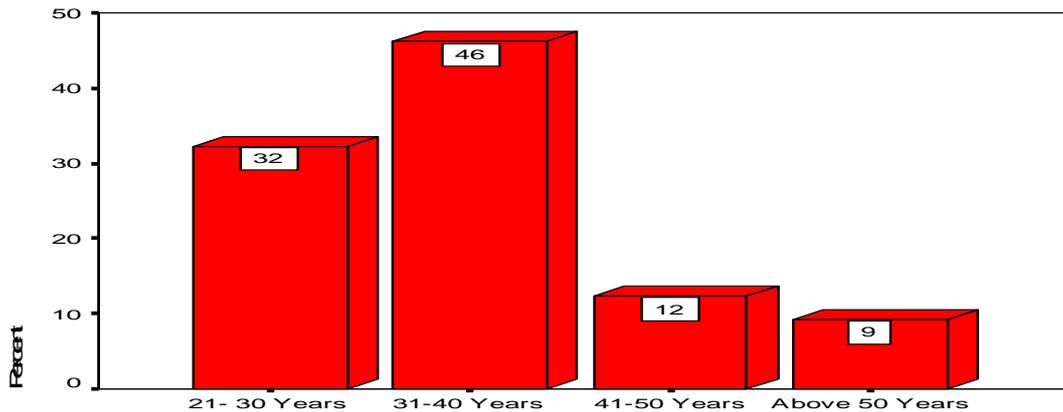


Figure 3 Age category

Demographic profile of Training on Microfinance and Education level of participants

In this section, data on training on microfinance was captured. The respondents were required to indicate Yes or No if they have had any form of training/education and if possible their level of education. Percentages have been used to analyze the data. Findings from surveyed respondents were evident that the majority at 89% of the participants have never had any form of training on microfinance while 11% of the respondents have had some form of training. It is clear why some of the MFO's do perform poorly at the long run. We find MFO's which are well located and have enough capital but the participant might be the cause of the MFO failure.

Further of those who had tertiary training were 40% of the respondents, 32% were secondary school leavers, 22% had attained primary school level, 6% were university graduates and 0% had no formal training.

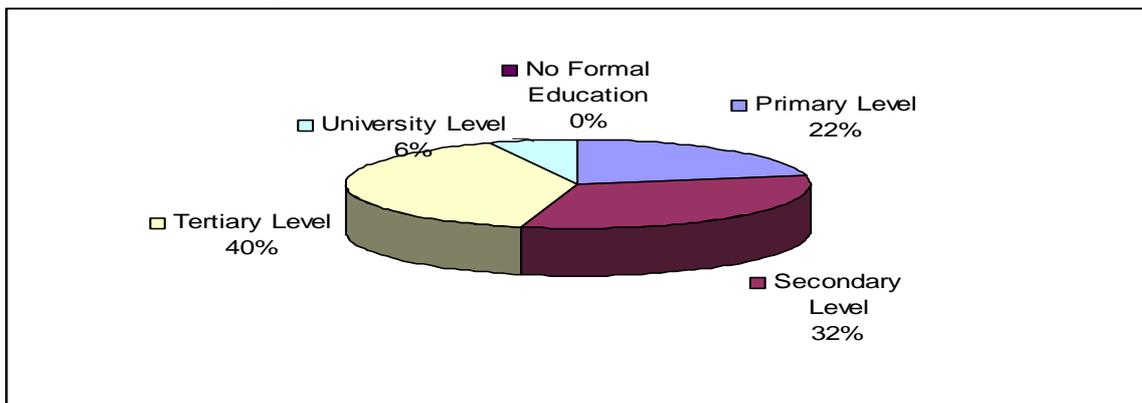


Figure 4: Education Level

Demographic profile of Rate of knowledge on MFO's

This question was to capture the rate in which the participants rate their understanding on microfinance institutions. It captured the rate as from very high, high, medium and low. Percentages have been used to analyze the data. From the findings below, it is clear that majority of the respondents at the 66% have knowledge on MFO's rate at medium, 18% low and 8% from both very high and high.



Figure 5: Training on Microfinance

Demographic profile of Background of SMEP

In order to determine the nature of the MFI under survey this section becomes handy to capture when the business was established, annual savings and number of participants. The findings are summarized in tables and figures below.

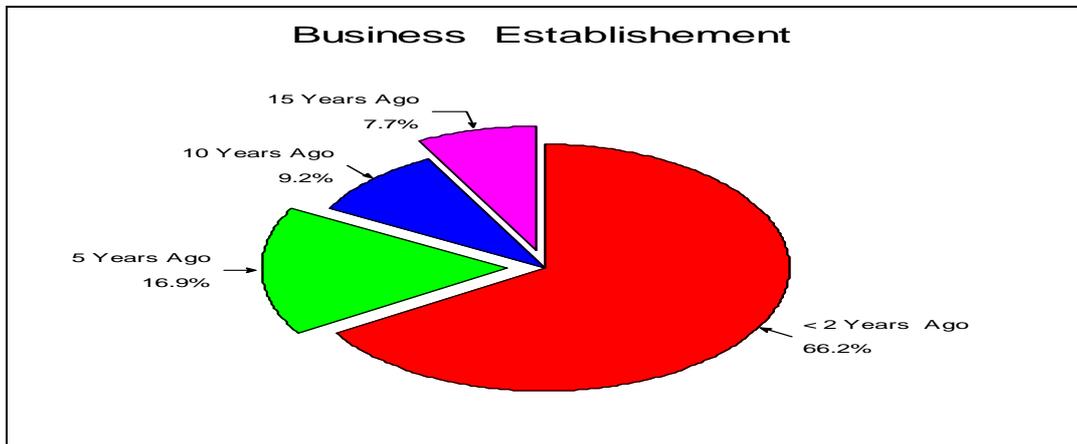


Figure 6: Year of establishment

From the figure above it's evident of the ignorance from the members that despite joining SMEP a large percentage (66.2%) does not exactly know when it was established.

Demographic profile of SMEP establishment

This section analyzes SMEP establishment. It captured the years from less than two years ago, less than 5 years ago, 10 years ago and 15 years ago. The data has been analyzed using percentages and presented as a pie chart. The findings are summarized in figure below. Using the results in figure 6, it is evident that 66.2% of the respondents agree that SMEP was established less than two years ago. 16.9%, 9.2% less than 10 years ago and 7.7% 15 years ago. In Kenya MFO's is still a new sector thus from the figure above majority of the participants concur that SMEP was established two years ago. Nevertheless the microfinance sector has been embraced for a long time and the increase of SMEP in terms of participants is a show of how the MFO is profitable and has grown.

Table 2: Participants and Annual Savings with time.

YEAR	PARTICIPANTS	ANNUAL SAVINGS
1991	200	20000
1992	230	23000
1993	262	26200
1994	300	60000
1995	343	68600
1996	394	78800
1997	450	90000
1998	516	103200
1999	590	118000
2000	676	338000
2001	774	387000
2002	886	443000
2003	1015	507500
2004	1162	581000
2005	1331	665500
2006	1524	762000
2007	1745	872500
2008	1998	999000
2009	2288	1144000
2010	2620	1310000
2011	3000	1500006

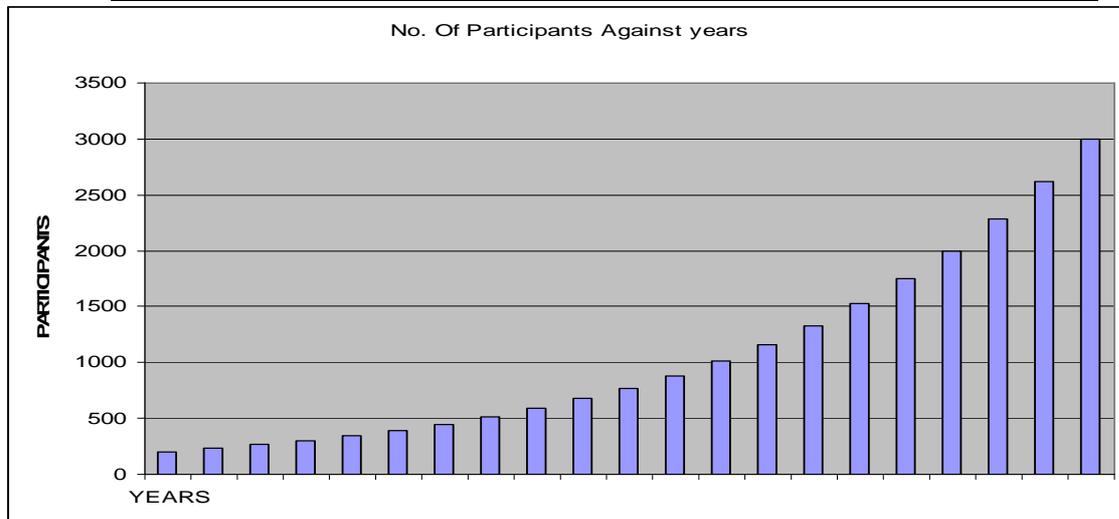


Figure 7 : Bar chart of No. of Participants against Time

The bar chart depicts that there has been an increase of the number of participants over the years since 1991 (inception). At the start the participants were few but as years progresses the number grew large. This accounts for the same results as observed in the preceding chart.

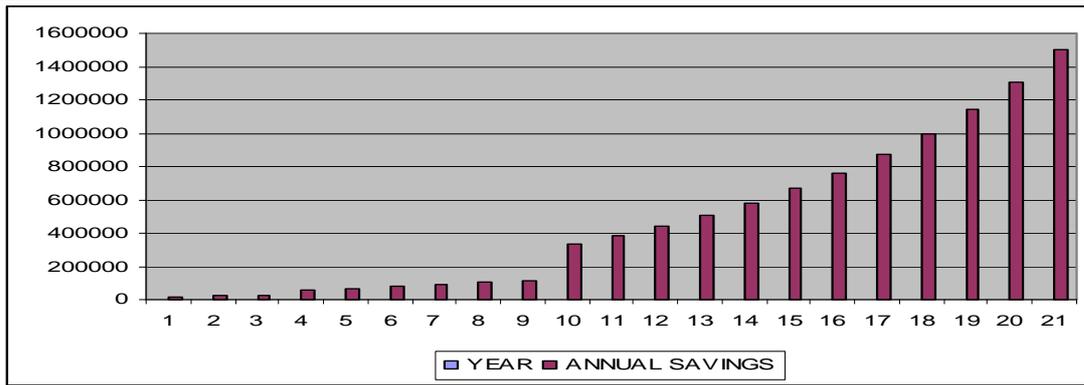


Figure 8: Bar chart of Annual Savings against Time

The bar chart shows that as the number of participants in SMEP increases, the annual savings also increases. This is attributed to the minimum saving per participant that initially was 100/= by 1991-1993, 200/= by 1994-1999 and 500/= by 2000- to date on average.

Demographic profile of individual/group occupation

An individual/group can be employed in various places. In our case the respondents were requested to indicate their main occupation. The data has been analyzed using percentages and presented as a bar chart. The findings are summarized in figure below. It is evident from the tabulation that the most of the participants are small scale businessmen at 64%, artisan employment is at 8%, those that are employed by the private sector are 14%, large scale businessmen and public sector employment stood at 6%, while those that belong to other form of employment are 2%. It is clear from the above figure that most of the MFI's rely on are small scale businessmen. This scenario shows clearly that the small scale businessmen invest heavily on SMEP irrespective of their earnings.

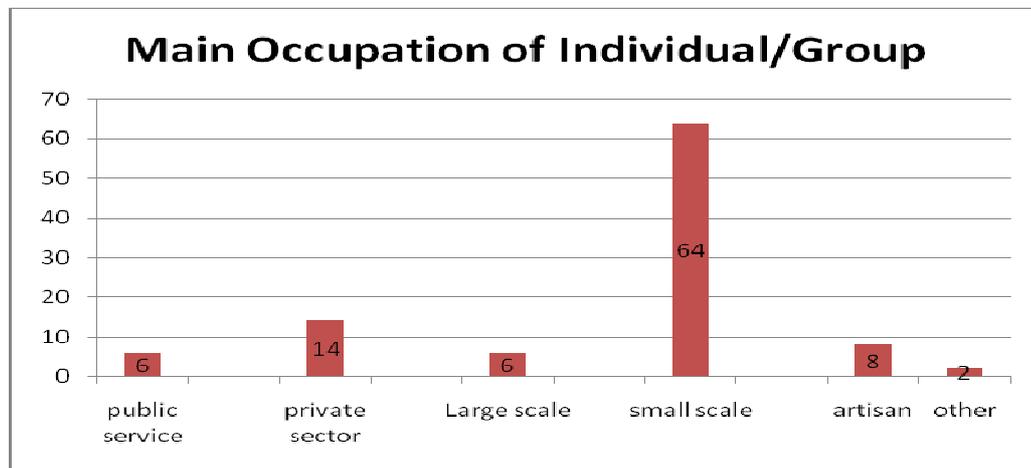


Figure 9: Main Occupation of members

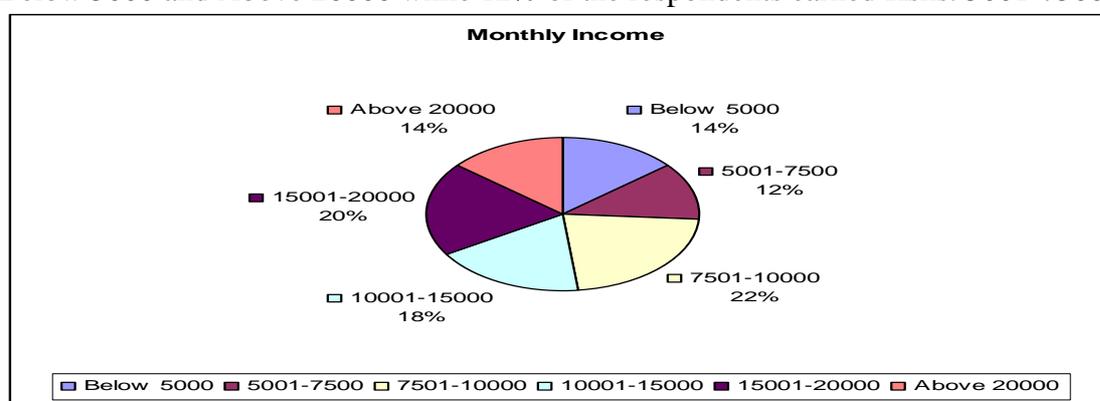
Demographic profile of Monthly Income

For SMEP to run smoothly it has to have some individuals/group that is working and earning. In this section the respondents are requested to indicate the approximate monthly earning. The data has been analyzed using frequency and percentages and presented as a table. The table below shows the response.

Table 3: Monthly earning

Approx. monthly income	Frequency	Percent
Below 5000	14	14
5001-7500	12	12
7501-10000	22	22
10001-15000	18	18
15001-20000	20	20
Above 20000	14	14
TOTAL	100	100

Using the results in Table 3, it is evident 20% of the respondent earned between Kshs.15001 and 20000, 22% earned Kshs. 7501-10000, 18% earned Kshs. 10001-15000 14% earned Below 5000 and Above 20000 while 12% of the respondents earned Kshs. 5001-7500.

**Figure 10: Monthly Income**

Demographic profile of Monthly Expenditure

In order for SMEP to ascertain the type of participants that they deal with, it is imperative to know their spending. In this section the respondents are requested to indicate the approximate monthly expenses. The data has been analyzed using frequency and percentages and presented as a table. The table below shows the response.

Table 4 : Monthly Expenditure

Approx. monthly expenditure	Frequency	Percent
Below 5000	34	34
5001-7500	24	24
7501-10000	24	24
10001-15000	14	14
15001-20000	0	0
Above 20000	4	4
TOTAL	100	100

Using the results in Table 4.4, it is evident 34% of the respondent spend below Kshs.5000, 24% spend Kshs. 5001-7500 and Kshs. 7501-10000 , 14% spend Kshs. 10001-15000, 0% spend Kshs.15001-20000 while 4% spend Kshs. above 20000.

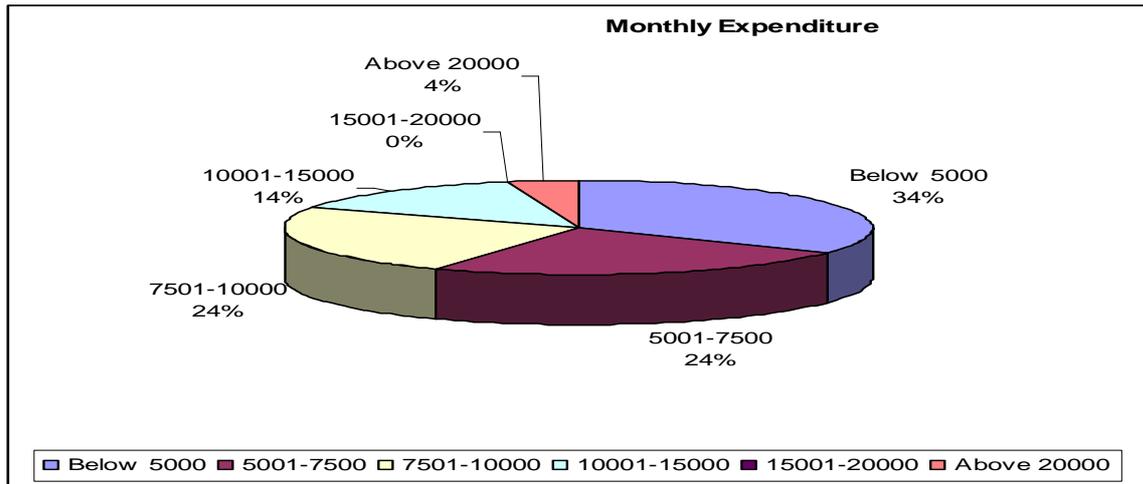


Figure 11: Monthly Expenditure

Demographic profile of Monthly Savings

In order for SMEP to know how much the participants can qualify for once they apply for a loan, it is important to know their savings. In this section the respondents are requested to indicate the approximate monthly savings. The data has been analyzed using frequency and percentages and presented as a table. The table below shows the response.

Table 5 : Monthly Savings

Approx. monthly Savings	Frequency	Percent
Below 5000	60	60
5001-7500	24	24
7501-10000	6	6
10001-15000	6	6
15001-20000	0	0
Above 20000	4	4
TOTAL	100	100

Using the results in Table 4.5, it is evident 60% of the respondent saved below Kshs.5000, 24% saved Kshs. 5001-7500, 6% saved Kshs. 7501-10000 and Kshs. 10001-15000 , 0% saved Kshs. 15001-20000, while 4% saved Kshs. above 20000.

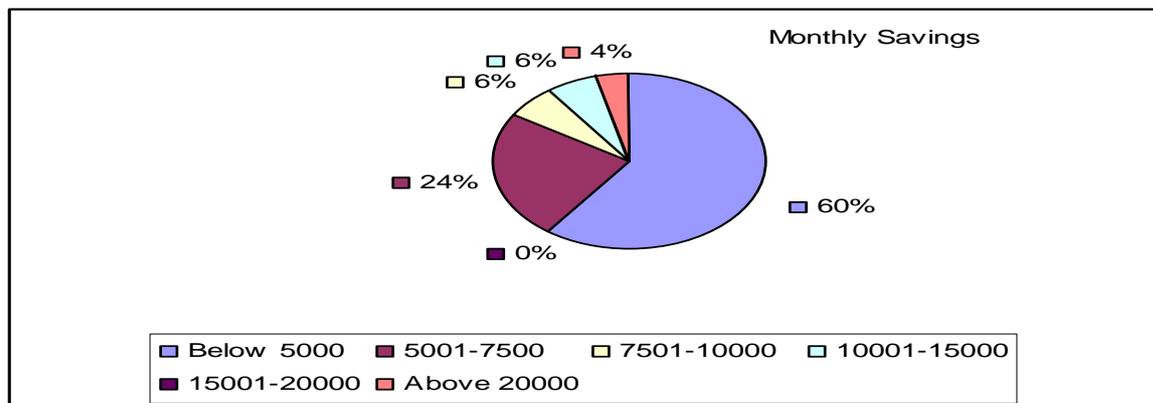


Figure 12: Monthly Saving

Demographic profile of Loan Utilization received

In order to determine the utilization of loans received in relation to MFO's growth, this section becomes handy to capture where the participants saves, most preferred mode of saving and whether they were members of SMEP. The findings are summarized in tables and figures below.

Demographic profile of the Mode of Saving

This section analyzes the mode of saving of the participant. Respondents were required to state where they save their money (bank, SMEP, M-pesa, Zap, At home or other places). The data has been analyzed using percentages and presented in the table below. The findings are summarized in table 6.

Table 6 Mode of Saving

Mode	Frequency	Percent
SMEP	42	42
Bank	12	12
M-pesa	26	26
Zap	8	8
At Home	12	12
Other	0	0
TOTAL	100	100

From the above findings, it is clear that majority of the respondents considered saving in SMEP, at 42%, banks 12% saved in 12% in M-pesa, 8% in Zap, 12% at Home and 0% in other ways. This means that although they made their savings in other modes, they had high value for SMEP.

Demographic profile of the reason for the most preferred Mode of Saving

This section analyzes the reason for the most preferred mode of saving of the participant. Respondents were required to state why they save their money in the chosen mode (it is easily accessible, you can get back the money easily when you need it, it is not easy to get the money back, it is confidential, one can get a loan or other reasons). The data has been analyzed using percentages and presented in the table below. The findings are summarized in table 7.

Table 7 : Mode of Saving

Reason	Frequency	Percent
It is easily accessible	30	30
You can get back the money easily when you need it	20	20
It is not easy to get the money back	2	2
It is confidential	24	24
One can get a loan	24	24
Other reasons	0	0
TOTAL	100	100

From the above findings, it is clear that majority of the respondents considered saving in the mode they chose since it is easily accessible at 30%, one can get back the money easily when you need it at 20%, it is not easy to get the money back at 2%, it is confidential and one can

get a loan at 24% and 0% for other reasons. This means that irrespective of the mode chosen, accessibility was a factor to be considered.

Demographic profile of the reason for saving with SMEP

This section analyzes the reasons for saving with SMEP. Respondents were required to state why they save their money in SMEP. The data has been analyzed using percentages and presented in the table below. The findings are summarized in table 4.8.

Table 8: The reason for saving with SMEP

Reason	Frequency	Percent
To save for a durable good	16	16
To save money for personal improvement	32	32
To have a source of loans	52	52
To socialize	0	0
To assist me when in problems	8	8
To hide money from spouse	0	0
To force myself to save	0	0
Other	0	0
Not Applicable	0	0
TOTAL	100	100

From the above findings, it is clear that 52% of the respondents saved to have a source of loans, 32% try to save money for personal improvement, 16% try to save for a durable good and to assist me when in problems while 0% save to socialize, to hide money from spouse, to force myself to save, Other and Not Applicable.

Demographic profile of the Time preferred to receive money from SMEP

This section analyzes the time for receiving from SMEP. Respondents were required to state when they save their money in SMEP. The data has been analyzed using percentages and presented in the table below. The findings are summarized in table 9.

Table 9: The time for receiving from SMEP

Period	Frequency	Percent
At the beginning of the round	24	24
At the end of the round	32	32
No preferred period	2	2
When schools are opening	0	0
During festive seasons	10	10
Other	32	32
TOTAL	100	100

From the above findings, it is clear that 24% of the respondents receive at the beginning of the month, 32% try to receive money at the end of the round, 2% try to receive for no preferred period, 10% receive during festive seasons, 32% receive for other period while 0% saves when schools are opening.

Demographic profile on utilization of proceeds realized from loan received from SMEP

This section analyzes the utilization of proceeds realized from loan received from SMEP. Respondents were required to state what they did with the proceeds realized. The data has been analyzed using percentages and presented in the table below. The findings are summarized in table

Table 10: The last allocation in SMEP spending

Spending of Proceed	Frequency	Percent
Bought a durable good	20	20
Paid school fees	8	8
Bought consumption goods	4	4
Added to my savings in SMEP	38	38
Gave to spouse	0	0
Other	30	30
TOTAL	100	100

From the above findings, it is clear that 20% of the respondents bought a durable good, 8% paid school fees, 4% bought consumption goods, and 38% added to my savings in SMEP, 30% spend on others while 0% gave to spouse.

Demographic profile of Participation rate

This section analyzes the participation rate of the individual/group in the growth rate of MFO's

Demographic profile of Number of Members Per Group

This section analyzes the participation rate of the individual/group in the growth rate of SMEP. The respondents were asked state the number of members comprising their group. The data has been analyzed using percentages and presented in the bar chart and scatter diagram below.

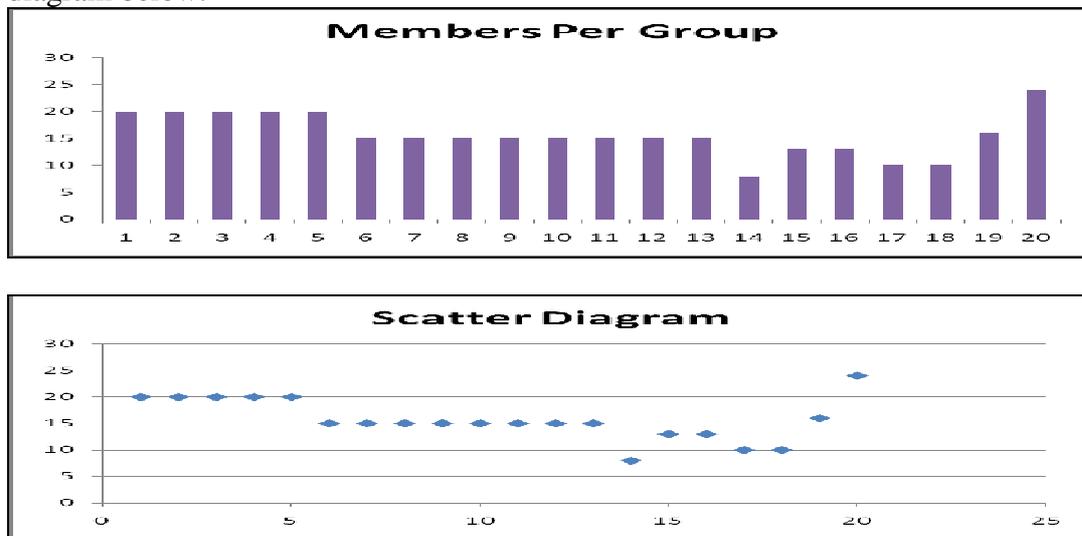
**Figure 13: Members per group**

Fig 13 above shows the members per group. Among the questionnaires issued, only 23 belong to a group with a mean of 15.7 that represents 23% those members in SMEP who were in groups. This means that many of the members in SMEP take loans as individuals but not as a group.

Further from the scatter diagram below, groups comprising of 15 and 20 members seemed to fair in SMEP in terms of loan acquisition.

Demographic profile of the criteria used for allocation of money from SMEP

This section analyzes the participation rate of the individual/group in the growth rate of SMEP in terms of finance allocation. The respondents were asked state the manner in which

the allocation is done. The data has been analyzed using percentages and table as shown below.

Table 11: The last criteria used for allocation of money from SMEP

Criteria	Frequency	Percent
Ballot at the beginning of each round	0	0
Balloted at the beginning of joining SMEP	0	0
Ballot at the time of the meeting	0	0
By request	80	80
Decision made by officials	16	16
Other	4	4
TOTAL	100	100

From the above findings, it is clear that 80% of the respondents got allocation by request, 16% through decision made by officials, 4% by other methods while 0% through ballot at the beginning of each round added to my savings in SMEP, balloted at the beginning of joining SMEP and ballot at the time of the meeting.

Associations responsibility in case a SMEP member has a problem

This section analyzes the participation rate of the individual/group in the growth rate of SMEP in terms of problem resolution in case a member has a problem. The respondents were asked state whether SMEP assists or not. The data has been analyzed using percentages and table as shown below.

Table 12: The association’s responsibility in case a SMEP member has a problem

Assists or doesn’t	Frequency	Percent
Yes	96	96
No	4	4
TOTAL	100	100

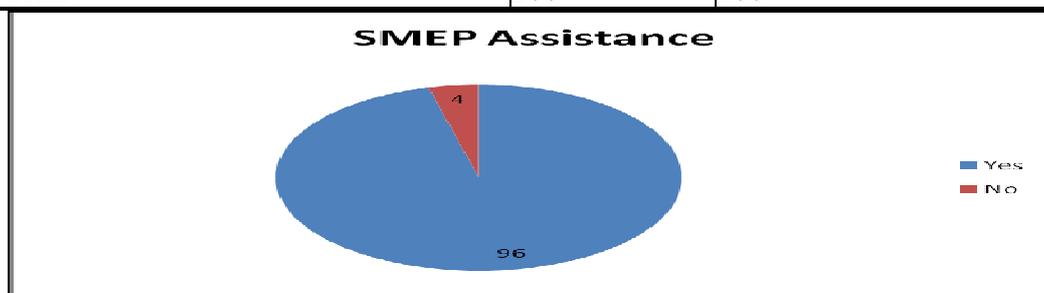


Figure 13 SMEP Assistance

From the above findings, it is clear that 96% of the respondents agree that SMEP assists individual members in case of problem while 4 % of the respondents agree that SMEP does not assists individual members in case of problem.

Member responsibility in case a SMEP member has a problem

This section analyzes the participation rate of the individual/group in the growth rate of SMEP in terms of problem resolution in case a member has a problem. The respondents were asked state the various ways SMEP assists them. The data has been analyzed using percentages and table as shown below.

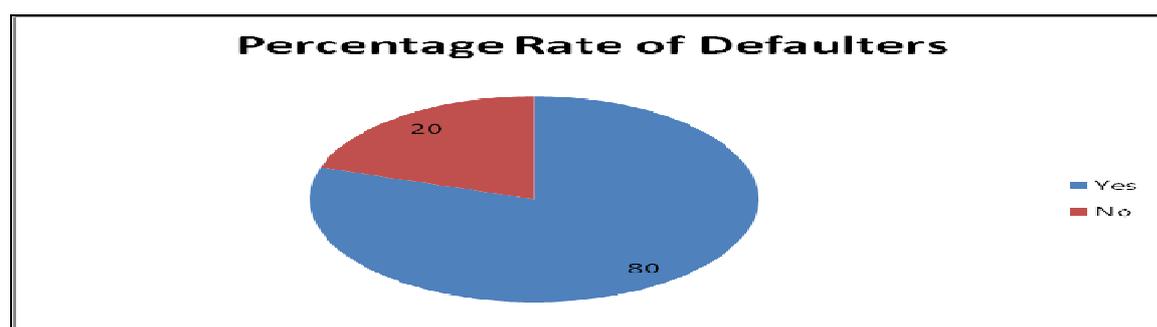
Table 13: The last criteria used for allocation of money from SMEP

Ways of assistance	Frequency	Percent
Contributions of funds to assist him/her	50	50
Allow him/her to receive funds before his/her time	0	0
Give loan	15	15
Allow him/her to take longer repaying loan	15	15
Waive interest	5	5
Other	15	15
TOTAL	100	100

From the above findings, it is clear that 50% of the respondents got contributions of funds to assist him/her, 15% got assistance through given loan, allowed him/her to take longer repaying loan and Other ways, 5% got assistance through waiving of interest while 0% did get assistance through allowing him/her to receive funds before his/her time.

Demographic profile of member defaulting

This section analyzes the participation rate of the individual/group in the growth rate of SMEP in terms of defaulting by members. The respondents were asked state whether members default their contributions or not. The data has been analyzed using percentages and pie chart shown below.

**Figure 14 Percentage rate of defaulting by members**

From the above findings, it is clear that 80% of the respondents agreed that the rate of defaulters was high while 20% did not default. This implies that SMEP had to devise a system of controlling the rate of defaulting.

Qualitative analysis

This section provides further support to the conclusion above by focusing on the results of the qualitative analysis, i.e. determining whether individual/group lending implied that contribution defaulters influence SMEP growth.

Benefits

Any MFO that starts a business his main aim is to make profit. Thus this section was to capture what benefits are realized as a result SMEP using various methods to curb rate of defaulting. The following are the answers given by most of the respondents:-

- Individual lending meant enhanced security
- Growth in portfolio
- Increase in income
- Enhanced stability

Ability to change with the technology

Challenges

In any microfinance Organization initial and continuous challenges always crop up. Thus this section was to capture what challenges are realized by MFO's, in particular SMEP. The following are the answers given by most of the respondents:-

- Lack of clear defined investment policies
- Constant change of the technology
- Staff constant change and inadequate training
- High rate of defaulters
- Customer constant complain over the speed of the loan processing

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

The research study was carried out to find out the determinants of growth of Microfinance Organizations in Kenya. In other words, the study seeks to establish the factors that have contributed to the growth of MFO's in the country. Specifically to examine the extent to which the amount of investment influence the growth of these MFO's to assess how the level of education for the participants influence the growth of MFO's, to identify how the utilization of loans received are used in relation to the growth of the MFO's in the country and to determine how the participate rate in MFO's affect growth rate.

To carry out the study, the research instrument used was a questionnaire, which was presented to SMEP within Voi area, 100 of the participants responded out of 135 targeted.

Implications to research and Practice

The research findings obtained will be used to validate determinants of other MFO's within the country and hence assess which of these determinants play a significant role in the growth of MFO's.

Conclusion

The main focus of the study was in assessing the determinants of growth of Microfinance Organizations in the country, determining the extent to which the amount of investment influence the growth of these MFO's, assessing how the level of education for the participants influence the growth of MFO's finally to identify how the utilization of loans received proceeds are used in relation to the growth of the MFO's and to determine how the participate rate in MFO's affect growth rate.

It was clear that the married and the youth of the nation are more involved in the Microfinance sector than any other age group. This makes the industry to grow very fast due to the demand that the youth are putting on the sector in demand for greater proceeds and investments. MFO's do perform poorly at the long run but we find SMEP which is well located and have enough capital but the defaulter might be the cause of the MFO failure.

It can be summarized then that majority of the MFO's have knowledge on microfinance at a medium rate. In Kenya Microfinance is still a new sector thus from the figures above majority of the MFO's were established two years ago. Nevertheless the Microfinance sector has been embraced for a long time and the increase of the sector is a show of how the sector is profitable.

Participation in the decision making of the group may provide clients with skills that enhance their probabilities of success. As men were said to participate more successfully than women

in group activities, men may acquire more skills than women when they participate in group loans.

We can conclude and say that most of the MFO's are owned by partners. This scenario shows clearly that the young who are the stakeholder do not have enough capital to start MFO thus find themselves looking for partners who they can venture tighter with. Partnership in Kenya is considered very tricky and thus from the figure above we find that some opt to start their own MFO while other go as group which is insecure due to high rate of defaulting. From the findings, it is clear that majority of the respondents thought that their involvement in SMEP was making profit and are growing. Moreover, consumer loan processing and monitoring in Kenyan banks need to be over-emphasized as a strategy for growth and empowerment of Micro and Small Enterprises.

If participants succeed in reducing their defaulting rate and increase their monthly contributions and savings, they can benefit from good performance of MFO's.

Recommendations

From the research it is clear that there is need that MFO's, in particular SMEP should undertake training on members pertaining loan acquisition, spending, saving and even utilization of the accrued interest. I recommend formulation for appropriate action by factual investigations and analysis with due regard for broader management and business implications. The Government should provide assistance where required to the MFO's to implement their objectives.

Apart from the academic contribution of this research, a number of practical recommendations to the industry stakeholders also emerge from the analysis. MFO's should concentrate on using interventions that demonstrate benevolence and that they are acting in the best interest of the member. This includes the offering of guarantees to lower risk perceptions and the use of personalization techniques which allow the member to be in control of when, where and what product they would like to receive. MFO's should increase transparency by clearly specifying who is accountable for the service and what the recourse procedure is if the transaction is unsuccessful. They may further assist participants in making informed decisions by allowing them to preview products/services and by clearly stating the cost and procedures of the transaction upfront.

Suggestion for Further Research

While the study provided several interesting findings that could be used in practice by MFO's there is need to establish if customer service is a factor that influences the growth of MFO's and specifically SMEP and to establish the competitive strategies that SMEP can adopt to maintain customers.

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