PRELIMINARY PAGES

CHAPTER ONE

INTRODUCTION

This section presents the background information on the study. It states the objectives of the study, importance of the study and its scope.

1.1 Background of the study

Ever since the upsurge of micro finance institutions revolutionized borrowing and financial support in the Kenyan economy, several research documents have been unveiled on the subject, both as a business and how it has impacted the lives in society. It is a persuasive fact that at the time of the inception of the micro financing idea, the segment of society whose lives they were to affect most, were neglected by the conventional banking fraternity. Traditional banking practices over time tended to alienate small enterprise. They provided varied reasons like administration costs, high level of exposure due to inadequate security and SMEs' risk of failure, among others. Micro financing therefore was introduced as a practical and affordable intervention to support small enterprise. SMEs is defined by Micro, Small and Medium Enterprises Authority (SMEA) in their website, (www.mseauthority.go.ke.), as independent businesses employing 10 to 50 people, are managed mainly by their owners, with a capital base ranging from Kshs 500,000 to 5,000,000. They often have a straight jacket capital structure and very limited access to the conventional financial and capital markets. They quite often operate on an annual turnover of between Kshs 500,000 to Kshs 1000,000.

While launching their Business Growth Program (BGP) in February 2017, KMA on the other hand described SMEs as a huge engine for growth, in Kenya; they employ about 84% of the workforce. SMEs, they say, are a big priority for KAM. Even though their growth has been largely sluggish, they are looking forward to bringing more SMEs to the manufacturing sector and assisting them when dealing with the complexities that exist in the business environment. Business growth is described by KAM as the Presence of innovations, inventions and modifications. They go further and provide the indicators of business growth as expansion of turnover, revenue, liquidity and annual profits. Business growth contributes to the national economic performance and improved standard of living of the citizens.

Many factors however affect business growth. High in the list are working capital components, business environment, government policy and general economic setups; however, access to affordable credit facilities has always been emphasized in business circles. SMEs, like every other business would thrive well in an environment of financial stability, where affordable finance is available. Funding on the other hand, whether equity, debt or both attracts cost and therefore, the need for the cost to be kept under a certain level of control cannot be gainsaid, and according to Brealey et al, (2009), borrowing costs as the total charge for taking on a debt obligation that can involve interest payments and other financing fees. The borrowing cost for a business tends to go up when prevailing market interest rates are rising during times of economic expansion and increased inflation, even if its credit standing remains excellent. (http://www.businessdictionary.com/definition/borrowing-cost.html)

M'mbololo, (2012), who conducted his research among the microfinance institutions in Nairobi County on the subject of effect of micro finance institutions on the lives of the poor, spoke at length on the low accessibility of these funds and blamed cost as well as ignorance of the existence of the funds by the poor masses, M'mbololo also referred to the remarkable progress made by small businesses since the advent of micro finance institutions.Waruiru, (2011), also researched on the same subject and had an extensive discussion on the cost of these loans and hinted that the statutory rules and regulations seems being violated in some instances. Another research, this time by Omondi, (2013) also expressed concern about awareness levels. He however hinted at the need to interrogate reasons for the declining uptake of the micro finance facilities. On this same subject, Mkazoya, (2011), told about Micro Finance and how it relates to women empowerment, equality between genders and door to door deposit collection.

Persuasive research therefore dominates this area and achievements witnessed among the masses due to the arrival of micro finance firms have largely been studied and reported. It is however evident that latest developments in the financial markets, default rate among micro finance customers as manifested in their endless efforts of recovery and reduced uptake of the loans calls for further research as to the viability and affordability of these loans. For one reason or another, the previous research seems to have given this critical component of finance facility a wide bath.

In the context of money lending, transaction costs is the umbrella term used by economists to refer to the expenses that creditors confront when making a loan. They include the costs of identifying and screening borrower, processing and disbursing loans, collecting and monitoring repayments, assessing collateral, policing and salvaging loan delinquencies to mention just a few. Such costs are essentially invariant to the

size of the loans, meaning they loom large in percentage terms, the smaller the size. Of course, it is precisely such small loans that are usually the stock and trade of many micro finance beneficiaries. Turnell, (2009), In calculating levels of self-sufficiency, most MFIs chose operational self-sufficiency as opposed to financial self-sufficiency.

Operational self-sufficiency thus indicates whether or not enough revenue has been earned to the MFIs direct costs including finance costs. Ideally, finance costs should be left out since in most cases, MFIs are donor funded and therefore do not incur finance costs since they do not borrow. The ratio would thus be distorted and if the burden of the cost is passed on to the borrowers, it is one such unfair costs which unnecessarily inflates the cost of finance to the borrowers.Ledgewood, (2000). As a result of this anomaly, it may be necessary that national legislations explore this area for regulation. Since September 2016, Kenya has had an Act of Parliament putting a cap on interest rates which commercial banks can charge to borrowers, the rate being pegged to not more than four per cent above the rates used to reward deposits. This came about as a result of less responsible way lenders were acting in charging interest to borrowers. There was also a requirement to disclose to the borrower any hidden charges in force. This rule could benefit the small enterprise dealing with MFIs. As it would at least put a check on the interest rates.

Interest rates is the index that providers of loan capital lamp on the loan they provide, Robinson:(2001). The central bank of Kenya provides the guideline of fixing the rate based on several factors such as overall liquidity in the country, domestic need for infrastructural development, inflation and many others. The tool used in this control is the bank rate. There has been an argument that even without MFIs, the poor borrowers are already paying very high interest rates to the informal sector. Robinson, (2001).Because of the high interest rates, several additional supplementary levies on the loans and time constraints in loan sanctions, the uptake of micro finance has declined over the years and because of these persistent barriers, their effect on poverty has largely been on the reverse mode. Arnold et al, (2011). Because of the initial ecstasy that microfinance is a major strategic too against poverty, rules were relaxed and the MFIs allowed to charge considerably higher interest rates and other levies. They thus were allowed to set their own rules. Yaron et al, (2011)

Instead of the micro finance providers and stakeholders taking a more proactive approach that recognizes the diversity of barriers to access, the heterogeneity of consumers and the variety of financial service needs among various lower income segments and the disadvantaged groups, they have largely concentrated on

the conventional commercial world of the well informed and well placed. Looking for a major impact from a single product or institution type support, overlooking the possible complexity of livelihoods and financial service needs microfinance organizations could make a major different. This however has rarely been the case. In some instances, conducts of microfinance organizations on issues of customer assessment and loan recovery procedures are inconsistent and intimidating. Normally, customer profile especially that of a borrowing customer is built over time, and due to this, the initial lending experience needs to present the customer with a straight path and a soft landing so that his or her confidence can build up and a good profile developed. It is critical that the financier bends backwards so as to be able to give a motivational push to the new customer, Raul, (2000)

When customers' comfort is compromised then they stay on but only as a hostage of the initial borrowing, but they make no money, this is especially so with customers who because of social status, already lack bargaining power. This subsequently contributes to panic costs and in reality escalates poverty levels among them as they strive to avoid draconian recovery procedures.

Loan recovery procedures should be a rigorous legal undertaking if the customer proves a challenge, the process in the conventional banking fraternity is carried out by certain time tested steps, mostly gentle and polite in their initial stages. This works in many cases and protects the borrower from panic costs, usually incurred in trying other more expensive sources of finance. Keninghram, (2005)

Micro finance organizations however have over the years built certain rules completely outside any guidelines provided by the regulatory authorities. Gathering people in unstructured groups, negligible high priced short term advances are then granted to each of them with tough conditions. The fact that this groups stick together for sometime is just but another paradox of poverty yet to be unraveled by mankind. Default; even with the most genuine of reasons is met with extremely forceful recovery procedures which in most cases are not backed by any law. Trimble, (2010)

Referring to some parts of the world which are considered economically better off, revisionists of micro finance as a financial support to the poor have had harsh words regarding them.

According to Roodman, (2011), the negative remarks made at critical points by both users and independent evaluators are now common. In early 2011, Vijay Mahajan, one of the most thoughtful and effective human beings in Microfinance, the man who led the way in commercialization of microfinance in India and one of India's fifty most powerful people according to Businessweek embarked on a singularly

humble act, trying to connect with the poor across India. His resultant blogs were heartrending. He lamented that his twenty years labour has been a vanity, years between wars, what is real, Nobel Prize or not is what people say.

Therefore, the mixed results in micro financing as already observed in different setups globally calls for introduction of tailor made conventions suitable for the local environment.

1.2 Statement of the Problem

Extensive research has been done on Micro finance and its dynamics. Accessibility of their financial financing facilities, variety of clients and flexibility of loan processing are just but a few. However on the aspect of challenges, researchers have largely confined their discussions on awareness, gender and quantum. Issues of the various costs associated with their use are either only partially mentioned or ignored all together. The popular belief in the economic cycles has mainly been that the financial support from the micro finance companies has largely solved the problems of the small enterprise. Their market penetration, wide distribution network, fair level of flexibility, and the bouquets in which they come were supposed to be the financial silver lining meant for the support of the unbanked. A large majority of SMEs in Kenya rely on external financing for the management of their working capital. Another significant group also rely on financial support for venture capital. However, there has been a high level of apprehension about seeking such support from the microfinance sector. Earlier studies explain that up-to seventy six per cent of microenterprises in the manufacturing sector in Kenya rate cost and access to finance as a major or severe obstacle to the growth of these enterprises.

Customer profile especially that of a borrowing customer is built over time, and due to this, the initial lending experience needs to present the customer with a straight path and a soft landing so that his or her confidence can build up and presentable profile developed. It is critical that the financier bends backwards so as to be able to give a motivational jab to the new customer. When customers' comfort is compromised then he or she stays on but only as a hostage of the initial borrowing, but he or she makes no money, this is especially so with customers who because of social status, already lack bargaining power.

1.3 Objectives of the study

1.3.1 The general objective

To establish the effect of cost of Micro financing on the growth of Small and Medium Enterprises in Kisumu City, Kenya.

1.3.2 The specific objectives.

(i) To establish the influence of processing cost on growth of SMEs.

(ii) To determine the influence of interest rates on growth of SMEs.

(iii) To determine the influence of commitment fees on growth of SMEs.

(iv) To establish the influence of loan penalties on growth of SMEs.

1.4. Research Hypothesis.

- Ho1: Loan Processing cost has no significant influence on growth of SMEs in Kisumu City
- Ho2: Loan Interest rates has no significant influence on growth of SMEs in Kisumu City
- Ho3: Loan Commitment fees has no significant influence on growth of SMEs in Kisumu City
- Ho4: Loan- default penalties has no significant influence on growth of SMEs in Kisumu City.

1.5. Scope of the study

We intend to confine this study to the one hundred ninety six SMEs who are consumers to the thirteen microfinance organizations operating in Kisumu county and its environs. I schedule the study for August to October 2019.

1.6 Significance of the study

The cost of credit has been a serious challenge, not only to the beneficiaries of such financial support, but also to the financiers themselves. In certain instances, interest rate capping has had to be legislated for and introduced in Kenya, even though with highly controversial results. This study intends to point out the areas in which cost of capital from the micro financing may be harmonized with others through effective regulation so that the true benefits of those monies may accrue equitably to the small enterprise.

Secondly, the micro finance is an evolving phenomenon and therefore, its exploration needs to continually capture the attention of academia. Capital pricing, as studied by the scholars of finance dealt largely with its effect on large enterprise and it is high time the same tests are applied to SMEs and fresh set of

conclusions drawn. This study shall also assist the academic fraternity to further not only the study of the fair pricing of money and its ability to uplift the poor but also the dangers of unregulated pricing system of such monies in challenging both business and business morale.

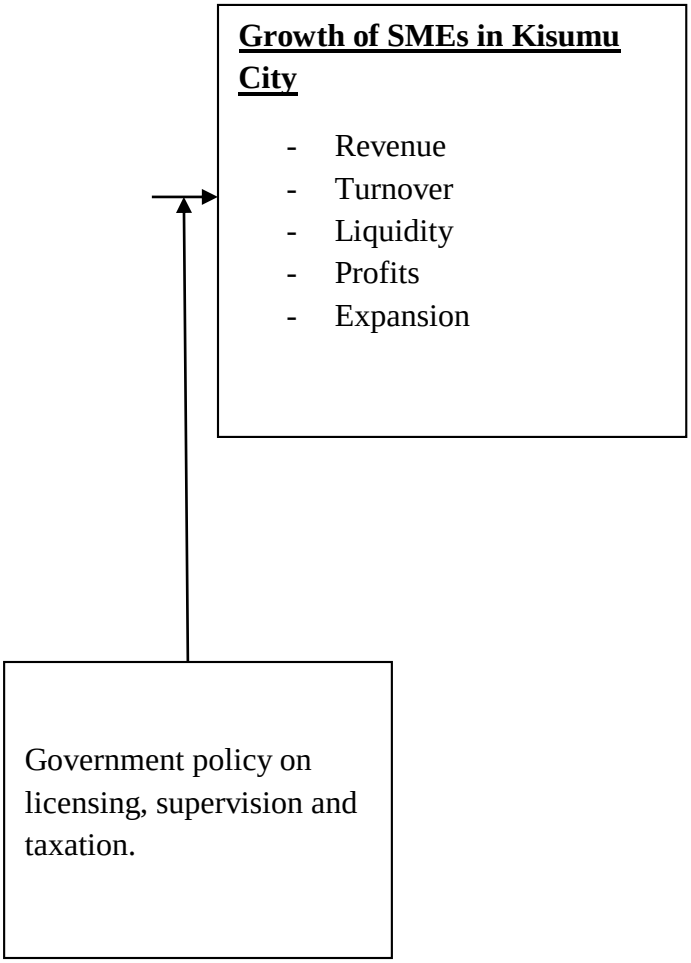
1.7. Conceptual Framework

Fig:4 Micro Financing costs

Independent variables **Dependent variables**

Micro – Financing Cost

- **Processing Cost**



Source: Gorard, (2013)

The continuous decline in the fortunes of SMEs can be traced to the source of their working capital, the Micro Finance loans.

One of the most common costs known to destabilize most businesses is that of borrowing.

Under micro finance, processing costs, commitment fees, interest rates and penalties if left unchecked, are known to diminish turnover, profits, revenue, liquidity and business expansion capabilities. Processing costs have the tendency to inflate the loan a customer applied for since it is loaded at the point of

processing. This also applies to commitment fees which is intended to solicit the assurance of the borrower to honoring the loan amount as per agreement.

Interest rates on the other hand are the finance cost which is fixed at the point of loan negotiation and is clearly communicated while penalties are applied on delinquencies and are at the discretion of the lender.

CHAPTER TWO

LITERATURE REVIEW

The related literature on the study of what affects the growth of Small and Medium Enterprises are many and varied. My study intends to dwell mostly on the association existing between Micro Finance costs

with SMEs growth factors, the costs involved in accessing, maintaining and repaying micro finance loans and their effect on growth of SMEs in Kisumu City.

2.1 Theoretical Literature Review

2.1.1 Micro Finance

Micro finance is a financial service tailored mainly for the low income individuals and SMEs. As poverty eradication strategy, many developing countries embraced it as a provision of affordable credit to the rural poor through different programs. Microcredit programs typically lend to customers through community organizations mostly called Self Help Groups (SHGs). Apart from banks, post offices and money lenders, SHGS are the major financial service providers in rural areas which are permitted as informal entities to receive bank loans and the whole group is responsible for the loan repayment. In recent years, the dominance of microcredit as an alternative has questioned the fundamentals of the rural credit system in developing countries for channeling credit to the poor. Several studies have led to the conclusion that microcredit programs have generated positive change in the income of the beneficiaries, but the change as the studies reveal is short term.

As opposed to conventional commercial bank loans, most micro loans mature in less than a year and feature frequent amortization, so that all but the shortest – term micro loan securitizations will need to incorporate a mechanism to roll over or substitute the underlying assets which greatly increases the structuring complexity and administrative costs. Because the portfolio of underlying microloans needs constant replenishment, the ability of the MFIs to originate continually a sufficient level of micro loans is a significant additional risk. Successful MFIs cultivate intimate relationships with borrowers. Thus the MFIs role in servicing the securitized microloans is a critical element in the performance of securitized portfolio. This makes it difficult to portray microloan securitization as pure borrower risk. In effect, the performance risk of the MFI servicer is a key component in the overall risk profile and a difficult one to quantify, much less hedge against. Sunderesan, (2009).

Worldwide, microfinance consumers have of late been questioning meteoric acclaim of the phenomenon, mainly because of the devastating consequences of exclusive usage of microcredit support.

Poverty alleviation has been consistently the catchword of major government decisions in the developing world. Initially, the assumption was that overall growth of the economy could stimulate an automatic reduction of poverty among the poor. This however produced negligible results and therefore, going back

to the drawing board, third world governments decided on a raft of experiments with different poverty targeting programs. Singh, (1989)

In the countless tests conducted to try and alleviate general poverty, micro finance has been one of the most dramatic. The drama has been made even more mysterious by the acclaims and Nobel prizes scooped by its founders and most ardent proponents.

World bank and Muhammad Yunus together with his Grameen bank kept on reading from different scripts and The Breton Wood institution kept asking the meaning of micro finance. This was in 1976, when micro finance idea was at its infancy. Throughout the 80s and 90s, microfinance theory was hailed as a masterpiece, however the usual scrutiny of new initiatives has revealed a litany of inherent structural constraints and societal difficulties related to microfinance operations.Yaron, (2013)

In her research paper, "The Microfinance Mirage: The Politics of Poverty, Social Capital and Women's business,' EsevayaBekele, (2014) describes microfinance as a small financial service that includes lending to and saving from low income clients who are generally regarded as poor, this is popular with counries like India. With the largest population of poor people on earth, India also gained the distinction of the initial testing ground for microfinance facilities. Conventional Indian banks, before being nationalized, had long propagated the idea of never lending to small enterprise. This provided a major opening to money lenders, the well known predecessors of micro finance. The idea blossomed in India and soon after, its tentacles began to appear in the dark alleys hosting the sub Sahara's African poor. The new version of microfinance loans which encouraged lending to groups whose members are called upon to guarantee each other spread like wild fire and firmly took its roots in Africa, Kenya included. Their arrival in Africa was however silent but sudden.

In their latest paper entitled, GOK – Unicef – Kenya Program, 2014 – 2018, delivered on Kenya's state, Unicef says that 42% of Kenyans live below poverty line. IMF too in their latest survey, ranked Kenya 8th in the countries with poorest populations far below Djibouti, Cambodia Bangladesh and even Kiribati.

When in the year 2016, Kenya National Assembly felt that the lending fraternity was extorting the public through endless increase in interest rates and other charges, they passed a law to put a cap on these rates at 14%. Either by some force of oversight or procrastination, micro finance institutions were conspicuously omitted from this law. The level of predicament facing the public because of this action or

lack of it was aptly captured in the headline of "Business Daily" newspapers published by the Nation Media Group(NMG) in Kenya. According to the Daily on 17 th September,2018, because of the action taken by conventional banking fraternity to shun small borrowers due to the interest rates cap, the micro lenders are now reaping billions of shillings from the desperate poor. The over 500 unregulated institutions, says the Daily, have invaded the local credit market and are charging borrowers annual interest of between 18% and 200%. The market has become so lucrative that it has attracted countless players including the commercial banks themselves creating their own wings of microfinance lenders.

Fourteen different micro finance models currently govern the sector globally whereby each country chooses one or two which they believe best suits the needs of their environment. Kenya however seems to have embraced them all thus creating an amalgam of financial jungle whose control now seems too challenging to manage.

In her book, 'Micro finance in India,'Puhazhendhi, (2009), said that a balance between market forces geared entirely towards profits and development finance needed to have been long defined by the micro finance institutions if they were to be genuine contributors to the support of the poor. Lessons already learned, say Puhazhendhi, needs to encourage the scope of active participation of community oriented organizations in the institutional arrangements for effective structure of the financial products affordable to the third world poor. A coordinated effort by all the stakeholders with genuine focus on the poor and their active participation should be incorporated to contribute to the livelihood development of the poor in the country.

Between 2008 and 2009, microfinance institutions in Nicaragua, Bosnia, Morocco and Pakistan crashed due to debtors' revolt. In January 2010, Nigeria's young microfinance banking industry tipped into crisis as borrowers began defaulting, in October the same year, amid reports of suicides and sub-prime like over lending, the government of Andra Pradesh, India's microfinance hotbed ambushed private micro creditors with a restrictive law, weeks later, Heinmann's controversial documentary gave Bangladesh's Prime Minister, Sheikh Hasina an opening to rekindle a vendetta against Muhammad Yunus. She all but called him a blood sucking money lender, Roodman, (2011)

Finance has attracted a lot of theories ever since it broke away from economics. This has resulted from the many unresolved issues still surrounding finance as both a professional and academic discipline. As early as the 1990's, a major debate between traditional players in the field over the existing theories arose. The discourse revolved around the Theory of Micro Finance, the Financial Approach Theory and the Poverty Lending Theory.

2.1.2. The Theory of Micro Finance

Coined by MohammedYunus, a Bangladeshi Professor of economics and founder of Grameen Bank, Micro Finance theory is the concept of extending small short term loans to poor individuals and entrepreneurs that are ordinarily excluded from conventional financial institutions. This theory will support my study by providing explanation to the fair costs of finance that the poor can afford and still generate enough to keep the MFIs afloat. This as the theory goes, is what Yunus envisioned.

2.1.3. The Theory of financial systems approach

The financial systems approach emphasizes large scale outreach to the economically active poor both to borrowers who can repay microloans from household as well as enterprise income streams and to savers. The financial systems approach focuses on institutional self-sufficiency, because, given the scale of the demand for microfinance worldwide, this is the only possible means to meet widespread client demand for convenient appropriate financial services. Currently, Micro Finance concept is riding a wave of acclaim. As its advocates garner Prizes which includes Nobel and other honors, it is being billed as a classic example of how to provide financial support to help start and grow the SMEs. It is sometimes portrayed as the ''silver bullet'' for poverty alleviation and economic development. Of course it is not this, but microfinance is the sort of vehicle that could bring significant change to what is needed for a financial system such as Kenya's. The truth however is that this noble course has faced various challenges.

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Leila Webster,(1993), says that, ideally, the World Bank's initial interest in promotion of micro financing enterprises rested on a series of assumptions about their role in the development process. They were to play a leading role in the labor intensive small enterprise and therefore creating large numbers of jobs at low capital cost. To the extent that the working classes were beneficiaries of new jobs, national income would be distributed more broadly. SMEs were conceptualized by many as seed beds that would nurture and train entrepreneurial classes needed to develop robust private sectors. This however has not always been the case over the years, and many questions are being asked Webster L. et al,(1993)

2.1. 4 The poverty lending approach

In the paper she did for the World Bank on the Micro Finance Revolution, Sustainable Finance for the poor ,Robinson,(2001), says that the poverty lending approach concentrates on reducing poverty through credit often provided together with services such as skills training, and the teaching of literacy and numeracy, health, nutrition, family planning and the like. This approach would lend support to my study as it incorporates the examination of the dynamics of the need for subsidy in cushioning the absolute poor against the burden of commercial rates and subsidiary costs. Under this approach, there is the assumption that donor and government funded credit is to be provided to the poor borrowers, typically at below market interest rates and minimal transaction costs. These institutions were to keep deposit mobilization to a minimum. This is the model under strict implementation by Bangladesh's Grameen Bank, founded by Mohamed Yunus, the brain behind micro financing.

2.1. 5 Finance Theory

Finance as a discipline is a fairly recent invention, having been independently around for just around sixty five years. Finance Theory explore fundamental ideas that underlie comparative financial asset pricing models with symmetric information.

The main concerns of modern finance theory – namely, the functioning of credit markets and the pricing of assets were largely ignored or dismissed by economists as unsuitable topics for economic analysis. Financial markets were viewed by economists such as John Maynard Keynes as mere "casinos" or "beauty contests" in which assets were not priced in any rational way that could be described by economic laws. The question is, what is the fair expected return that would compensate the investor for the additional risk of that asset above the risk free rate. Boatright, (2010).

In support of my study, I intend to use Finance Theory in examination of the micro finance costs and whether these costs are fair based on the risk profile these loans bear.

2.2 Empirical Literature Review

An interrogation of relevant previous studies by other scholars shall be carried out in this section. The apparent gaps shall then be identified and given possible further study.

According to a study by Alvarez, (2016), in their handbook of Research on Social Entrepreneurship and Solidarity Economics, Micro Finance Institutions frequently provide funds on conditions that reduce the

benefits that borrowers would hope to obtain from this type of credit because the time frames are very short, and the interest rates are too high.

Marek et al, (2010), on their study on A Research Agenda For Financial Inclusion and Micro Finance inferred that expanded management body improves operational qualities and contributes to high returns for the MFIs. However they also say that some or all of the costs associated with expanded management and other non financial services such anew staff members and logistic expenses are mostly passed over to the borrowers in increased borrowing rates.

Gulli,(1998), in the document, Microfinance and Poverty: Questioning the Conventional wisdom which she delivered to the Microenterprise Unit – Inter American Development Bank, concluded that the level of non-financial transaction costs associated with borrowing is as important to micro entrepreneurs as the financial costs.

According to another study by Alvarez and Manuel, (2016), in their document, Social Entrepreneurship and Economics, they assert that due to the kinds of needs that microcredit aims to satisfy, its social function and the type of population affected, along with the additional risks that these entails, coupled with market conditions, the micro finance institutions are justified in charging higher interest rates than the conventional banking fraternity does. These same reasons however, they say, demands that the micro credit facility rates of interest are pegged at a lower level, especially the fact that their original purpose was to empower the disadvantaged segment of society.

According to Waruiru,(2012), Microfinance institutions were established to assist the low income by providing credit. In their provision of credit to low income earners they have tended to charge interest rate which over the years have proved to be beyond the reach of the intended beneficiaries. The purpose of the study was to establish the determinants of interest rates in the Microfinance Institutions in Kenya. The study used both primary and secondary data. Primary data was collected using questionnaires from 104 credit and branch managers while secondary data was collected through the use of previous documents such as the financial statements. Data was analyzed using descriptive method such as frequency, percentage, standard deviation and mean score. The study established that according to respondents administrative cost, profitability, cost of funds and loan loss determined the interest rates charged by the microfinance institutions in Kenya. The study also established that there was a strong positive relationship between the dependent and independent variables. This means that there are other factors which may also

be determinants of interest rates. The study recommended that the management of Microfinance Institutions should embrace technology in its operation in order to lower the operation expenses ,the study further recommends that government should cheap in by providing funds in form of free interest loans to Microfinance Institutions to reduce the interest charged to low income earners and that there should be a proper regulatory body to oversee the running of Microfinance Institutions.

2.2.1 Loan Processing costs

Loan Processing Fees were initially meant to be at flat rates. But trade practices tend to change that, Nayak, (2014) Assets, down payments and closing costs are intractably linked. Accurately assessing the sufficiency of assets to consummate a transaction requires an understanding of the components. This process is called qualifying for assets. The largest single component cost in MFI lendins is in loan processing. Understanding what the costs are made up of allows one to quickly estimate and manipulate the numbers, tailoring the transaction for its requirements, Aryeeley, (1994). It should be stated that one of the strongest factors in the loan approval process is the level of assets. Often having a large amount of residual cash can make up for a shortfall in income. Usually, a lender's good faith is relied upon to refine the agreed costs. It is often misleading to have a preconceived belief that closing costs have a fixed range. Closing costs may be controlled, mitigated and adjusted- customized for transaction. Settlement is actually the money pit- all of the funds are rolled in together and disbursed out by the settlement agent or closing attorney. Helping the customer to understand these charges helps the customer understand that settlement fees are not all just loan charges but are all of the costs associated with the closing of the transaction. Four categories of closing costs exist i.e loan fees, hard closing costs, government charges.

2.2.2 Interest Rates on Loans

In his book entitled, "How Interest Rates, Credit ratings and Lending affects you," Prentzas,(2013) defines interest rates as the amount the lender charges for borrowing the money, the lenders profit from the loan, he explains, comes with a cost. The lender gives up the ability to spend all or part of the funds for the time period of the loan. According to Wahiduddin,(2017), "Theory and Practice of Microcredit", micro credit facilities were assumed to be a classic substitute for the inaccessible conventional sources of finance and the erratically priced money from the informal credit markets. The expectation therefore was that interest rates charged by the micro lenders would also reduce, but in real sense, the reverse is what happened. Although money lenders may now serve a smaller number of clients than they used to do before the advent of microcredit, the cost of money lending may have gone up due to cream skimming of borrowers by the MFIs resulting in higher risks and transaction costs for money lenders.

2.2.3 Commitment Fees on loans

These are those costs, usually appearing only in small prints and are a serious source of frustration to the customer. Fluctuating as they always are, they are a highly unpredictable cost and it is quite capable of escalating the loan amount with serious consequences, Blavey ,(2005). Multiple loan commitment are due to market imperfections and information asymmetry, Green, (2008). Most of the time, they are like cushioning against the unknown, contingencies for , early exits, administrative and institutional rigidities and defaults.

2.2.4 Delinquency Penalties on loans

Loan repayment period which is the period that elapses between the loan sanction communication and that when the last loan installment is paid may lead to a facility being unintentionally delinquent. Compressed periods of repayments, mostly twelve months, usually prescribed by the micro finance firms deny the borrowers the ample time to conduct enough business and be able to generate enough revenue to both repay the loan and meet other operational expenses. This leads to inability to meet regular loan installments and therefore make the loans to start attracting penalties. A. Kumar: 2008, in his book, "Commercialization and Financing of Indian Agriculture," says that uncertainties associated with short term arrangements causes the borrowers to fall into repayment arrears. Generally, he says, borrowers charge higher interest rate on overdue which worsens the traders' financial conditions and in most cases leads to punitive loan recovery processes. In Kenya, as in the other areas where micro financing has gained popularity, the loans are extended based on group strength and the liability is both joint and several even though the loans are given to individual group members.

The loan term is one of the most important variables in loan facilities. It also refers to the period of time during which the entire loan must be repaid. The loan term increases costs and affects the repayment psych, borrower's growth, full repayment and the ultimate suitability of the facility to the client.Ledgerwood, (1998)

Fair discourse has been advanced as to the cost of running these loans, however there are challenges which arise with the quantum. When the amounts are too small as they usually are, unit cost of running them tend to rise, the extra costs are passed over to the borrowers. Webster L. et al, (2007)

Because of the lack of collaterals, the bargaining power of the micro finance borrowers is quite compromised. They then access loans as per the decisions and whims of the firms. Quite often, the

amounts sanctioned are too small for the proposed undertakings. This combined with a short repayment period, greatly diminishes the chances of these traders to expand and diversify.

In their research recorded in the article, "Are Pakistan Women Entrepreneurs Being Served by The Micro Finance Sector?" Haq, (2008) gives a clear illustration of what happens when an inadequate loan is advanced to a borrower. They say that inadequate loans have been linked to multiple borrowings, the women complain silently and move on to approach money lenders once more, Loan processing fees escalate as multiple small loans are applied for and this is a major cost which directly impacts on the financed enterprises.

2.2.4. Summary of Literature gaps

From the evidence of previous research, asset growth, number of loanees and growth of the individual MFIs have been used as absolute measures of success. This study however intends to use declining profits, MFIs portfolio of bad and doubtful debts and interest they pay on deposits as measures of challenges to the SMEs.

A lot has been written about small enterprise, but in Kenya, small enterprise financing through micro loans is largely associated with women. There is the notion going round that they are better at loan repayments. The challenge again however is that in Kenya, when one mentions a woman entrepreneur, the mind immediately switches to that lady selling vegetables in the market .Longe, (2005). The urgency to offer protective legal and regulatory cover to this people has therefore been slow in coming. The microfinance companies are neither under the control of the Banking Act nor are they under the Central Bank of Kenya Act and as a result of this, they did not lower their finance costs to honor the law capping interest rates enacted by parliament in the year under the Banking Act, Bank amendment bill, 2015.

In one of the latest research works done on the problems encountered by customers of micro finance companies, there was a conclusion that there is lack of empirical evidence to support the fact that there is any burdens being shouldered by beneficiaries of micro loans. This research therefore failed to speak about the myriad costs littering both the way to access and repayments of these monies. In India for instance, the Reserve Bank of India (RBI) have been tasked to adopt a combination of regulatory bodies to oversee microfinance institutions and the conduct of the field of lending. A classic example being, Tools Against Social Exclusion and Poverty (STEP), which gathers and disseminates information. This is an

ILO supported body with the sole mandate of profiling any exploitative conduct of the micro finance institutions against Self Help Groups (SHGs) Ghate,(2007)

In Southern Asia, issues of information asymmetry is dealt with through a body called 'MIX' or Micro finance Exchange Survey whose special emphasis is on transparency. In Kenya, where empirical financial disputes such as interest rates and unit transaction costs are still a relevant public concern, formality and regulations need to be mandatory if the MFIs are to be of benefit to target population.

To avoid a crisis similar to the one which happened in Andha Pradesh in India, Prabhu Gate warns that MFIs financial ratio (Cost of Funds as a ratio of portfolio outstanding), should constantly be subjected to rational revision. MUMBAI, India (AP) — 'First they were stripped of their utensils, furniture, mobile phones, televisions, ration cards and heirloom gold jewelry. Then, some of them drank pesticide. One woman threw herself in a pond. Another jumped into a well with her children.' Sometimes, the debt collectors watched nearby. More than 200 poor, debt-ridden residents of Andhra Pradesh killed themselves in late 2010, according to media reports compiled by the government of the south Indian state. The state blamed microfinance companies — which give small loans intended to lift up the very poor — for fueling a frenzy of over indebtedness and then pressuring borrowers so relentlessly that some took their own lives.

CHAPTER THREE

RESEARCH METHODOLOGY

This shall give a tacit description of the methods and procedures used to conduct the study. It commands significant influence on the study findings. The chapter covers the overall methodology, the research design, population, sample size, data collection methods and research procedures.

3.1 Research Design

Research design is a way of organizing a research project or program from its inception in order to maximize the likelihood of generating evidence that provides a convincing answer to the research questions for a given level of resource.Gorard, (2013).

This study adopted descriptive design to help find out the extent, to which the large number of finance costs, affect the SMEs. We shall draw a sample of 177 from a possible population 650 SMEs currently relying on or had relied on financial support from micro finance companies.

The descriptive-survey research design, describes the attitudes, beliefs, behaviors and perceptions. It is the research design that typically follow current trends and issues. It allowed us to gain insight in the way people perceive the impact of cost of the micro finance loans on business undertakings of SMEs. Voegetle and Lodico, (2010).

3.2 Study Area

The study was carried out among the SMEs operating in Kisumu town. Purposive sampling was used to select the town since it is one of the fastest growing commercial hubs in Kenya's western region and a major center popular with the consumption of financial support from micro finance institutions.

3.3 Target Population

This was the total collection of elements from which the researcher wishes to make some influence Donald, (1990)

In this case, we engaged a population of 650 SME consumers of Micro credit products operating in Kisumu town, six common business categories as illustrated in the table below shall be targeted. The sample frame however shall be 177, which also involved the six categories of SMEs.

3.3.1 Sample Size and Sampling Technique

A stratified random sampling technique targeting only SMEs that consume micro finance loan products was used.

In order to arrive at the desired sample size, Slovin's sampling technique formula **(n=N(1+Ne^2)** was applied.

n=sample size required, N=total population, e = error term, where e, shall be 5%

Table: 1 SMEs business areas

Business Category	**Population Frequency**	**Percentage**
Grocery	110	17
Wholesale	55	8.5
Hairdressing	47	7.2
Boutiques	150	23
Metal works	130	20
Hardware	158	24.3
TOTAL	**650**	

Source: Field data – 2019

3.3.2 Sampling Design

According to Mugenda and Mugenda, (1999), sampling is the process by which a relatively small number of individuals or group is selected and analyzed in order to get some information about the whole population. The sampling frame for this research was 177 SMEs who trade in Kisumu town. Non probabilistic sampling design was used to obtain information through stratified random sampling. Simple random sampling procedures using a contrast ratio of 0.3 was used to come up with sample size from each category of business. The table below illustrates this method.

Table:2 Sample size contrast ratio.

Business category	**Population**	**Sample ratio**	**Sample size**

Grocery	110	0.3	33
Wholesale	55	0.3	17
Hairdressing	47	0.3	14
Boutiques	150	0.3	44
Metal works	130	0.3	31
Hardware	158	0.3	38
TOTAL	**650**		**177**

Source: Field data– 2019

3.4 Types and sources of data

The data for the research were sourced from both primary and secondary data profiles. Secondary data were obtained from a review of the Annual Financial reports of the Micro Finance Companies, previous works on the subject and the information posted in the internet.

The primary data was however collected through authorized distribution of questionnaires to the SMEs identified and sampled. Targeted interviews with the relevant staff of the SMEs were also be conducted.

3.4.1 Methods of data collection

The data for this research was collected from both primary and secondary sources. To achieve the objectives of this research, both processes of questionnaire survey and personal contact with the respondents through arranged interviews was applied. The main respondents, who were the businessmen and women themselves were requested to complete the questionnaires and also accept the interview sessions.

Secondary data however was sourced from the MFI's websites and published financial reports from the same organizations.

3.4.2 Data collection instruments

The data was predominantly from structured questionnaires administered to the respondent SMEs personally. This formed the primary data source.

This method was preferred because it provided confidentiality, convenience and flexibility. A follow up interview was conducted where there was need.

3.4.3 Data collection procedures

A small team of assistants will be mobilized to assist in distribution and collection of the questionnaires. These will then be interrogated for accuracy and compliance and further information solicited through targeted interviews.

3.4.4 Reliability and validity of data

Validity refers to the quality of data gathering instrument or procedure that enables an instrument to measure what it is supposed to measure, Best and Khan, (2006). Reliability is the degree of consistency that a research instrument demonstrates.

Face validity was used to verify the accuracy of the research instruments that were used in the study. The research instruments were presented to The University Lecturer supervising the study and who is an expert in Finance and Accounting.

For the instruments reliability, I carried out a pilot study, where by the model questionnaires were administered to a small % of the would be respondents. Revisions were then made in areas perceived to contain grey matter.

3.5 Data analysis

Hypothesis Testing, mean and standard deviations are the methods I intend to apply in data analysis. An appropriate data analysis package capable of crunching statistical data for social sciences were identified and used through the application of descriptive statistics. The information were then presented in detailed tables and charts

$Y = a0 + b0X1 + b0X2 + b0X3 + b0X4 + \ldots\ldots \varepsilon$

Where, Y – Growth
X1 – Processing cost

X2 – Interest rates

X3 – Commitment fees

X4 – Default penalties

ε - Error term

3.6 Ethical considerations

Permission to carry out the study was sort from the administration of Maseno University and the targeted SMEs in Kisumu town. We ensured complete confidentiality of the approached respondents and confined the information gathered from them strictly to academic purposes only.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This study sought to determine the effect of cost of micro financing on the growth of SMEs in Kisumu City. This chapter presents the analysis and results of the study. The analysis was based on the primary

data collected using the questionnaire administered on the sampled Small and Medium Enterprises in the City.

4.1 Response Rate

From the 177 questionnaires administered, 177 collected were found to be in useful for analysis. This reflected a response rate of 100% .

Table:3 Response Rate

SME Response Rate	No. of Questionnaires issued	Correctly completed questionnaires	Percentage response
Grocery	30	30	100%
Wholesale	27	27	100%
Hairdressing	33	33	100%
Boutiques	27	27	100%
Metal works	32	32	100%
Hardware	28	28	100%
TOTAL	177	177	

Source: Field Data– 2019

4.2 Basic Information

Out of the population of interest, one seventy seven questionnaires satisfied the threshold of being analyzed. Both previous and current users of micro finance loan facilities were involved in this study. We involved the previous users to find out their reasons for discontinuing the use of micro finance loans as well as how their current source of finance compares with micro financing loan facilities.

Out of the SMEs with workable responses, we had one hundred nine males and sixty eight females. These organizations were found to employ between 30 to 70 personnel. The respondents learned their trade through a variety of methods according to their responses.

4.3 Data Analysis

Table:4 – Analysis of those who responded.

SME	Male	Female	Total
Grocery	18	12	30
Wholesale	19	8	27
Hairdressing	5	28	33
Boutiques	11	16	27
Metal works	31	1	32
Hardware	25	3	28
TOTAL	109	68	177

Source – Field data– 2019

4.4 Age of the respondents

The study also sought to know the age brackets to which the respondents belong. This was to establish whether there was a correlation between age of the Managers running the SMEs and consumption of micro finance loans. The table below provides the findings in this regard. The major users of micro finance loans according to the analysis belong to the middle age bracket with up to 81% being in that group.

Table: 5 Age of the respondents

Age	Frequency	Percentage

Below 20	5	3%
21 - 30	49	28%
31 - 40	44	25%
41 - 50	50	28%
Above 51 years	29	16
TOTAL	177	100%

Source: Field data – August 2019

4.5 Their Main source of working capital

As shown in the table summarized below, 76% of the respondents acknowledged consistent use of micro finance loans, 7% to a certain extent, consumes loan facilities from the conventional banking sector. The remaining 17% depend on other traditional sources.

Table:6 Main Sources of working capital

	Frequency	Percentage
Own resources	18	10%
Bank credit	12	7%
Customers	3	2%
Micro finance	134	76%
Chamas	8	5%
Total	177	100%

Source: Field data– 2019

4.6 General Business Performance

The study also sought to know the trend of performance of these businesses since the time they were introduced to micro finance facilities. Only a small percentage, it was found, experienced a favorable business growth. 25% of the respondents reported fair results while 71% of them reported unsatisfactory growth.

The results, captured in the table below, provides a worrying trend of growth amongst the businesses consuming microfinance loans.

Table:7 General Business performance

SMEs	Frequency	Percentage
Excellent	3	2%
Very Good	3	2%
Fair	45	25%
Unsatisfactory	126	71%
Total	177	100%

Source: Field Data – 2019

4.3.1 Loan commitment fee factors and the growth of SMEs

Loan commitment fees are the initial charges incorporated in the loan amount applied for. They are charged by lending institutions to reinforce the lenders confidence that the borrower shall honor the loan liability. It is charged also to check the role of market imperfections and information asymmetry as well as exit costs should the loan contract be terminated Rodolphe, (2005). The rates vary from one institution to another, however the conventional financial sector is moving towards harmonization to an agreed % across the board.

The fee is a function of Loan amount, period of repayment, customer history and quality of security offered.

Under micro financing arrangement according to the respondents, these fees were not only undisclosed but are generally inflated to the detriment of the consumers of their loan facilities.

The fee is a function of Loan amount, period of repayment, customer history and quality of security offered. The table below provides a general consensus that they not only need prior disclosure but also harmonization with those of the other lending institutions. Besides the 3% of the respondents who probably because of information asymmetry, think that disclosure and harmonization won't be helpful, 8% were uncertain as to the purpose of such a move. The remaining 89% were unanimous as to what if

done to loan commitment fees would bring relief to the growth of the SMEs applying MFI loans to their businesses. This, they stated,

Table:8 Commitment fees need for prior disclosure and harmonization

Response	Frequency	Percentage	Cumulative %
Strongly Disagree	-	0	0
Disagree	5	3	3
Uncertain	15	8	11
Agree	67	38	49
Strongly Agree	90	51	100

Source: Field data – 2019

4.3.2 Loan Interest Rates

Loan interest rate is a finance charge included in the loan repayment plan by the lender. It is a function of risk profiles of the loan and the loanee however previous studies have shown that when this rate is so high, consequences of default rates and reduced motivation sets in. This then negatively affects growth of the businesses using such monies. High interest costs leads to systematic decline in profitability and impedes access to other sources of finance.

The study has revealed that the interest rates charged by MFIs are relatively high and negatively affect the growth of their businesses. 62% strongly agree that interest rates on the MFI loans are too high and affects their businesses, 24% agree and around 14% disagree.

Table:9-Loan Interest rates

Response	Frequency	Percentage
Strongly Disagree	17	10
Disagree	6	4
Uncertain	13	7

Agree	42	24
Strongly Agree	109	62

Source: Field Data – 2019

4.3.3 Loan Processing fees

Loan processing fees are charged as the cost of time, labor and materials incurred during processing. A one off charge paid up front, it is meant to compensate the lender should the loan application be eventually rejected Tyson, (2011). Its only other purpose is to ensure that the loanee is serious. If the percentage is too high, it inflates the loan amount, adjusts upwards automatically the repayment installments and reduces the organization's liquidity. The respondents generally concurred that this cost inflates the amounts, cuts into their liquidity positions and denies them trade expansion opportunities. The table below shows that up to 85% of the respondents were of the opinion that loan processing fees, as applied by the MFIs destabilizes their general growth factors.

Table:10 Loan Processing fees.

Response	**Frequency**	**Percentage**
Strongly Disagree	0	0
Disagree	0	0
Uncertain	26	15
Agree	70	39
Strongly Agree	81	46

Source: Field Data– 2019

4.3.4 Default penalty

Default penalties are charges imposed on delinquent loan facilities. Besides being source of additional revenue to the lender, they are also intended to discourage poor or non-performance of the facility. Though they are at the discretion of the lender, very high penalties are known to be counterproductive since they tend to inflate the loan further, and without repayment installment adjustments, generates a chain reaction that may eventually make the loan bad and doubtful. From the findings as shown in the table 11 below,

up to 91% agree that MFIs impose punitive charges as penalties and this frequently affects both their revenue generation as well as their liquidity.

Table: 11 Default penalties

Response	Frequency	Percentage
Strongly Disagree	0	0
Disagree	0	0
Uncertain	16	9
Agree	71	40
Strongly Agree	90	51
Total	177	100

Source: Field Data– 2019

4.3.5 Loan Processing Costs on the Growth of SMEs

Correlation describes the association between two or more variables without regard to which variable is independent or dependent and with no intention of formulating the relationship or using it to make predictions. The value of a correlation coefficient lies between -1 to 1. Negative values show a downward slopping relationship. This means as X increases, Y decreases. Positive values indicate an upward slopping relationship. Values between 0 and either extreme, measure how closely the actual data fits a straight line. Correlation is represented by letter r. The value of r is the coefficient of correlation As shown in the table 12 below, the predictor variable X1, Loan Processing costs is negatively correlated to the response variable Growth in SMEs with a magnitude of -0.726. As the cost of processing loans rise, a declining trend is seen in the growth of SMEs. This relationship is significant at 0.001 level. Variations in loan processing costs in this case was found to cause variations in growth of SMEs.

Table:12 Correlations

	Growth of SMEs(Y)	Loan Processing Costs(X1)
Growth of SMEs(Y)	1.00	-0.726

Loan Processing Costs((X1)	-0.726	1.00

Source: Field Data– 2019

Regression

Regression is a procedure used to predict the value of one variable on the basis of another or used to predict the value of one variable on the basis of other variables. Coefficient of determination is used to determine the strength of these relationships. The Table: 13 below shows that Rsquare is 0.647 an indication that 64.7% of the variation in the response variable, growth of SMEs in this study is explained by the predictor variable X1, the loan processing costs. This means that processing costs is a major contributor to the observed declining growth in SMEs. This does not mean that the costs are not chargeable. It is the level of charges that is in question

According to Aryeeyi:(1994), loan processing costs form the single largest component one off cost to the consumers of MFI loans. Many of the institutions however try to control this cost in several ways, such as reduced amounts, loan frequencies and soliciting for securities. Available evidence however shows that this cost still forms a major burden to the SMEs borrowing from micro finance institutions. These costs were in the past observed to be at flat rates according to Nayak,(2014), but the study shows that there is an increasing trend in these costs.

Table: 13 Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	F	Df	Significance

1	0.804	0.647	0.645	13.804	289.82	155	0.000

Source: Field Data– 2019

The Analysis of Variance Table: 14 below, tests the significance or p-value of the Loan Processing costs. The table shows that the p- value of F < alpha at a magnitude of 289.82 and therefore there is sufficient evidence to reject the Null hypothesis. Loan processing costs has significant influence on the growth of SMSs in Kisumu City. F is significant at 289.86 indicating that the regression model applied was a good predictor of the SME growth factors.

Table: 14 ANOVA

Model		**Sum of Squares**	**Df**	**Mean Squares**	**F**	**Significance**
1	Regression	55221	1	55221	289.86	0.000
	Residual	30105	154	190.539		
	Total	**85326**	**155**			

Source: Field Data – 2019

The B column is the value for regression equation for predicting the response variable from the predictor variables. These are measured in their natural units. The Table 15 below shows that, holding all other variables constant, for every unit increase in processing costs, there is a – 37.488 unit decrease in the predicted SME growth. For the processing costs, the predicted growth score would be 37.488 lower. The variable processing costs is also statistically significant because the p-value<alpha.

Table:15 Coefficients

Model	Unstandardized	Standardized	Significance

	Coefficient		coefficient	t	
1	B	Standard Error	Beta		
Constant	186.541	3.266	-0.804	57.815	0.000
X1-Processing costs	-37.488	2.202		-17.024	

Source: Field Data – August 2019

Ypredicted = a + bX1

Growth Predicted = 186.541- 37.488*Processing costs

4.3.6 Loan Interest Rates on growth of SMEs

Correlation

Correlation describes the association between two or more variables without regard to which variable is independent or dependent and with no intention of formulating the relationship or using it to make predictions. The value of a correlation coefficient lies between -1 to 1. Negative values show a downward slopping relationship. This means as X increases, Y decreases. Positive values indicate an upward slopping relationship. Values between 0 and either extreme, measure how closely the actual data fits a straight line. Correlation is represented by letter r. The value of r is the coefficient of correlation As shown in the table 12 below, the predictor variable X2, Interest Rates is negatively correlated to the response variable Growth in SMEs with a magnitude of -0.700. As the cost of processing loans rise, a declining trend is seen in the growth of SMEs.

According to Wahiduddin, (2017), in his book, Theory and Practice of Micro Credit, Micro credit facilities were assumed to be a classic substitute for the inaccessible conventional sources of finance and the erratically priced money from the informal credit markets. The expectations, she say, is that the rates charged on these loans would be affordable. This study however, reveals a different scenario where interest rates contribute significantly to the variations in growth of Small and Medium Enterprises.

Table: 16-Correlation – Loan Interest and Growth SMEs.

	Growth of SMEs(Y)	Interest rates(X2)
Growth of SMEs(Y)	1.00	-0.700**
Loan Interest rates ((X2)	-0.700**	1.00

Source: Field Data– August 2019

R square is the proportion of variance in the response variable (Growth of SMEs) which can be predicted from the predictor variables The Table: 17 below shows that R square is 0.490 an indication that the dependent variable 49% of the growth of SMEs in this study is explained by the predictor variable X2, the loan interest rates. This means that Interest rates is a major contributor to the observed declining growth in SMEs. This does not mean that the costs are not chargeable, the MFI interest rates are inflated and defies the traditional norms of lending

Regression –Loan interest and Growth of SMEs

.**Table:17 Model Summary**

Model	R	R Square	Adjusted R.square	Std Error of The Estimate	F	Df	Significance

	0.700	0.490	16.6032	151.523	155	0.000

Source: Field Data– August 2019

Analysis Of Variance was conducted to find out if any relationship exists between the business growth factors and the interest rates charged on the loans sourced from MFIs. At the p-value of F< alpha as shown in Table: 19 below, the Null hypothesis can be rejected and a conclusion reached that there is a relationship between this predictor variable and the response variable.

The Sum of Square Regression divided by the Sum of Square Total (SSRegression/SSTotal) = 0.490, Value of R square. This shows that up to 49% of the variations in business growth factors are explained by the interest rates charged on the loans financing the businesses.

Table: 19 Analysis of Variance

Model		Sum of Squares	Df	Mean Squares	F	Significance
1	Regression	41770	4	41770.49	151.523	0.000
	Residual	43555.90	155	275.670		
	Total	85326	159			

Source: Field Data – August 2019

The table 20 below of model summary shows that, holding all other variables constant, for every unit increase interest rates, there is a - 49.514 unit decrease in the predicted SME growth. For the Loan Interest rate, the predicted growth score would be 49.514 lower. The variable processing costs is therefore statistically significant because the p – value is less than 0.05.

Table: 20 Coefficients

Model	Unstandardized Coefficient	Standardized Coefficient	t	Significance

	B	Std Error	Beta		
1(Constant)	203.102	5.698	-.700	35.645	0.000
X2-Loan interest Rates	-49.414	4.022		-12.309	0.000

Source: Field Data– August 2019

Ypredicted = a + bX2

Growth Predicted = 203.102- 49.514*Loan interest rates

4.3.7 Loan commitment fees on growth of SMEs

Correlation

Table 21 below shows that as commitment fees on loans rise, a declining trend is seen in the growth of SMEs. P=0.000< 0.05 and the relationship is significant at 0.001 level. This is an indication that high commitment fees on loans by MFIs plays a key role in the declining fortunes of SMEs.

Loan commitment fees is described by Blavey,(2005) as insignificant amounts meant to cushion against uncertainties. Contingency measures to cover for possible early exit, institutional or administrative rigidities. There is however sufficient evidence from this study the fees are significant and adversely affect the growth of business.

Table:21 – Correlation-Loan commitment fees and Growth of SMEs.

	Growth of SMEs(Y)	Commitment fees(X3)
Growth of SMEs(Y)	1.00	-0.852**

Loan commitment fees((X3	-0.852**	1.00

Source: Field Data– August 2019

The Table: 22 below of model summary shows that R square is 0.725 an indication that72.5% of the growth of SMEs in this study is explained by the predictor variable X3, the commitment fees charged on the loans. This means that commitment feesis a major contributor to the observed declining growth in SMEs. Commitment fees are charged by all lending institutions however, the MFI commitment fees are inflated and constitutes a critical burden to SMEs which are their main borrowers.

The Table: 23 below shows that F – test is significant at p< alpha, 0.000<0.05, at a magnitude of 417.346 indicating that there exists a relationship between SME growth factors and the predictor variable, loan commitment fees. But how strong is this relationship? The R Square value is 0.725 meaning that the predictor variable Commitment fees on loans accounts for 72.5% of the variation in the response variable Growth of SMEs. Another way of looking at it is that the predictor variable supplies 70% of the information needed to accurately predict response variable. In other words, the model is 70% complete.

Table: 23ANOVA-Loan commitment Fees and Growth of SMEs.

Model	Sum of Squares	Df	Mean Squares	F	Significance

1 Regression	61894.30	4	61894	417.346	0.000
Residential	23452	155	148.34		
Total	85326	159			

Source: Field Data – August 2019

(Y) – Response variable – Growth of SMEs

(X3) – Predictor variable – Loan commitment fees

The table 24 below shows that, holding all other variables constant, for every unit increase in loan interest rates, there is a –333.40 unit decrease in the predicted SME growth. For the commitment fees, the predicted growth score would be 333.40 lower. The variable commitment fees is therefore statistically significant because the p – value is less than 0.05.

Table: 24 Coefficients

Model	Unstandardised Coefficient	Standardized Coefficient		t	Significance
	B	Std Error	Beta		
1 (Constant)	186.694	2.714	-0.85	268.783	0.000
X3 – Commitment Fees	-333.4	16.323		-20.429	0.000

Source: Field Data – August 2019

Ypredicted = a + bX3

Growth Predicted = 186.694- 333.40*Loan commitment fees

4.3.8 Loan default penalties on growth of SMEs

Correlation-Loan Default Penalties and Growth of SMEs.

Correlation describes the association between two or more variables without regard to which variable is independent or dependent and with no intention of formulating the relationship or using it to make

predictions. The value of a correlation coefficient lies between -1 to 1. Negative values show a downward slopping relationship. This means as X increases, Y decreases. Positive values indicate an upward slopping relationship. Values between 0 and either extreme, measure how closely the actual data fits a straight line. Correlation is represented by letter r. The value of r is the coefficient of correlation As shown in the table 25 below, the predictor variable X4, Loan default penalties is negatively correlated to the response variable Growth in SMEs with a magnitude of -0.760. As the cost of processing loans rise, a declining trend is seen in the growth of SMEs. This relationship is significant at 0.000 level.

This is shown in Table: 25 below that as default penalties rise, a declining trend is seen in the growth of SMEs This is an indication that high penalty charges by MFIs on loan defaults plays a key role in the declining fortunes of SMEs.

Table: 25 – Correlation – Loan Default Penalties and Growth of SMEs

	Growth of SMEs(Y)	Loan Processing Costs(X1)
Growth of SMEs(Y)	1.00	-0.760
Loan Default Penalties ((X4)	-0.760	1

Source: Field Data– 2019

The Table: 26 below of model summary shows that R square is 0.578 an indication that57.50% of the growth of SMEs in this study is explained by the predictor variable X4, the default penalties charged on the loans. This means that penalties are a major contributor to the observed declining growth in SMEs. Loan default Penalties are charged by all lending institutions however, the MFI penalties are inflated and constitutes a critical burden to SMEs which are their main borrowers. 57.8% of the information needed to accurately predict the response variable is supplied by the dependent variables in the model making the model 57.5% complete.

Table:26 Model Summary

Model	R	R Square	Adjusted	Std Error	F	Df	Significance

			R.	of the Estimate			
1	0.760	0.578	0.575	15.100844	216.180	155	0.000

Source: Field Data– 2019

The variable, Loan default penalties was tested both for correlation and significance in relation to the variations in SME growth factors. The Table: 27 below shows that F – test is significant at p< alpha, 0.000<0.05, at a magnitude of 216.18 F0.000:36029.807=216.180 indicating that the regression model applied was a good predictor of the SME growth factors.

Table: 27ANOVA

Model		Sum of Squares	Df	Mean Squares	F	Significance
1 2 3	Regression	49296.8	1	49296	216.180	0.000
	Residual	36029	155	807158	228.05	
	Total	85326	156			

(Y) – Response variable – Growth of SMEs

(X) – Predictor variable – Loan default Penalties

Source: Field Data– 2019

The table 28 below shows that, holding all other variables constant, for every unit increase in loan penalty charges, there is a – 126.680 unit decrease in the predicted SME growth. For the Loan default penalties,

the predicted growth score would be 126.680 lower. The variable default penalties is therefore statistically significant because the p – value < alpha.

Loan defaults, according to Trimble,(2000), may at times be due to genuine reasons. High penalties on these defaults only help to escalate the loan amounts and leads to financial distress to the borrower. Trimble recommends soft landing for those who fall behind their repayment schedules so that ample chance is accorded to them to make up for the defaults. Kumar, (2018) mentioned uncertainties associated with short term arrangements as the main cause of loan delinquencies among micro financing facilities.

Table: 28 Coefficients

Model	Unstandardised Coefficient		Standardized Coefficient	t	Significance
	B	Std Error	Beta		
1 (Constant)	165.190	2.384	-0.760	69.292	0.000
X2 – Loan Interest rates	-126.680	8.616-14.703			0.000

Ypredicted = a + bX4

Growth Predicted = 165.190- 126.680*Default penalties

Source: Field Data– 2019

4.3.8 The combined variables Analysis

This study applied an ANOVA model to determine the relationship between micro finance costs and the growth factors of SMEs. The regression analysis was done using the following model:

$Y = a + b0X1 + b0X2 + b0X3 + b0X4 + \ldots\ldots \varepsilon$

Where, Y – Growth

X1 – Processing cost

X2 – Interest rates

X3 – Commitment fees

X4 – Default penalties

Ɛ - Error term

Correlation- MFI Loan costs and Growth of SMEs.

The study of relationships makes our environment more predictable. We can anticipate the consequences of actions and what may happen in a given set of circumstances. We can be better prepared. Things we cannot control directly make us feel powerless. If we can predict events we feel empowered.

Table 29 below shows that growth is negatively correlated to loan processing costs at -0.804 at a level of 0.01. This is an indication that any upward adjustments of these costs results in declining growth in SME growth factors. A similar scenario applies in the relationship between the growth factors and loan interest rates where at the same level 0.01. the magnitude is -0.700. The same applies to the relationship between growth and both the loan commitment fees and default penalties where the magnitudes are -0.852 and -0.760 respectively.

The variables processing costs and interest rates are positively correlated at a magnitude of 0,820. Similarly, processing costs, commitment fees and default penalties are positively correlate at magnitudes of 0,946 and 0.971 respectively. Meanwhile, commitment fees and default penalties are positively correlated at a magnitude of 0.951 at 0.01 level.

The positive inter correlation between the predictor variables indicates that they move in the same direction to the detriment of the users of the MFI loans.

Table: 29 Pearson's correlation.

	Y	X1	X2	X3	X4
Y-Growth	1				
X1-Loan Processing Costs	-.804	1			
X2-Loan Interest Rates	-.700	.820	1		
X3-Loan Commitment fees	.852	.946	.204	1	
X4-Loan Default Penalties	-.760	.971	.805	.951	1

Source: Field Data– 2019

**Correlation is significant at .001 level of confidence (2tailed)

Source: Field Data

Regression – MFI Loan costs and Growth of SMEs

Correlation needs to be subjected to further tests. This is because coefficient correlation is calculated only from a sample. Complete certainty may not be possible that the same value applies to the population. Regression is therefore used to test the strength of these relationships. The Analysis of Variance in Table: 33 shows F-test is significant at p<alpha, 0.000<0.05 at a magnitude of 135. This indicates that there exists a significant relationship between SME growth factors and the predictor variables (Processing costs, Interest Rates, Commitment Fees and Default Penalties). The strength of the relationship is explained by Table 32 below of model summary of model summary which shows that R square is 0.778 an indication

that in general, 77.8% of the variation in growth of SMEs in this study is explained by the predictor variables loan costs. In other words, 72.2% of the information needed to accurately predict response variable is supplied by the predictor variables stated. The remaining 22.8% is unexplained. This means that the predictor variables used in this study contributes to a major portion of the declining growth SMEs and the model is 72.2% complete. M'mbololo, (2012), in his study among the micro finance institutions in Nairobi asserts that these institutions have been of great support to the Small and Medium Enterprises. The few shortcomings, he say are due to low accessibility. My study, conducted seven years after that of M'mbololo, when these services are widely accessible, reveals that the SMEs still perform poorly after consuming their loan products. This as the study reveals, is due to the uncontrolled charges levied on them.

Table:32 Model Summary

Model	R	R square	Adjusted R	Std. Error
1	.0.882	0.778	.0.772	11.03

Source: Field Data– 2019

In the Analysis of Variance Table: 33, regression is the source of variance, Regression, Residual and Total. They are partitioned in into the variance which can be explained by the predictor variable and the variance which cannot be explained by predictor variables sometimes called Residual or Error. The Table below shows that F – is significant at a magnitude of 135 with p-value<alpha, indicating that the regression model applied was a good predictor of the SME growth factors. The sum of squares are those which are associated with the three sources of variance.

Table:33 Analysis of Variance

ANOVA

Model	Sum of squares	Df	Mean squares	F	Significance
1. Regression	66382	4	16595.558	135	0.000

Residual	18944.16	155	122.220
Total	85326	159	

(a) Predictor variables: X4, X3, X2, X1
(b) Dependent variable: Y

Source: Field Data– 2019

Table :34 Coefficients

Model	Unstandardised coefficiencies		Standardized coefficiencies	t	Significance
	B	Std Error	Beta		

1(constant)	209.375	5.530		37.86	0.000
X1-Processing fees	-34.060	4.867	-.731	4.292	0.000
X2-Interest rates	-2.067	7.935	-.029	.426	.047
X3-Commitment fees	-469.485	51.978	-1.199	-9.032	.000
X4-Default penalties	177.790	29.346	1.607	6.058	.000

Source: Field Data– August 2019

Ypredicted = Bo +boX1 +boX2 +boX3+boX4

Growth Predicted = 209.375 – 34.060*processing costs -2.067*interest rates – 469.485*commitment fees + 177.190*default penalties

The constant in the table is the Y intercept. This is the predicted value of growth when all other variables is 0. B are the values of the regression equation for predicting the response variable from the predictor variables. The table 34 above shows that, holding all other variables constant, for every unit increase in loan processing costs, there is a – 34.060 unit decrease in the predicted SME growth. For processing cost, the predicted growth score would be 34.060 lower. The variable loan processing cost is therefore statistically significant because the p – value is less than the alpha, 0.05, the alpha .Similarly, for every unit increase in interest rates, there is a 2.067 unit decrease in the predicted SME growth, at a p-value < alpha. A unit increase in commitment fees would also result in a -469.48 decrease in predicted growth of SMEs. And for default penalties, a unit increase would result in a 177.190 unit decrease in predicted SME growth.

Micro finance was billed by its proponents as the best bet for the Small and Medium Enterprises. A balance however, according to Puhazhendhi, (2009) needs to be struck between market forces be improved geared entirely towards profits if these institutions have to make genuine contributions to the support of the poor. My study ratifies this observation and points out the areas in which micro finance loan products needs to

be improved. The innovators of micro finance placed high hopes on it and they kept saying that Micro finance will solve the financing problem of the poor and their businesses as it shall be easily accessible. In appraising their innovation, they made a major omission. That of the cost. The question of cost has consistently been hanging around micro financing but without clear answers. Omondi, (2013), mentioned that there is a clear declining trend in the uptake of the micro finance loans. He suggested that there is need to interrogate the costs involved in accessing these loans. When the MFIs rolled out their products, the consumers of these products were faced with costs high above their expectations. Businesses got trapped as they had become users. Interest rates were found to be above the capability of the users and this was in addition to many other costs associated with the facilities. As a result of these costs, businesses found themselves operating businesses whose growth is retarded, declining profits, revenues and low liquidity conditions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the findings of the study and makes recommendations. The purpose of the study was to establish the effect of cost of micro financing on the growth of Small and Medium Enterprises in Kisumu City, Kenya.

5.1 Summary of Findings

The study was guided by four objectives: To establish the influence of loan processing charges on growth of SMEs, to determine the influence of interest rates on growth of SMEs, to determine the influence of commitment fees on growth of SMEs and to establish the influence of loan default penalties on growth of SMEs.

As is shown in table 10, a large majority of the respondents strongly agreed that loan processing costs contribute to the decline in growth of their businesses. The inflated loan installments after the loading of the processing fees was found to reduce the business' liquidity and impedes capacity to expand.

Consumers of MFI loans have for some time now complained of high interest rates. Interest rate is a finance charge which affects the loan amount until its full repayment. It is a function of risk profiles of the loan and the loanee, however previous studies have shown that when this rate is so high, consequences of default rates and reduced motivation sets in. This then negatively affects growth of the businesses using such monies. High interest costs leads to systematic decline in profitability and impedes access to other sources of finance.

The study has revealed that the interest rates charged by MFIs are relatively high and negatively affect the growth of their businesses. Up to 86% of the respondents stated that interest rates on the MFI loans are too high and affect their business.

Loan commitment fee is charged once at the inception of the loan. Under micro financing arrangement according to the respondents, these fees were not only undisclosed but are generally inflated to the detriment of the consumers of their loan facilities.

The fee is a function of Loan amount, period of repayment, customer history and quality of security offered. The respondents had a general consensus that they not only need prior disclosure but also harmonization with those of the other lending institutions. The large percentage, 89% were unanimous as to what if done to loan commitment fees would bring sanity to micro financing hence provide relief to the growth of the SMEs using MFI loans to their businesses.

When a loan facility fails the productivity test and starts being a burden rather than a financial support, tendencies of default sets in. Default penalties are charges imposed on delinquent loan facilities. Besides

being source of additional revenue to the lender, they are also intended to discourage poor or non-performance of the facility. Though they are at the discretion of the lender, very high penalties are known to be counterproductive since they tend to inflate the loan further, and without repayment installment adjustments, generates a chain reaction that may eventually make the loan bad and doubtful. Up to 91% of the respondents agreed that MFIs impose punitive charges as penalties and this frequently affects both their key income factors such as revenue generation as well as their liquidity.

5.2 Conclusions

Micro Finance Institutions came into the Kenyan financial market with a promising applause. The conventional financial field had set the bar of financial support high above the capacity of most Kenyans and therefore the percentage of the unbanked population remained high. With the promises of affordable and accessible financial support, many Kenyans especially Small and Medium Enterprises felt that Micro Finance was their chance.

With consistent reports of underperforming SMEs in the Kenyan economy, several factors may be at play. However, given that SME key finance of choice have been Micro finance, a closer look at their loan facilities is continually being made. With a large majority of the study respondents castigating loan processing fees as an oppressive charge, this decline must partially be attributed to this charge. Setting up of these charges to an acceptable level would relieve the SMEs from further financial strain.

Interest rates are operational costs, applied as any other expense. The fact that it runs together with the loan facility until achievement of full repayment, its control is an important incentive for business growth. The fact that MFI rates are unregulated and continue to be consistently high is a critical source of concern to the SMEs utilizing their loans.

Commitment fees inflates the loan amount. This then affects business liquidity due to increased installment. When this fee is higher than the loanee can reasonably afford, then the loanee gets tied up in a contract that may ruin the business. From the study, it is evident that this cost is one the finance costs most problematic, more so that it is not usually disclosed at the inception of the loan.

These are products of delinquent loan facilities. When the loan facilities become unaffordable because of too many levies, the natural net result is default tendencies. This then triggers a reaction for further charges. Overburdened by the liabilities, the loanee may halt repayment and create an environment that is not conducive for business. Micro finance institutions, as the study found out are fond of this scenario.

Looking at the respondents reactions, penalties is one charge that adversely affect the growth of their businesses.

5.3 Recommendations

An enabling financial environment is imperative for the growth of every business sector. SMEs play an effective role as an additional engine for economic growth, wealth generation and employment creation. Great expectation was created with the arrival of MFIs and there is still belief that this hope is achievable.

Micro Finance Institutions must self-regulate and in the face of failure to do this, a regulatory body or legislative force need to be put in place by the government. This has been applied in the case of commercial banks. Reactions have been mixed but the common man is largely protected while the banks also earn their fair share of profits, evidenced from their published annual accounts.

The study found that loan processing cost is a levy added to the loan amount. The banking sector charges this amount at 2% of the loan amount while MFIs were found to charge as much as 5%. This calls for an effort to be made to peg this levy to the acceptable percentage applicable to all the other lending institutions.

On the same note, interest rates has been problematic in Kenya. While it is known that interest rates in several countries hardly go beyond 7%, in Kenya, banks charge up to 30%. This shocked Kenyan Parliament and the legislated for interest rate cap in the year 2016. This position still stands and the rates are now pegged at 13%. Micro finance companies are not covered by this legislation and because of that, they still charge extortionary rates, cushioned in monthly percentages. MFI interest rates should be brought under the umbrella of the Act governing commercial bank rates.

As a one off charge, commitment fees on loans should be negotiated and MFIs need to charge only reasonable rates. This will earn them good will amongst their customers, improve their loan uptake but also ensure business growth for SMEs who consume these loans.

There is urgent need for the MFIs to control penalties on delinquent facilities. This will boost the morale of the borrowers and ensure continued repayment. Penalties increase the weight of the facilities and demoralize loanees. This may lead to financial distress and uncalled for recovery procedures.

5.4 Suggestion for further studies

Micro Financing is a new innovation. The dynamics of their operations are still undergoing development and the users are also still getting to understand them. This study was largely confined to costs of the loan facilities and found wide differences between what they charge and what other lenders also charge. Reasons for these disparities, their strategic plans and business diversifications are just but some of the areas which require further study. Service improvements may accrue from more of the studies that may be carried out after this.

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APPENDICES

Appendix 1 -Research Questionnaire

This survey instrument was developed to capture data on the effect the cost of Micro Loans have on the growth of SMEs. The data obtained from this exercise will be used for a project in fulfillment of the

requirements of the degree of Master of Business Administration, Maseno University. In this, you are requested to participate by providing answers to enable the researcher fulfill the research objective.

1. Please tick the boxes appropriately.
2. Where spaces are provided, briefly write your answer.

SECTION A

Personal details

1) Name……..
2) Age…….
3) Number of Employees

a) Female ( )

b) Male ( )

(3) What is your form of "business?

(a) Partnership ( )
a) Company ( )
b) Sole proprietorship ( )
c) Any other (specify)…… ( )

(4) How did you learn trade?

a) As an apprentice ( )

b) As institution ( )

c) Self-taught ( )

(5) How often do you apply borrowed money in business?

(a) Regularly ( )

(b) Upon necessity ( )

(c) Minimal ( )

(d) Not at all ( )

(6) What has been the general trend in your business performance?

(a) Excellent ( )

(b) Very Good ( )

© Good ( )

d. Fair ( )

e. Unsatisfactory

7 What is the main source of your working capital?

(a) Own resources ( )

(b) Bank credit ( )

© Customers ( )

d. Micro finance ( )

e. Chamas ( )

SECTION B: FINANCIAL COSTS

6 Have you had the chance to compare the different sources of finance as regards their merits?

(a) Yes ( )

(b) No ( )

7 What are the general comparisons you have made?

(a) Flexibility ( )

(b) Adequacy ( )

© Accessibility ( )

d. Costs ( )

(7) Which costs of the Micro loans do you find most unpopular?

a. Interest rates ( )

b. Commitment fees ( )

c. Service charge ( )

d. Penalties ( )

e. Any other (specify)…….

8) In which business sector is your business?

Grocery [ ]

Wholesale [ ]

Salon [ ]

Textile/boutique [ ]

Metal works [ ]

Food outlet [ ]

SECTION C: Micro Finance interest rates

8 Indicate your level of agreement with the following statement:

Interest cost from micro financing rank favorably with those of Commercial Banks.

1. Strongly Disagree (SD)
2. Disagree (D)
3. Uncertain (U)
4. Agree (A)

5. Strongly Agree (SA)

SECTION D: Cost of Micro Finance loans

9 In your opinion, what are the likely finance issues that affect your business growth?

(a) Accessibility ( )

(b) Repayment period ( )

c. Amounts available ( )

d. Charges involved ( )

e. Application of funds ( )

10 Of these charges which ones do you find most challenging

(a) Margin ( )

(b) Interest rates ( )

c. Processing fees ( )

d. Security costs ( )

e. Commitment fees ( )

f. Penalties

SECTION:E Regulatory Frameworks

11 Are you privy to the regulatory frameworks governing Micro finance loan facilities?

(a) YES ( )

(b) NO ( )

12 In your opinion, what do you think the government should about the micro financing costs?

(a) Regulate ( )

(b) Cap ( )

©. Retain ( )

Indicate your level of agreement with the following statements by ticking at the appropriate box.

13 Control of the costs of Micro finance loan facilities would improve the growth of your business.

Use the ratings criteria below.

Strongly Disagree (SD)

Disagree (D)

Uncertain (U)

Agree (A)

Strongly Agree (SA)

	Questions	**1.SD**	**2.D**	**3.U**	**4.A**	**5.SA**
15	Control interest rates					
16	Control extraneous charges					
17	Control penalties					
18	Control commitment fees					
	Control processing fees					

SECTION: E Loan delinquency penalties

Indicate your level of agreement with the following statements by ticking at the appropriate box.

Use the ratings criteria below.

Strongly Disagree (SD)

Disagree (D)

Uncertain (U)

Agree (A)

Strongly Agree (SA)

	Questions	**1.SD**	**2.D**	**3.U**	**4.A**	**5.SA**
20	The penalties are higher than that of banks					
21	They are higher than in Saccos					
22	They are higher than those of chamas					

SECTION F: Commitment fees

Indicate your level of agreement with the following statements by ticking at the appropriate box.

Use the ratings criteria below.

Strongly Disagree (SD)

Disagree (D)

Uncertain (U)

Agree (A)

Strongly Agree (SA)

	Questions	**1.SD**	**2.D**	**3.U**	**4.A**	**5.SA**
23	They are fairly priced					
24	They are punitive					
25	They are hidden charges					

26) List down your previous experience with micro loans.

……

……

……

27) List down any operational challenges you encounter as a result of micro loan consumption.

……

……

……

SECTION G: General Questions

28) Would you be able to provide your average profitability trend for the past 3 years?

YES [ ]

NO [ ]

29) Would you be able to quantify the effect of these finance costs which may be affecting your business growth?

……
……
……..

30) Give any other comments you think might have affected growth of the small scale women entrepreneurship in your area.

……
……
……

Thank you

Appendix II: Research Plan

TIME	**Designing the Research Problem**	**Writing of Proposal**	**Defending the Proposal at the School**	**Making Recommended Adjustments**	**Collecting and Analysing Data**	**Defending the Report**
May 2019						
June 2019						
June 2019						
July 2019						
August 2019						
September 2019						

Appendix III: Raw data

Y - Growth factors of SMEs	X1-Commitment fees	X2- Interest Rate	X3 - Processing costs	X4 - Delinquency penalties
Kshs in Millions	Kshs in Millions	Kshs in Millions	Kshs in Millions	Kshs in Millions
230	0.1	0.3	0.001	0.001
205	0.2	0.4	0.002	0.004
198	0.4	0.5	0.003	0.007
195	0.4	0.6	0.004	0.01
191	0.6	0.7	0.005	0.013
188	0.62	0.8	0.006	0.016
187	0.64	0.9	0.007	0.019
185	0.66	1	0.009	0.022
182	0.67	1.01	0.01	0.025
181	0.68	1.02	0.02	0.028
175	0.5	1.03	0.03	0.031
175	0.6	1.04	0.04	0.034
175	0.58	1	0.05	0.037
170	0.59	1.05	0.06	0.04
168	0.68	1.07	0.07	0.043
165	0.7	1.08	0.08	0.046
164	0.71	1.08	0.09	0.049
163	0.72	1.04	0.101	0.052
162	0.74	1.09	0.102	0.055
161	0.7	1.1	0.103	0.058
160	0.73	1.11	0.104	0.061
160	0.75	1.12	0.105	0.064
160	0.77	1.13	0.106	0.067
154	0.67	1.14	0.107	0.07
153	0.78	1.15	0.108	0.073
152	0.8	1.16	0.109	0.076
150	0.81	1.17	0.11	0.079
148	0.82	1.18	0.111	0.082
147	0.83	1.19	0.112	0.085
145	0.85	1.2	0.113	0.088
144	0.86	1.21	0.114	0.091
142	0.87	1.22	0.115	0.094
140	0.88	1.23	0.116	0.097
139	0.86	1.24	0.117	0.1

138	0.86	1.25	0.118	0.103
137	0.87	1.14	0.119	0.106
136	0.88	1.15	0.12	0.109
135	0.89	1.16	0.121	0.112
134	0.9	1.17	0.122	0.115
133	0.91	1.18	0.123	0.118
132	0.93	1.19	0.124	0.121
131	0.94	1.2	0.125	0.124
130	0.96	1.21	0.126	0.127
154	0.96	1.22	0.127	0.13
146	0.95	1.23	0.128	0.133
170	0.97	1.24	0.128	0.136
162	0.98	1.18	0.129	0.139
161	0.99	1.19	0.13	0.142
160	1	1.2	0.131	0.145
159	1.1	1.21	0.132	0.148
155	1.2	1.2	0.133	0.151
163	1.3	1.3	0.134	0.154
153	1.3	1.3	0.135	0.157
150	1.4	1.4	0.136	0.16
148	1.44	1.44	0.137	0.163
147	1.43	1.43	0.138	0.166
143	1	1.18	0.139	0.169
142	0.95	1.19	0.14	0.172
140	0.97	1.2	0.141	0.175
140	0.98	1.44	0.142	0.178
136	0.99	1.43	0.143	0.181
135	1	1.44	0.144	0.184
130	1.1	1.47	0.145	0.187
120	1.2	1.47	0.146	0.19
129	1.3	1.49	0.147	0.193
128	1.44	1.44	0.148	0.196
120	1.43	1.43	0.149	0.199
126	1.3	1.3	0.149	0.202
126	1.4	1.4	0.15	0.205
124	1.44	1.44	0.151	0.208
122	1.43	1.43	0.152	0.211
127	1	1	0.153	0.214
125	1.44	1.44	0.154	0.217
120	1.43	1.43	0.155	0.22
118	1.44	1.44	0.156	0.223

119	1.47	1.47	0.157	0.226
117	1.47	1.2	0.158	0.229
115	1.49	1.21	0.159	0.232
114	1.5	1.2	0.16	0.235
113	1.55	1.3	0.161	0.238
112	1.55	1.3	0.162	0.241
112	1.55	1.4	0.163	0.244
113	1.56	1.44	0.164	0.247
112	1.5	1.43	0.165	0.25
111	1.55	1.55	0.166	0.253
112	1.55	1.55	0.167	0.256
114	1.55	1.55	0.168	0.259
110	1.57	1.57	0.169	0.262
130	1.58	1.58	0.17	0.265
130	1.55	1.55	0.171	0.268
128	1.59	1.21	0.172	0.271
130	1.6	1.2	0.173	0.274
128	1.61	1.3	0.174	0.277
128	1.62	1.3	0.175	0.28
122	1.63	1.4	0.176	0.283
127	1.64	1.44	0.177	0.286
125	1.66	1.43	0.178	0.289
130	1.67	1.18	0.179	0.292
120	1.69	1.19	0.18	0.295
126	1.7	1.2	0.181	0.298
126	1.71	1.44	0.182	0.301
124	1.75	1.43	0.183	0.304
122	1.75	1.44	0.184	0.307
127	1.76	1.47	0.185	0.31
125	1.59	1.2	0.186	0.313
120	1.6	1.21	0.187	0.316
112	1.61	1.2	0.188	0.319
111	1.62	1.3	0.189	0.322
112	1.63	1.3	0.19	0.325
114	1.64	1.4	0.191	0.328
110	1.66	1.44	0.192	0.331
130	1.67	1.43	0.193	0.334
130	1.69	1.18	0.194	0.337
109	1.7	1.19	0.195	0.34
108	1.71	1.2	0.196	0.343
106	1.75	1.44	0.197	0.346

105	1.75	1.43	0.198	0.349
102	1.76	1.44	0.199	0.352
101	1.7	1.7	0.2	0.355
100	1.78	1.78	0.201	0.358
101	1.8	1.8	0.202	0.361
110	1.81	1.81	0.203	0.364
114	1.82	1.82	0.204	0.367
126	1.84	1.84	0.205	0.37
126	1.85	1.85	0.206	0.373
124	1.86	1.86	0.207	0.376
122	1.87	1.87	0.208	0.379
127	1.88	1.88	0.209	0.382
125	1.87	1.87	0.21	0.385
120	1.89	1.89	0.211	0.388
112	1.9	1.9	0.212	0.391
111	1.94	1.94	0.213	0.394
128	1.95	1.95	0.214	0.397
122	1.96	1.96	0.215	0.4
127	1.97	1.97	0.216	0.403
125	1.97	1.97	0.217	0.406
130	1.98	1.98	0.218	0.409
120	1.99	1.99	0.219	0.412
126	2	2	0.22	0.415
126	2.1	1.2	0.221	0.418
124	2.05	1.44	0.222	0.421
122	2.1	1.43	0.223	0.424
127	1.87	1.44	0.224	0.427
125	1.88	1.47	0.225	0.43
126	1.87	1.47	0.226	0.433
126	1.89	1.49	0.227	0.436
124	1.9	1.44	0.228	0.439
122	1.94	1.43	0.229	0.442
127	1.95	1.3	0.23	0.445
125	1.96	1.96	0.231	0.448
120	1.97	1.97	0.232	0.451
112	1.97	1.97	0.233	0.454
111	1.99	1.99	0.234	0.457
128	2	2	0.235	0.46
122	2.1	1.82	0.236	0.463
127	2.05	1.84	0.237	0.466
125	2.1	1.85	0.238	0.469

130	2.11	1.86	0.239	0.472
120	2.12	1.87	0.24	0.475
120	2.15	1.88	0.241	0.478

Source: SMEs published accounts and websites.