THE ROLE OF MICROFINANCE INSTITUTIONS ON GROWTH AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES, A CASE OF KWA RHONDA VILLAGE IN NAKURU TOWN

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ABSTRACT

In the past few years savings led microfinance institutions has gained recognition as an effective way to bring very poor families low cost financial services. Although studies have been done on microfinance institutions impacts and revolutions, researches on local experiences have not been largely done where the service has not been able to reach many people either individuals or groups on the ground. Business operators in this region naturally fear MFIs because loan defaulters suffer auctioneers wrath and are strict to collect their money lend out. The purpose of this study is to assess the role of MFIs on the growth and performance of Small and Medium Enterprises SMEs and SHGs of *Kwa* Rhonda and Lake View of Nakuru town . The objectives of this study were to find out microfinance institutions services offered to business operators, analyzing whether the services have contributed to business expansion, recommending the strategies for improving the services to local people and to assess the growth of businesses on issues such as sales, jobs created and business profits. The following theories were used by MFI's; a Joint liability, frequent repayment and sequential lending. The researcher had used the joint liability theory. The study was descriptive survey where data was collected using questionnaires and interview schedules from a sample of seven groups composed of 140 members; two groups which do not get financial assistance and another five who get financial assistance from MFIs. The data obtained was quantitative and qualitative in nature. The raw data obtained was organized and summarized using descriptive which includes: frequency tables, percentages, and pie chart, Pearson's correlation coefficient and chi-square. Statistical Package for Social Sciences (SPSS) version 11.5 for windows and Microsoft Excel 2003 was used to analyze the data. The statistical significance level was set at 0.05. The results of this study suggest some positive impacts of the expansion of microfinance services in the study area. However, there are important challenges affecting business owners in the study area with regard to MFI services. It was however noted that sustainability of most borrowing groups was weak. On recommendation, a government policy should be formulated mainly addressing the purpose and importance of synthesis to business operators on the need of using MFIs through open public information like local civic meetings conferences, workshop and seminars. Better policies need to be devised by the government in order to serve the community effectively.

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