Microfinance and Business Development Service Linkages: Synergies for Micro and Small Enterprise Development in Kenya

Nzilu Musyoki

A thesis submitted for the degree of Doctor of Philosophy of The Australian National University.

© December, 2010
Declaration

This thesis is composed of my original work, and contains no material previously published or written by another person except where due reference has been made in the text. The content of my thesis is the result of work I have carried out since the commencement of my research higher degree candidature and does not include a substantial part of work that has been submitted to qualify for the award of any other degree or diploma in any university or other tertiary institution.

Nzilu Musyoki
Acknowledgement

My PhD journey, with its sweet and the not so-sweet moments, would not have been complete without the enabling support of one Dr. Christine Jubb, whose exemplary supervision and academic guidance makes me feel deeply indebted. Indeed you have walked the walk with me. My boys and sons of joy, Kyalo and Kimanzi, you let me go and endured the pain of ‘being left behind’, a pain I can hardly share in. To you I pledge to be a friend in deed. The mother of my children, Kamene, you gladly took my position so that I could climb a little higher. Thank you very much. To my mum, Munii, the seed you planted with your ‘green’ hand has germinated. May you live long to enjoy its fruit.

Thanks to The Australian National University for the financial support accorded to me through ANCAAR, otherwise my Doctoral studies would probably have ended prematurely. Though you gave to me, through me you gave hope to a continent, the continent of Africa Sub-Saharan.
Abstract

Microfinance, the delivery of microcredit to low income people, is a popular development approach among governments in both the developing and developed world. The approach encourages mainly the poor to pursue self-employment by creating micro and small enterprises. Most microfinance institutions, the main providers of microcredit in developing countries, are seemingly taking a minimalist approach in their operations. Against this background it is feared that provision of business development services (BDS) to owner managers of micro and small enterprises is likely to be reduced or neglected. Previous attempts to evaluate the association of microfinance practices with the performance of poor people’s micro and small enterprises have resulted in mixed results with little theoretical underpinning.

Within the context of the current poverty reduction discourse, this study investigates the association of microcredit and concurrent provision of business development services with micro and small enterprise performance in a developing country. The key question investigated is whether, given access to microcredit, there is a difference in owner-managers’ self-assessed performance of their micro and small enterprises contingent on receipt of business development services.

This thesis employs two relational conceptions, Pierre Bourdieu’s (1977) critical theory on practice and neoinstitutionalism (see Scott, 2008), to isolate and situate the contending logics in the field of microfinance within the anti-poverty discourse. In so doing the thesis provides insights on the existence and nature of forces behind practice variations in the field of microfinance, notwithstanding the claim of poverty alleviation as being the underlying mission. Further, the thesis uses a Q-Squared approach to analyse the views of stakeholders. Stakeholders include micro and small enterprise owner-managers as users of either or both business development services and microcredit.

With regard to the primary hypothesis - whether there is a difference in owner-managers’ self-assessed performance of their enterprises contingent on their use of both business development services and microcredit - the findings are in the affirmative. Compared to their counterparts who use either or neither business development services
or microcredit, perceptions of micro and small enterprise owner-managers in receipt of both business development services and microcredit with respect to the performance of their enterprises are generally higher. The findings indicate that, in general, micro and small enterprise owner-managers in receipt of business development services report skill development as the main benefit accruing. Additionally, for owner-managers of micro and small enterprises who report satisfaction with the delivery of business development services, most record higher scores on self-rated performance of their enterprises. Further micro and small enterprise owner-managers raise concerns that current microcredit terms are not only stringent, but also constrain the operations of their businesses. However in general most micro and small enterprise owner-managers in receipt of microcredit perceive that this access improves the performance of their enterprises.

In terms of the theoretical frameworks underpinning this thesis, these results mean that from a Bourdieusian perspective, MSEs belonging to owner managers who concurrently have access to both economic and cultural capital appear to enjoy a synergistic benefit compared to MSEs belonging to owner managers with access to economic capital alone. Further, it appears that combined provision of cultural and economic capital is likely to lead to better perceived MSE performance than supply of cultural capital on its own. However MSE owner managers with exclusive access to cultural capital (BDS) compared to their counterparts with exclusive access to economic capital (microcredit), are likely to report higher performance for their enterprises. From a Bourdieusian point of view, it could be argued that access to cultural capital (BDS) enables MSE owners to acquire the necessary management skills that can enhance their habitus and consequently enlighten their decision making.
# Table of contents

Abstract ......................................................................................................................... iv  

Acronyms ...................................................................................................................... ix  

List of tables .................................................................................................................. x  

List of figures ................................................................................................................. xii  

List of text boxes ......................................................................................................... xiii  

1.0 Chapter One: Introduction .................................................................................. 1  
1.1 Introduction ........................................................................................................... 1  
1.2 Context – preview of Kenya’s social-economic status ........................................ 3  
1.3 Background: Overview of Microfinance and MSE Development ....................... 4  
1.3.1 Microfinance and MSE development in Kenya – a Synopsis ......................... 6  
1.3.2 Statement of the problem .................................................................................. 9  
1.4 Motivation .............................................................................................................. 10  
1.5 Overview of Findings ............................................................................................ 12  
1.6 Contribution of the Study ..................................................................................... 14  
1.7 Structure of Thesis ............................................................................................... 17  

2.0 Chapter Two: Further Background and Related Literature ................................ 18  
2.1 Introduction ........................................................................................................... 18  
2.2 MSE development in Kenya: the Role of Microfinance ..................................... 18  
2.2.1 Unfavourable regulatory and policy environment ........................................... 23  
2.2.2 Under-developed infrastructure ..................................................................... 24  
2.2.3 Limited access to credit and technical services ............................................. 25  
2.3 Kenya’s Microfinance sector, State and Contribution to MSE Development .... 29  
2.3.1 Evolution of microfinance in Kenya ................................................................. 29  
2.3.2 Status of Kenya’s Microfinance sector ............................................................. 34  
2.3.3 Microfinance approaches: influence on MSE development in Kenya .......... 36  
2.3.4 Kenya’s microfinance legislation ..................................................................... 41  
2.4 Review of Related Literature .............................................................................. 44  
2.4.1 Evaluating BDS and MSE performance relationship ..................................... 47  
2.5 Conclusion ............................................................................................................ 50  

3.0 Chapter Three: Theoretical Framework and Hypothesis Development ............ 52  
3.1 Introduction ........................................................................................................... 52  
3.2 Theoretical Framework: an Overview ................................................................. 54  
3.2.1 Neo-institutional theory ................................................................................... 54  
3.2.2 ‘Theory of practice’ by Pierre Bourdieu ......................................................... 59  
3.3 Microfinance as a Field: Emergence, Practice variation, and                     
Position-taking behaviour ......................................................................................... 66  
3.3.1 Microfinance evolution: a case of an emerging ‘Field’ ................................. 66
3.3.2 Practice variation in the field of microfinance: logic and
capital struggles .......................................................... 73
3.3.3 Position-taking behaviour and the regulatory challenge in
microfinancing ............................................................ 81
3.4 Conclusion .................................................................. 86
4.0 Chapter Four: Methodology for the Study ...................... 88
4.1 Introduction .................................................................. 88
4.2 Methodological options in Microfinance Research ............ 88
  4.2.1 Context of microfinance research .............................. 89
  4.2.2 Impact assessment methodologies ............................ 90
4.3 Study Design .............................................................. 95
  4.3.1 Justification for study design .................................... 98
4.4 Study site and Population ............................................. 101
4.5 Recruitment of Participants .......................................... 102
4.6 Data collection - Tools and Procedures .......................... 103
4.7 Techniques for Data analysis and Presentation ................ 107
4.8 Conclusion .................................................................. 109
5.0 Chapter Five: Sample Description ................................ 111
  5.1 Introduction .................................................................. 111
  5.2 Participants’ Demographic Profile [Sample I] ................. 112
  5.3 Participants’ Economic Profile [Sample I] ....................... 119
  5.4 General profile of Participants [Sample II] ..................... 135
  5.5 Conclusion .................................................................. 136
6.0 Chapter Six: Usefulness of Microcredit and BDS – MSE
  Owner-managers’ Perceptions ........................................... 137
  6.1 Introduction .................................................................. 137
  6.2 Nature of Credit and BDS users’ Businesses ................. 137
  6.3 Usefulness of Microcredit to MSE Owner-managers ......... 145
    6.3.1 MSE owner-managers’ sources of credit .................... 145
    6.3.2 MSE owner-managers’ borrowing motives ................ 146
    6.3.3 Microcredit terms and conditions ........................... 148
    6.3.4 Testing for the usefulness of microcredit .................. 158
  6.3 Usefulness of BDS to MSE Owner-managers ................. 165
    6.4.1 MSE owner-managers’ sources of BDS ..................... 165
    6.4.2 Business advisory services received by MSE owner-managers .... 168
    6.4.3 BDS delivery; mode, terms and conditions ............... 176
    6.4.4 MSE owner-managers’ assessment of benefits,
          shortcomings and satisfaction with BDS .................... 182
Acronyms

BDS   Business Development Service
DFID  Department for International Development
EMG   Emerging Markets Group
ILO   International Labour Organisation
IMF   International Monetary Fund
MDGs  Millennium Development Goals
MFI   Microfinance Institution
MSE   Micro and Small Enterprise
NGO   Non-Governmental Organisation
SACCO Savings and Credit Cooperative Society
SDC   Swiss agency for Development and Cooperation
SHG   Self Help Group
ROSCA Rotating Savings and Credit Association
USAID United Sates Agency for International Development
List of tables

Table 1: Global state of Microfinance ................................................................. 4
Table 2: Regional outlook of Microfinance ....................................................... 5
Table 3: Economic data profile- Kenya ............................................................... 19
Table 4: Total number of Kenyan MSEs and their corresponding nationwide
    employment share ..................................................................................... 21
Table 5: Characteristics of MSEs in selected countries from Sub-Saharan Africa........ 22
Table 6: List of constraints faced by MSEs in Kenya (percentage).......................... 28
Table 7: Selected list of public institutions established to promote
    access to credit between 1960s and 1970s ................................................. 31
Table 8: Access to financial services among Kenyans (percentage) ......................... 35
Table 9: Access to credit among Kenyan adults .................................................. 35
Table 10: Sources of credit commonly used by Kenyans .................................... 36
Table 11: Participants’ demographics: all categories [c1 – c4] .............................. 113
Table 12a: Participants’ demographic profile: pair-wise comparisons [c1 vs. c4] ...... 115
Table 12b: Participants’ demographic profile: pair-wise comparisons [c2 vs. c3] ...... 118
Table 13: Participants’ and their respective MSEs’ economic attributes ............... 120
Table 14: Participants’ asset base ..................................................................... 121
Table 15: Participants’ gross income and expenditure ......................................... 122
Table 16: Participants’ economic profile: pair-wise comparisons – credit
    users vs. non users, regardless of use of BDS [c1 & c2 vs. c3 & c4] ............. 125
Table 17: Participants’ economic profile: pair-wise comparisons – BDS
    users vs. non users, regardless of use of credit [c1 & c3 vs. c2 & c4] ............ 127
Table 18: Participants’ economic profile: pair-wise comparisons – BDS
    users vs. non users regardless of receipt of credit [c2 vs. c3] ..................... 130
Table 19: Pair-wise comparisons test of differences all categories [c1 – c4]
    (Chi-Square test & independent samples t-test) ....................................... 134
Table 20a: Business characteristics: pair-wise comparisons of credit users
    and non users [c1 & c2 vs. c3 & c4] ....................................................... 142
Table 20b: Business characteristics: pair-wise comparison of BDS
    users and non users [c1&c3 vs. c2&c4] ............................................... 143
Table 21a: MSE owner-managers’ sources of credit .......................................... 146
Table 21b: Motivation for taking a loan ............................................................ 147
Table 21c: Terms and conditions of microcredit as reported by MSE
    owner-managers ..................................................................................... 149
Table 22: MSE Owner-managers’ attitude towards terms and conditions
    of microcredit ...................................................................................... 153
Table 23a: Perceptions of how MSEs’ performance was impacted
    after accessing loans ........................................................................... 155
Table 23b: Descriptive statistics for variables included in testing for the likelihood
    to continue using microcredit (N=80) .................................................... 162
Table 23c: Pearson’s correlations for the test on the likelihood
to continue using microcredit (N=80) ................................................................. 163
Table 24a: MSE owner-managers’ sources of BDS ...................................................... 166
Table 24b: How MSE owner-managers became aware of their BDS agents .................. 167
Table 24c: Advisory services received by MSE owner-managers ................................ 169
Table 25: Mechanism for determining BDS fees .......................................................... 170
Table 26: Decision areas where MSE owner-managers frequently need advice ......... 172
Table 27a: BDS delivery mode, terms and conditions ................................................. 176
Table 27b: MSE owner-managers’ perception of BDS fees, relationships and staff competence ................................................................. 179
Table 28: MSE owner-managers’ perceptions on the benefits and shortcomings of BDS ........................................................................................................................... 183
Table 29: MSE Owner-managers’ satisfaction rating of advice on business decision areas ......................................................................................................................... 186
Table 30a: MSE performance measures - Inter-Item Correlation Matrix ................. 190
Table 30b: MSE performance measures- Cronbach’s Alpha reliability test .......... 190
Table 31a: Descriptive statistics for variables included in testing Hypothesis 1 (N=80) ..................................................................................................................... 195
Table 31b: Pearson’s correlations (Hypothesis 1) (N=80) ............................................. 196
Table 31c: Hypothesis 1- Ordinary Least Squares (OLS) regression results (N=80) ... 198
Table 32a: Descriptive statistics for variables included in testing Hypothesis 2 (N=80) ..................................................................................................................... 201
Table 32b: Pearson’s correlations (Hypothesis 2) (N=80) ............................................. 202
Table 32c: Hypothesis 2- Ordinary Least Squares (OLS) regression results (N=80) ... 203
Table 33a: Descriptive statistics for variables included in testing Hypothesis 3 (N=84) ..................................................................................................................... 206
Table 33b: Pearson’s correlations (Hypothesis 3) (N=84) ............................................. 206
Table 33c: Hypothesis 3- Ordinary Least Squares (OLS) regression results (N=84) ... 208
Table 34a: Descriptive statistics for variables included in testing Hypothesis 4 (N=118) .................................................................................................................... 212
Table 34b: Pearson’s correlations (Hypothesis 4) (N=118) ........................................... 213
Table 34c: Hypothesis 4- Ordinary Least Squares (OLS) regression results (N=160) ... 215
Table 35a: Descriptive statistics for variables included in testing Hypothesis 5 (N=84) ..................................................................................................................... 222
Table 35b: Pearson’s correlations (Hypotheses 5 and 6) (N=84) ............................... 224
Table 35c: Hypothesis 5 - Logistic regression predicting the likelihood of reporting satisfaction with BDS (N=84) ............................................................... 226
Table 36a: Descriptive Statistics for variables included in testing Hypothesis 6 ....... 228
Table 36b: Hypothesis 6 – results for one-way between-groups ANOVA ............... 228
List of figures

Figure 1: Ease of doing business: a comparison of good practice between Kenya and selected economies .......................................................... 29
Figure 2: Diagrammatic Representation of a Conceptual Framework ............. 65 (a Bourdieusian perspective) for Microfinance ........................................ 65
Figure 3: Categorisation of MSE owner-managers on account of access to microcredit and BDS ................................................................. 85
Figure 4: Participant categories .................................................................... 96
Figure 5: Visual representation of quasi-experimental design .......................... 97
Figure 6: Participants’ years of experience in business ................................... 120
Figure 7: Participants’ duration of business operation ................................. 121
Figure 8: Type of participants’ trade activity ................................................. 144
Figure 9: Type of participants’ personal services businesses .......................... 144
Figure 10: Term of loan (years) .................................................................... 150
List of text boxes

Text box 1: loan motives.................................................................147
Text box 2: concern for diverting use of loan................................148
Text box 3: form of collateral ......................................................150
Text box 4: amounts, term, and interest rates ..............................151
Text box 5: loan eligibility criteria as elicited from MFI representatives........152
Text box 6: MFI representatives’ perceptions on the impact of credit on their MSEs...155
Text box 7: case of success story from an MFI’s perspective ..............156
Text box 8a: views on effect of microcredit on MSEs (researcher - I)........157
Text box 8b: views on effect of microcredit on MSEs (researcher - II) .......157
Text box 9a: BDS fees determination – BDS representatives’ views........171
Text box 9b: BDS fees determination – MFI representatives’ views ...........171
Text box 10a: Training services identified by MFI representatives as
provided by MFIs........................................................................174
Text box 10b: Business advisory services identified by BDS representatives
as commonly provided by BDS agencies........................................175
Text box 11a: BDS representatives’ views on entry level qualifications
for BDS staff.............................................................................180
Text box 11b: BDS representatives’ views on importance of experience
for BDS staff.............................................................................181
Text box 12a: BDS representatives’ views on skill development among
MSE owner-managers................................................................184
Text box 12b: BDS representatives views on benefits of BDS to
MSE owner-managers................................................................185